TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 10-K
February 12, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Exact name of registrant as specified in its charter)

Israel	**Not Applicable**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) Identification No.)

5 Basel Street, Petach Tikva, ISRAEL, 4951033

(Address of principal executive offices and Zip Code)

+972 (3) 914-8171

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

American Depositary Shares, each representing one Ordinary Share	**New York Stock Exchange**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232-405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, computed by reference to the closing price at which the American Depositary Shares were last sold on the New York Stock Exchange, as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2017), was approximately $35.8 billion. Teva Pharmaceutical Industries Limited has no non-voting common equity. For purpose of this calculation only, this amount excludes ordinary shares and American Depositary Shares held by directors and executive officers and by each person who owns or may be deemed to own 10% or more of the registrant s common equity at June 30, 2017.

As of December 31, 2017, the registrant had 1,016,877,139 ordinary shares outstanding.

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INTRODUCTION AND USE OF CERTAIN TERMS

Unless otherwise indicated, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industrie Limited and its subsidiaries, and references to revenues refer to net revenues. References to U.S. dollars, dollars, U.S $ and $ are to the lawful currency of the United States of America, and references to NIS are to new Israeli shekels. References to MS are to multiple sclerosis. Market data, including both sales and share data, is based on information provided by IQVIA (formerly IMS Health Inc.), a provider of market research to the pharmaceutical industry (IQVIA), unless otherwise stated. References to ROW are to our Rest of the World markets. References to Actavis Generics are to the generic pharmaceuticals business we purchased from Allergan plc (Allergan) on August 2, 2016. References to P&G are to The Procter & Gamble Company, and references to PGT are to PGT Healthcare, the joint venture we formed with P&G. References to R&D are to Research and Development, references to S&M are to Selling and Marketing and references to G&A are to General and Administrative.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K, and the reports and documents incorporated by reference in this Annual Report on Form 10-K, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are based on management s current beliefs and expectations and are subject to substantial risks and uncertainties, both known and unknown, that could cause our future results, performance or achievements to differ significantly from that expressed or implied by such forward-looking statements. You can identify these forward-looking statements by the use of words such as should, expect, anticipate, estimate, target, may, project, guidance, intend, plan, believe and other words and terms of similar mea expression in connection with any discussion of future operating or financial performance. Important factors that could cause or contribute to such differences include risks relating to:

- our generics medicines business, including: that we are substantially more dependent on this business, with its significant attendant risks, following our acquisition of Allergan s worldwide generic pharmaceuticals business; consolidation of our customer base and commercial alliances among our customers; the increase in the number of competitors targeting generic opportunities and seeking U.S. market exclusivity for generic versions of significant products; price erosion relating to our generic products, both from competing products and increased regulation; delays in launches of new generic products; our ability to take advantage of high-value biosimilar opportunities; efforts of pharmaceutical companies to limit the use of generics including through legislation and regulations; the difficulty and expense of obtaining licenses to proprietary technologies; returns, allowances and chargebacks; and investigations of the calculation of wholesale prices;

- our specialty medicines business, including: competition for our specialty products, especially COPAXONE®, our leading medicine, which faces competition from existing and potential additional generic versions and orally-administered alternatives; our ability to achieve expected results from investments in our product pipeline; competition from companies with greater resources and capabilities; and the effectiveness of our patents and other measures to protect our intellectual property rights;

- our substantially increased indebtedness and significantly decreased cash on hand, which may limit our ability to incur additional indebtedness, engage in additional transactions or make new investments, and may result in a further downgrade of our credit ratings; and our inability to raise debt or borrow funds in amounts

or on terms that are favorable to us;

our business and operations in general, including: failure to effectively execute the recently announced restructuring plan; uncertainties related to, and failure to achieve, the potential benefits and success of our new senior management team and organizational structure; harm to our pipeline of future products due to the expected review of our R&D programs; our ability to develop and commercialize additional

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pharmaceutical products; potential additional adverse consequences following our resolution with the U.S. government of our FCPA investigation; compliance with sanctions and other trade control laws; manufacturing or quality control problems, which may damage our reputation for quality production and require costly remediation; interruptions in our supply chain; disruptions of our or third party information technology systems or breaches of our data security; the failure to recruit or retain key personnel; variations in intellectual property laws that may adversely affect our ability to manufacture our products; challenges associated with conducting business globally, including adverse effects of political or economic instability, major hostilities or terrorism; significant sales to a limited number of customers in our U.S. market; our ability to successfully bid for suitable acquisition targets or licensing opportunities, or to consummate and integrate acquisitions; and our prospects and opportunities for growth if we sell assets;

compliance, regulatory and litigation matters, including: costs and delays resulting from the extensive governmental regulation to which we are subject; the effects of reforms in healthcare regulation and reductions in pharmaceutical pricing, reimbursement and coverage; governmental investigations into S&M practices; potential liability for patent infringement; product liability claims; increased government scrutiny of our patent settlement agreements; failure to comply with complex Medicare and Medicaid reporting and payment obligations; and environmental risks;

other financial and economic risks, including: our exposure to currency fluctuations and restrictions as well as credit risks; potential impairments of our intangible assets; potential significant increases in tax liabilities; and the effect on our overall effective tax rate of the termination or expiration of governmental programs or tax benefits, or of a change in our business;

and other factors discussed in this Annual Report on Form 10-K, including in the section captioned Risk Factors. Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statements or other information contained herein, whether as a result of new information, future events or otherwise. You are cautioned not to put undue reliance on these forward-looking statements.

PART I

ITEM 1. BUSINESS

Business Overview

We are a global pharmaceutical company, committed to increasing access to high-quality healthcare to patients around the world. We operate worldwide, with headquarters in Israel and a significant presence in the United States, Europe and many other markets around the world. Our key strengths include our world-leading generic medicines expertise and portfolio, focused specialty medicines portfolio and global infrastructure and scale.

Teva was incorporated in Israel on February 13, 1944, and is the successor to a number of Israeli corporations, the oldest of which was established in 1901.

In November 2017, we announced a new organizational structure and leadership changes to enable strategic alignment across our portfolios, regions and functions. Under this new structure, our business will be integrated into one commercial organization, operating through three regions North America, Europe and Growth Markets. Each region

will manage our entire product portfolio, including generics, specialty and over-the-counter (OTC). The new structure will enable stronger alignment and integration between R&D, operations and commercial regions, allowing us to become a more agile, lean and profitable company. Prior to the implementation of our new organizational structure, we operated our business and reported our financial results in two segments:

Generic Medicines, which includes chemical and therapeutic equivalents of originator medicines in a variety of dosage forms, such as tablets, capsules, injectables, inhalants, liquids, ointments and creams.

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This segment includes our OTC business, a significant part of which is conducted through PGT, as well as our world-leading active pharmaceutical ingredient (API) manufacturing business. We are the leading generic drug company in the United States and Europe, and we have a significant presence in certain ROW markets.

Specialty Medicines, which includes our core therapeutic areas of central nervous system (CNS) medicines such as COPAXONE and AUSTEDO® and respiratory medicines such as ProAir® and QVAR®. Our specialty medicines segment also includes other products, such as BENDEKA® and GRANIX® in oncology.

In addition to these two segments, we have other activities, primarily sales of third-party products for which we act as distributor in the United States and in other countries.

For a breakdown of our revenues and profitability by segment and by geography, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and note 20 to our consolidated financial statements. For information regarding our major customers, see note 20 to our consolidated financial statements.

In December 2017, we announced a comprehensive restructuring plan intended to significantly reduce our cost base, unify and simplify our organization and improve business performance, profitability, cash flow generation and productivity. The restructuring plan will focus on:

The immediate deployment of the new unified and simplified organizational structure announced in November 2017, which will increase internal efficiencies and simplify business structures and processes across our global operations.

Substantial optimization of the generics portfolio globally, and most specifically in the United States, through a more tailored approach to the portfolio with increased focus on profitability, which will likely result in certain product discontinuations. This will enable us to accelerate the restructuring and optimization of our manufacturing and supply network, including the closure or divestment of a significant number of manufacturing plants around the world.

Closure or divestment of a significant number of R&D facilities, headquarters and other office locations across all geographies, delivering efficiencies and substantial cost savings.

A thorough review of all R&D programs in generics and specialty, to prioritize core projects and terminate non-essential projects, while maintaining a substantial pipeline.

In addition to the restructuring plan, we continue to review the potential for additional divestment of non-core assets.

Changes in Senior Management

Effective November 1, 2017, Kåre Schultz joined Teva as President and Chief Executive Officer and was also appointed to the Board of Directors. He succeeded Dr. Yitzhak Peterburg, who served as Interim President and Chief Executive Officer from February to October 31, 2017.

On November 27, 2017, Michael McClellan was appointed Executive Vice President, Chief Financial Officer, after serving as Interim Chief Financial Officer since July 1, 2017. He succeeded Eyal Desheh who served as Group Executive Vice President, Chief Financial Officer since 2008.

See Item 10 Directors, Executive Officers and Corporate Governance for additional changes to our executive management team that were announced in November 2017.

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Transactions

Certain Women s Health and Other Specialty Products

On January 31, 2018, we completed the sale of a portfolio of products to CVC Capital Partners Fund VI for $703 million in cash. The portfolio of products, which is marketed and sold outside of the United States, includes the women s health products OVALEAP®, ZOELY®, SEASONIQUE®, COLPOTROPHINE® and other specialty products such as ACTONEL®.

PLAN B ONE-STEP® and Other Women s Health Products

On November 2, 2017, we completed the sale of PLAN B ONE-STEP® and our brands of emergency contraception TAKE ACTION®, AFTERA® and NEXT CHOICE ONE DOSE® to Foundation Consumer Healthcare for $675 million in cash.

PARAGARD®

On November 1, 2017, we completed the sale of PARAGARD®, a copper releasing intrauterine contraceptive manufactured and sold in the United States, to CooperSurgical for $1.1 billion in cash.

AUSTEDO

On September, 19, 2017, we entered into a partnership agreement with Nuvelution Pharma, Inc. (Nuvelution) for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. Nuvelution will fund and manage phase 3 clinical development, driving all operational aspects of the program. Upon successful completion of the development we will lead the regulatory approval process and be responsible for commercialization. Upon U.S. Food and Drug Administration (the FDA) approval of AUSTEDO for Tourette syndrome, we will pay Nuvelution pre-agreed compensation for their contribution to our partnership.

Fremanezumab

On May 12, 2017, we entered into a license and collaboration agreement with Otsuka Pharmaceutical Co. Ltd. (Otsuka) providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for fremanezumab in Japan and, once approved, to commercialize the product in Japan. Otsuka paid us an upfront payment of $50 million in consideration for the transaction and we may receive additional milestone payments upon filing with Japanese regulatory authorities, receipt of regulatory approval and achievement of certain revenue targets. Otsuka will also pay us royalties on fremanezumab sales in Japan.

Our Segments

Generic Medicines

Overview

Generic medicines are the chemical and therapeutic equivalents of originator medicines and are typically more affordable in comparison to the originator s products. Generics are required to meet similar governmental regulations as their brand-name equivalents offered or sold by the originator, such as those relating to manufacturing processes and health authorities inspections, and must receive regulatory approval prior to their sale in any given country.

Generic medicines may be manufactured and marketed if relevant patents on their brand-name equivalents (and any additional government-mandated market exclusivity periods) have expired or have been challenged or otherwise circumvented.

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We develop, manufacture and sell generic medicines in a variety of dosage forms, including tablets, capsules, injectables, inhalants, liquids, ointments and creams. We offer a broad range of basic chemical entities, as well as specialized product families, such as sterile products, hormones, narcotics, high-potency drugs and cytotoxic substances, in both parenteral and solid dosage forms.

Our generic business has a wide-reaching commercial presence. We are the market leader in the United States and have a top three leadership position in over 30 countries, including some of our key European markets. We have a robust product portfolio, comprehensive R&D capabilities, focused product pipeline and a global operational network, which will enable us to execute key generic launches to further expand our product pipeline and diversify our revenue stream. We use these capabilities to mitigate price erosion in our generics business.

When considering whether to develop a generic medicine, we take into account a number of factors, including our overall strategy, regional and local patient and customer needs, R&D and manufacturing capabilities, regulatory considerations, commercial factors and the intellectual property landscape. We will challenge patents when appropriate if we believe they are either invalid or would not be infringed by our generic version. We may seek alliances to acquire rights to products we do not have in our portfolio or to otherwise share development costs or litigation risks, or to resolve patent and regulatory barriers to entry.

As part of our comprehensive restructuring plan, we intend to conduct substantial optimization of our generics portfolio globally, and most specifically in the United States, through price adjustments and/or product discontinuation, with a focus on increasing profitability. This will enable us to accelerate the restructuring and optimization of our manufacturing and supply network, including the closure or divestment of a significant number of manufacturing plants in the United States, Europe, Israel and Growth Markets.

In markets such as the United States, the United Kingdom, Canada, the Netherlands and Israel, generic medicines may be substituted by the pharmacist for their brand name equivalent or prescribed by International Nonproprietary Name (INN). In these so-called pure generic markets, physicians and patients have little control over the choice of generic manufacturer, and consequently generic medicines are not actively marketed or promoted to physicians. Instead, the relationship between the manufacturer and pharmacy chains and distributors, health funds and other health insurers is critical. Many of these markets have automatic substitution models when generics are available as alternatives to brands. In Russia, Turkey, Ukraine, Kazakhstan, certain Asia Pacific and Latin American countries and certain European markets, generic medicines are generally sold under brand names alongside the originator brand. These markets are referred to as branded generic markets and are generally out of pocket markets in which consumers can pay for a particular branded generic (vs. government or privately funded medical health insurance), often at the recommendation of their physician. Branded generic products are actively promoted and a sales force is necessary to create and maintain brand awareness. Other markets, such as Germany, Japan, France, Italy and Spain, are hybrid markets with elements of both approaches.

Our position in the generics market is supported by our global R&D function, as well as our API R&D and manufacturing activities, which provide significant vertical integration for our own products.

In most markets in which we operate, we use an integrated and comprehensive marketing model, offering a portfolio of generic, specialty and OTC products.

OTC

We have a global OTC business, most significantly through PGT, our consumer healthcare joint venture with P&G, formed in 2011. PGT manufactures and markets more than 200 consumer healthcare brands, including OTC

medicines and vitamins, minerals and food supplements, in more than 70 countries around the world, excluding North America. Its portfolio includes the leading cough and cold brand Vicks®, Germany s leading OTC brand, RATIOPHARM®, and other leading brands.

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We own 49% and P&G owns 51% of PGT, which benefits from P&G s consumer brand-building capabilities and Teva s pharmaceutical supply, regulatory and development capabilities. We are currently reviewing our relationship with P&G and are exploring options for the PGT joint venture. No decision has been finalized.

In addition to PGT, we manufacture and market other OTC products around the world, mostly in Europe and Russia. Our portfolio includes global brands such as SUDOCREM® as well as local and regional brands like FLUX® in Nordic countries and SPASMALGON® in Russia.

APIs

We produce approximately 300 APIs for our own use and for sale to third parties in many therapeutic areas. APIs used in pharmaceutical products are subject to regulatory oversight by national health authorities. We utilize a variety of production technologies, including chemical synthesis, semi-synthetic fermentation, enzymatic synthesis, high potency manufacturing, plant extract technology and peptide synthesis. Our advanced technology and expertise in the field of solid state particle technology enable us to meet specifications for particle size distribution, bulk density, specific surface area and polymorphism, as well as other characteristics.

Below is a description of our generic medicines business by the main geographic areas in which we operate:

United States

We are the leading generic drug company in the United States. We market over 500 generic prescription and OTC products in more than 1,800 dosage strengths and packaging sizes, including oral solid dosage forms, injectable products, inhaled products, liquids, ointments and creams. Most of our generic sales in the United States are made to retail drug chains, mail order distributors and wholesalers, which continue to be impacted by customer consolidation and alliances.

We will continue to focus our efforts in the United States in maintaining our position as an industry leader in introducing new generic equivalents for brand-name products on a timely basis, with a focus on complex generics and other high-barrier products, generating value by making these medicines more accessible to patients. We will conduct a substantial optimization of the generics portfolio globally, and most specifically in the United States, through a more tailored approach to the portfolio with increased focus on profitability. These efforts will be supported by our strong emphasis on customer service, the breadth of our product pipeline and our commitment to quality and regulatory compliance.

Our wholesale and retail selling efforts are supported by participating in key pharmaceutical conferences as well as focused advertising in professional journals and on leading pharmacy websites. We continue to strengthen consumer awareness of the benefits of generics through partnerships and digital marketing programs.

During 2017 our generics business in the United States was negatively impacted by certain developments, including: (i) additional pricing pressure as a result of customer consolidation into larger buying groups capable of extracting greater price reductions, (ii) an accelerated FDA approval process for generic versions of off-patent medicines, resulting in increased competition for these products, and (iii) delays in the launch of some of our new generic products.

For information about our pipeline of generic medicines in the United States, see Item 7 Management s Discussions and Analysis of Financial Condition and Results of Operations Segment Information Generic Medicines Segment.

Europe

We define our European region as the European Union and certain other European countries.

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We are the leading generic pharmaceutical company in Europe. We are among the top three companies in more than 25 markets across Europe. No single market in Europe represents more than 25% of our total European generic revenues, and as a result we are not dependent on any single market that could be affected by pricing reforms or changes in public policy. In Europe, we also out-license certain generic pharmaceutical products.

Despite their diversity and highly fragmented nature, the European markets share many characteristics that allow us to leverage our pan-European presence and broad portfolio. Global customers are crucial partners in our generic business and are expanding across Europe, although customer consolidation is lower than it is in the United States. We are one of a few generic pharmaceutical companies with a pan-European footprint. Most competitors focus on a select few markets or business lines.

For information about our pipeline of generic medicines in Europe, see Item 7 Management s Discussions and Analysis of Financial Condition and Results of Operations Segment Information Generic Medicines Segment.

Rest of the World Markets

Our ROW markets include all countries other than the United States and those included within our Europe region. The ROW is comprised of more than 25 countries, covering 40% of the global pharmaceutical market.

Our key ROW markets are Japan, Canada and Russia. In Japan, we operate our business through a business venture with Takeda Pharmaceutical Companies Limited (Takeda), in which we own a 51% stake and Takeda owns the remaining 49%. The countries in this category include highly regulated, pure generic markets such as Canada and Israel, hybrid markets, such as Japan, and branded generics markets such as Russia, certain Commonwealth of Independent States (CIS) markets, Latin American markets and Asia Pacific markets.

Each market s strategy is built upon differentiation and filling the unmet needs of that market. Our integrated sales force enables us to extract synergies across our branded generic, OTC and specialty medicines business segments and across various channels (e.g., retail, institutional).

Specialty Medicines

Our specialty medicines business, which is focused on delivering innovative solutions to patients and providers via medicines, devices and services in key regions and markets around the world, includes our core therapeutic areas of CNS (with a strong emphasis on MS, neurodegenerative disorders, movement disorders and pain care including migraine) and respiratory medicines (with a focus on asthma and chronic obstructive pulmonary disease (COPD)). We also have specialty products in oncology and selected other areas.

Between November 2017 and January 2018, we sold certain non-core specialty products, including our global women s health business. See Transactions above. We are pursuing opportunities to sell additional non-core specialty products, which will be subject to negotiation of acceptable terms, board approval and applicable regulatory approvals.

Our specialty medicines organization focuses on our key therapeutic areas and selected local opportunities, with medical and sales and marketing professionals within each area who seek to address the needs of patients and healthcare professionals. We tailor our patient support, payer relations and medical affairs activities to the distinct characteristics of each therapeutic area and medicine.

The U.S. market is the most significant part of our specialty business. In Europe and ROW markets, we leverage existing synergies with our generics and OTC businesses. Our specialty presence in ROW markets is mainly built on our CNS franchise, with gradual development in other therapeutic areas closely related to our branded generics portfolios in those countries.

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We have built a specialized capability to help patients adhere to their treatments, improve patient outcomes, and in certain markets, to ensure timely delivery of medicines and assist in securing reimbursement. These programs, known as Patient Support Programs, reflect the importance we place on supporting patients and are a critical part of our success. We currently operate Patient Support Programs in 35 countries around the world in multiple therapeutic areas. We believe that we can provide a range of services and solutions appropriately tailored to meet the needs of patients according to their specific condition and local market requirements. We believe this capability provides us with an important competitive advantage in the specialty medicines market.

Below is a description of our key therapeutic areas, products and pipeline:

Central Nervous System Medicines

Our CNS portfolio, one of our two core therapeutic areas, includes COPAXONE for the treatment of relapsing forms of MS, and AUSTEDO, which was launched in the United States in 2017, for the treatment of tardive dyskinesia and chorea associated with Huntington disease.

COPAXONE

COPAXONE (glatiramer acetate injection) is the leading MS therapy in the United States and worldwide. COPAXONE is indicated for the treatment of patients with relapsing forms of MS (RMS), including the reduction of the frequency of relapses in relapsing-remitting multiple sclerosis (RRMS), including in patients who have experienced a first clinical episode and have MRI features consistent with MS.

COPAXONE is believed to have a unique mechanism of action that works with the immune system, unlike many therapies that are believed to rely on general immune suppression or cell sequestration to exert their effect. COPAXONE provides a proven mix of efficacy, safety and tolerability.

In October 2017, the FDA approved a generic version of COPAXONE 40 mg/mL and a second generic version of COPAXONE 20 mg/mL. A hybrid version of COPAXONE 40 mg/mL was approved in the European Union.

COPAXONE 40 mg/mL is protected by five U.S. Orange Book patents that expire in 2030. These patents have been challenged in proceedings in the United States. We are appealing certain adverse U.S. District Court and Patent Trial and Appeal Board decisions to defend these patents in the United States. At least one competitor has obtained final FDA approval and has launched its generic version of COPAXONE 40 mg/mL. This launch, prior to final resolution of the pending patent litigation, should be considered an at-risk launch, which means that if the pending litigation is resolved in our favor, the company selling this generic medicine could face significant damages claims and other potential remedies. COPAXONE 40 mg/mL is also protected by one European patent expiring in 2030. This patent is being challenged in Italy and Norway and has been opposed at the European Patent Office. The U.K. High Court found this patent invalid and our application for permission to appeal this decision was rejected.

The market for MS treatments continues to develop, particularly with the recent approvals of generic versions of COPAXONE discussed above as well as additional generic versions expected to be approved in the future, such as Glatopa® 40 mg/mL. The increasing number of oral treatments for MS, such as Tecfidera®, Gilenya® and Aubagio®, continues to present significant and increasing competition. COPAXONE also continues to face competition from existing injectable products, as well as from monoclonal antibodies.

For information regarding our revenues from sales of COPAXONE, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

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AUSTEDO

AUSTEDO (deutetrabenazine) is a deuterated form of a small molecule inhibitor of vesicular monoamine 2 transporter, or VMAT2, that is designed to regulate the levels of a specific neurotransmitter, dopamine, in the brain. Deutetrabenazine was granted Orphan Drug designation by the FDA for the treatment of chorea associated with Huntington disease in November 2014 and marketing exclusivity until April 3, 2024.

AUSTEDO was approved by the FDA and launched in April 2017 in the United States for the treatment of chorea associated with Huntington disease. In August 2017, the FDA approved AUSTEDO for the treatment of tardive dyskinesia (TD) in adults in the United States and we launched AUSTEDO for the treatment of TD in September 2017. TD is a debilitating, often irreversible movement disorder caused by certain medications used to treat mental health or gastrointestinal conditions.

In September 2017, we entered into a partnership agreement with Nuvelution for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. See Transactions.

AUSTEDO is protected in the United States by five Orange Book patents expiring between 2031 and 2033 and in Europe by two patents expiring in 2029.

AZILECT®

AZILECT (rasagiline tablets) is indicated as initial monotherapy and as an adjunct to levodopa for the treatment of the signs and symptoms of Parkinson s disease, the second most common neurodegenerative disorder. AZILECT is a second-generation, irreversible monoamine oxidase type B (MAO-B) inhibitor. Generic versions of AZILECT were introduced in the United States and in Europe during 2017.

Central Nervous System Pipeline

Our clinical pipeline of ***neurology*** and ***neuropsychiatry*** products includes:

Products	Potential Indication(s)	Route of Administration	Development Phase (date entered phase 3)
AUSTEDO (deutetrabenazine)	Huntington disease	Oral	FDA approved, April 2017
	Tardive Dyskinesia	Oral	FDA approved, August 2017
	Tourette syndrome*	Oral	3 (December 2017)
Laquinimod	Relapsing remitting multiple sclerosis	Oral	3 (February 2013)
	Progressive forms of multiple sclerosis	Oral	2

	Huntington disease	Oral	2
Pridopidine	Huntington disease	Oral	2

* Developed in partnership with Nuvelution, which will fund and manage clinical development.

AUSTEDO (deutetrabenazine)

Teva and Nuvelution entered into a partnership agreement on September 19, 2017 to develop AUSTEDO for the treatment of tics associated with Tourette syndrome in pediatric patients in the United States. Nuvelution will fund and manage phase 3 clinical development, leading all operational aspects of the program. We will lead the regulatory process and be responsible for commercialization.

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Laquinimod

Laquinimod is a once-daily, orally administered immunomodulatory compound being developed for treatment of relapsing-remitting and progressive forms of MS and for Huntigton disease. In 2012, we submitted a Marketing Authorization Application to the European Medicines Agency (EMA) and a New Drug Submission to Health Canada following completion of two phase 3 studies in 2011. In 2014, the EMA confirmed that the risk-benefit profile of laquinimod is not favorable. In May 2017, we received results for the phase 3 CONCERTO trial indicating that the primary endpoint was not met for laquinimod, which compared 0.6 mg/daily capsules versus placebo to evaluate the time to confirmed disability progression after at least 3 months. In December 2017, results from the phase 2 proof of concept study (ARPEGGIO) of laquinimod as treatment for primary progressive MS were released and did not meet the primary or secondary endpoints.

Phase 2 clinical studies for treatment of Huntington disease are ongoing, with results expected in 2018.

Laquinimod is protected by patents expiring in 2019 worldwide, with potential for extensions in various markets.

Pridopidine

Pridopidine is an oral small molecule dopamine stabilizer being developed for the symptomatic treatment of motor disorders (including Huntington disease). Results from the phase 2 Pride-HD clinical study demonstrated an unusually high placebo effect, which limited the ability to determine the effect of treatment on Huntington disease motor scores. However, evidence of symptomatic impact was seen in the early stage Huntington patient sub-population, with improvement in total motor score and dystonia observed at 26 and 52 weeks in this patient sub-set (stage 1 Huntington disease) at specific doses. We expect to be granted seven years of Orphan Drug exclusivity in the United States for this product.

Pridopidine is protected by patents worldwide that expire in 2020, with potential for extension in various markets.

Our clinical pipeline of ***migraine*** and other ***pain*** products includes:

Migraine and Other Pain Products	Potential Indication(s)	Route of Administration	Development Phase (date entered phase 3)
Fremanezumab (anti CGRP)	Chronic and episodic migraine	Subcutaneous	Submitted to FDA (October 2017)
	Cluster headache	Subcutaneous	3 (November 2016)
	Post traumatic headache	Subcutaneous	2
Fasinumab*	Osteoarthritis pain	Subcutaneous	3 (March 2016)

	Chronic lower back pain	Subcutaneous	2
TV-45070	Neuropathic pain	Topical	2

* Developed in collaboration with Regeneron Pharmaceuticals, Inc. (Regeneron).

Fremanezumab (anti CGRP)

Fremanezumab is a fully humanized monoclonal antibody that binds to calcitonin gene-related peptide (CGRP), which was submitted for FDA approval for the treatment of chronic and episodic migraine in October 2017. The Biologics License Application (BLA) was accepted for filing by the FDA in December 2017, and the FDA granted fast track designation for fremanezumab for the prevention of cluster headache. On February 2, 2018, the EMA accepted a Marketing Authorization Application for fremanezumab. Both product submissions were based on positive results from the phase 3 HALO program where both the chronic and episodic migraine studies met all primary and secondary endpoints in both monthly and quarterly dosing regimens while demonstrating a favorable risk/benefit profile.

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In August 2017, we purchased an FDA priority review voucher from a third party for $150 million, which allowed us to accelerate the review period for fremanezumab in the United States.

On May 12, 2017, we entered into a license and collaboration agreement with Otsuka, providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for fremanezumab in Japan and, once approved, to commercialize the product in Japan. See Transactions.

Fremanezumab is also in clinical development to evaluate safety and efficacy in the treatment of chronic and episodic cluster headache as well as post traumatic headache. Phase 3 clinical studies for chronic and episodic migraine were initiated in early 2017. A phase 2 clinical study for the treatment of post traumatic headache was initiated in December 2017.

Fremanezumab is protected by patents expiring in 2026 in Europe and in 2027 in the United States, with possibility for extension in various markets. An additional patent application relating to use of fremanezumab in the treatment of migraine is currently pending worldwide, and if granted, would expire in 2035. Fremanezumab will also be protected by regulatory exclusivity of 12 years from marketing approval in the United States and 10 years from marketing approval in Europe.

In October 2017, we first filed suit for patent infringement against Eli Lilly (Lilly) in the United States District Court for the District of Massachusetts in Boston, Massachusetts. This suit was filed after Lilly s announcement that it had filed a BLA for its migraine treatment galcanezumab. The lawsuit alleges that Lilly s planned marketing and sales of galcanezumab would infringe five Teva patents covering CGRP inhibitors and methods of treatment, which will expire in 2026. In January 2017, Lilly filed a motion to dismiss this litigation. On February 6, 2018, two new U.S. patents were issued and we filed a new complaint against Lilly with respect to them. In the European Union, Alder Biopharmaceuticals and Lilly filed a European Patent Office opposition against our fremanezumab patents. Method of treatment claims were upheld in a first instance decision by the European Patent Office. This decision is currently on appeal with respect to Lilly and Teva; Alder withdrew from the appeal after entering into the license agreement described below. Lilly has also filed for revocation of the patent covering fremanezumab in the United Kingdom.

In January 2018, we entered into an agreement with Alder pursuant to which Alder received a non-exclusive license to our anti-CGRP antibodies patent portfolio to develop, manufacture and commercialize eptinezumab in the United States and worldwide, excluding Japan and Korea, in consideration for a one-time payment of $25 million, a second payment of $25 million upon approval of a BLA for Alder s eptinezumab with the FDA, as well as two sales-related milestone payments of $75 million each and additional royalties. Alder also withdrew its above-mentioned appeal before the European Patent Office.

Celltrion Inc, (Celltrion) is our sole source for API production for fremanezumab and also for Celltrion s products CT-P10 (biosimilar candidate to Rituxan® US) and CT-P6 (biosimilar candidate to Herceptin® US). In January 2018, Celltrion received an FDA warning letter for its facility in Incheon, South Korea. It is likely that the remediation by Celltrion of the issues addressed in the warning letter will result in a delayed

approval of the biosimilar products by the FDA. We are in active dialogue with the FDA in an effort to maintain our priority date for the approval of fremanezumab**.**

Fasinumab

Fasinumab is a fully human monoclonal antibody that targets NGF, a protein that plays a central role in the regulation of pain signaling. There is evidence that NGF levels are elevated in patients with chronic pain conditions. In September 2016, we entered into a collaboration agreement with Regeneron to develop and commercialize fasinumab in the United States, the European Union and certain other markets.

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Fasinumab is currently in phase 3 clinical development for the treatment of pain associated with osteoarthritis with three trials in progress. In December 2017, Regeneron initiated a phase 3 efficacy and safety study of fasinumab in patients with moderate-to-severe chronic low back pain and osteoarthritis of the hip or knee.

Fasinumab is protected by patents expiring in 2028, and will also be protected by regulatory exclusivity of 12 years from marketing approval in the United States and 10 years from marketing approval in Europe.

TV-45070

TV-45070 Topical is a small molecule intended to treat pain locally at its source through blocking of Nav1.7 and Nav1.8 sodium channels, which are found in sensory nerve endings that can increase in chronic painful conditions. TV-45070 was licensed from Xenon Pharmaceuticals Inc. in December 2012.

In June 2017, phase 2 proof of concept study results were received for TV-45070 in patients with post-herpetic neuralgia. The results did not meet the primary and secondary endpoints. TV-45070 is protected by patents in Europe that expire in 2026 and in the United States that expire in 2028.

Respiratory Medicines

Our respiratory portfolio, one of our two core therapeutic areas, includes ProAir®, QVAR®, DuoResp Spiromax®, AirDuo RespiClick®/ ArmonAir RespiClick® and CINQAIR®/CINQAERO®.

We are committed to maintaining a leading presence in the respiratory market by delivering a range of medicines for the treatment of asthma and COPD. Our portfolio is centered on optimizing respiratory treatment for patients and healthcare providers through the development and commercialization of innovative delivery systems and therapies that help address unmet needs.

Our respiratory pipeline is based on drug molecules delivered in our proprietary dry powder formulations and breath-actuated device technologies and targeted biologics. With this portfolio, we are targeting high value markets in the respiratory area such as inhaled short-acting beta agonists, inhaled corticosteroids, fixed-dose corticosteroid and beta2 agonist combinations, long-acting muscarinic antagonist products and biologics. Our proprietary inhalation technology tidal inhaler allows a person suffering from asthma or COPD to inhale their medication by breathing normally into the tidal inhaler device. We are continuing early development of inhaled medicines for use in the tidal inhaler. See Respiratory Pipeline for more information on our tidal inhaler.

Below is a description of our main respiratory medicines:

ProAir®

The ProAir® line of products includes ProAir hydrofluoroalkane (HFA) and ProAir RespiClick, both sold only in the United States.

ProAir HFA (albuterol sulfate) is an inhalation aerosol with dose counter and is indicated for patients four years of age and older for the treatment or prevention of bronchospasm with reversible obstructive airway disease and for the prevention of exercise-induced bronchospasm. In March 2012, the FDA approved the addition of a dose counter, an innovation designed to help patients, as well as their caregivers, keep track of the number of doses remaining in the inhaler. The efficacy and safety profile of albuterol, which is used by millions of patients every day around the world, is well established, while HFA is an environmentally friendly propellant. ProAir HFA is the leading quick relief inhaler in the United States. It is protected by various patents expiring through 2031. In June 2014, we settled a

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patent challenge to ProAir HFA with Perrigo Pharmaceuticals (Perrigo) permitting Perrigo to launch its generic product in limited quantities once it receives FDA approval and without quantity limitations after June 2018. In November 2017, we settled another patent challenge to ProAir HFA with Lupin Pharmaceuticals, Inc.

ProAir RespiClick (albuterol sulfate) inhalation powder is a breath-actuated, multi-dose, dry-powder, short-acting beta-agonist inhaler for the treatment or prevention of bronchospasm with reversible obstructive airway disease and for the prevention of exercise-induced bronchospasm in patients four years of age and older. ProAir Respiclick was approved by the FDA for use in adults and adolescents aged 12 years and older in March 2015 and its label was expanded for use by children 4 to 11 years of age in April 2016. ProAir Respiclick remains the only breath-actuated, multi-dose, dry powder, short-acting beta-agonist inhaler available in the United States. ProAir Respiclick is protected by various U.S. Orange Book patents expiring between 2021 and 2032.

Three major brands compete with ProAir HFA and ProAir Respiclick in the United States in the short-acting beta agonist market: Ventolin® HFA (albuterol), Proventil® HFA (albuterol) and Xopenex® HFA (levalbuterol).

QVAR®

QVAR (beclomethasone dipropionate HFA) is indicated as a maintenance treatment for asthma as a prophylactic therapy in patients five years of age or older. QVAR is also indicated for asthma patients who require systemic corticosteroid administration, where adding QVAR may reduce or eliminate the need for systemic corticosteroids. QVAR has the highest preferred and total formulary coverage in the inhaled corticosteroid class in the United States. We market QVAR, which is manufactured by 3M, in the United States and in major European markets. QVAR is protected by various U.S. Orange Book patents expiring between 2020 and 2031.

Four major brands compete with QVAR in the mono inhaled corticosteroid segment: Flixotide/Flovent® (fluticasone), Pulmicort Flexhaler® (budesonide), Asmanex® (mometasone) and Alvesco® (ciclesonide).

QVAR® RediHaler (beclomethasone dipropionate HFA) inhalation aerosol, a breath actuated inhaler, was approved by the FDA in August 2017 for the maintenance treatment of asthma as a prophylactic therapy in patients four years of age and older. The product is expected to become commercially available to patients by prescription in both 40 mcg and 80 mcg strengths during February 2018. The RediHaler device is the next generation of our QVAR product and contains the same small particle aerosol formulation as the existing QVAR in a breath-actuated device.

The actuator with dose counter used in connection with ProAir HFA and QVAR is protected by patents and applications expiring through 2031.

QVAR RediHaler is protected by U.S. and European device patents and applications expiring through 2031.

DuoResp Spiromax® / Aerivio Spiromax®

DuoResp Spiromax (budesonide/formoterol) is a combination of an inhaled corticosteroid and a long acting beta-agonist bronchodilator, and was approved for treatment of adults with asthma and COPD in Europe by the EMA in a centralized procedure. DuoResp Spiromax is protected in Europe by patents expiring through 2031. First launched in the European Union in June 2014, DuoResp Spiromax has been successfully introduced in 19 European markets in addition to select ROW markets including Israel, Russia and South Korea.

The main competitors for DuoResp Spiromax are Symbicort® Turbuhaler® (budesonide/formoterol), Seretide® (fluticasone propionate/salmeterol) and Foster® (beclomathasone/formoterol).

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Aerivio Spiromax (fluticasone/salmeterol 500/50) was developed pursuant to European Union guidance to achieve the same clinical outcomes as Seretide® Accuhaler®. Bioequivalence was demonstrated for the high strength product, which was approved in Europe in August 2016 and launched in Europe in January 2017.

Aerivio Spiromax is protected by U.S. and European patents and applications expiring through 2034.

CINQAIR®/CINQAERO®

CINQAIR/CINQAERO (reslizumab) injection, a humanized interleukin 5 antagonist monoclonal antibody for add-on maintenance treatment of adult patients with severe asthma and with an eosinophilic phenotype, received FDA, EMA and Health Canada approval in 2016. This biologic treatment became commercially available to patients in the United States in April 2016, in certain European countries in November 2016 and in Canada in 2017. Additional regulatory filings have been submitted in other markets.

CINQAIR is protected by patents in the United States that expired in 2017. We have requested extension of one of the patents until 2021. CINQAIR has biological exclusivity in the United States until 2028 and is entitled to regulatory exclusivity in Europe until 2026. A subcutaneous version is in development (see below).

Major brands competing with CINQAIR/CINQAERO in the United States, Europe and Canada in the interleukin-5 market are Nucala® (mepolizumab) and Fasenra (benralizumab).

AirDuo RespiClick® / ArmonAir RespiClick®

AirDuo RespiClick (fluticasone propionate and salmeterol inhalation powder) is a combination of an inhaled corticosteroid and a long acting beta-agonist bronchodilator, approved in the United States for the treatment of asthma in patients aged 12 years and older who are uncontrolled on an inhaled corticosteroid (ICS) or whose disease severity clearly warrants the use of an ICS/long-acting beta-adrenergic agonist (LABA) combination.

In April 2017, we launched AirDuo RespiClick and its authorized generic simultaneously in an effort to meet the needs of patients, providers, and payers in the United States seeking greater access to lower-cost asthma inhaler technology, while also allowing us to compete in the highly competitive asthma combination controller market. The authorized generic is known as fluticasone propionate and salmeterol inhalation powder (multidose dry powder inhaler).

AirDuo RespiClick and its authorized generic have the same active ingredients as Advair® but are delivered via Teva s breath-activated, multi-dose dry powder inhaler (MDPI), RespiClick, which is used with other approved medicines in our respiratory product portfolio.

This important launch marked not only the first available generic ICS/LABA product in the United States, but also the continued expansion of our RespiClick family of products, which now includes breath-actuated inhaler options for both maintenance treatment and rescue medication.

ArmonAir RespiClick® (fluticasone propionate MDPI U.S.) is a new formulation of long acting ICS using our MDPI device, indicated for maintenance treatment of asthma as prophylactic therapy in patients 12 years of age and older, with an enhanced lung delivery designed to allow lower doses to achieve the same clinical outcomes as Flovent® Diskus.

Both ArmonAir RespiClick and AirDuo RespiClick were approved by the FDA in January 2017 and are protected by U.S. and European device patents and applications expiring through 2034.

Other

QNASL® (beclomethasone dipropionate) nasal aerosol is indicated for the treatment of seasonal and year-round nasal allergic rhinitis in the United States.

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BRALTUS® (tiotropium bromide), a long-acting muscarinic antagonist, indicated for adult patients with COPD, delivered via the Zonda® inhaler, was launched in Europe in August 2016.

Respiratory Pipeline

The key areas of focus for respiratory R&D include development of differentiated respiratory therapies for patients using innovative delivery systems to deliver chemical and biological therapies. Our device strategy is intended to result in device consistency, allowing physicians to choose the device that best matches a patient s needs both in terms of ease of use and effectiveness of delivery of the prescribed molecule.

Our innovative delivery systems include:

A breath-actuated inhaler (BAI) recently approved in the United States for use with QVAR as QVAR RediHaler;

Spiromax (EU) or RespiClick (U.S.), a novel inhalation-driven MDPI; and

Tidal inhaler, a unique nebulization device currently being evaluated for use in early stage development programs.

Our clinical pipeline of respiratory projects includes:

Respiratory Products	Potential Indication(s)	Route of Administration	Development Phase (date entered phase 3)
CINQAIR/CINQAERO	Severe asthma with eosinophilia	Subcutaneous	3 (August 2015)
QVAR RediHaler	Asthma, COPD	Oral inhalation	FDA approved, August 2017, for adults and pediatrics
ArmonAir RespiClick	Asthma	Oral inhalation	FDA approved, January 2017, for adults
AirDuo RespiClick	Asthma	Oral inhalation	FDA approved, January 2017, for adults
ProAir e-RespiClick	Bronchospasm and exercise induced bronchitis	Oral inhalation	Submitted to FDA (September 2017)

CINQAIR/CINQAERO

CINQAIR/CINQAERO (reslizumab) subcutaneous injection, is a humanized interleukin 5 antagonist

monoclonal antibody for add-on maintenance treatment of adult patients with severe asthma and with an eosinophilic phenotype.

The phase 3 clinical program for the subcutaneous reslizumab product was initiated in August 2015. In January 2018, we received results that both a registration study and claim support study did not meet their primary endpoints. We are reviewing the data to determine next steps. No new safety concerns to the known safety profile of reslizumab were identified in review of the data from these studies and no cases of anaphylaxis related to reslizumab were reported.

Oncology medicines

Our oncology portfolio includes BENDEKA, TREANDA®, GRANIX and TRISENOX® in the United States and LONQUEX®, TEVAGRASTIM®/RATIOGRASTIM® and TRISENOX® outside the United States.

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BENDEKA and TREANDA

BENDEKA (bendamustine hydrochloride) injection and TREANDA (bendamustine hydrochloride) injection are approved in the United States for the treatment of patients with chronic lymphocytic leukemia (CLL) and patients with indolent B-cell non-Hodgkin s lymphoma (NHL) that has progressed during or within six months of treatment with rituximab or a rituximab-containing regimen. BENDEKA, which was launched in the United States in January 2016, is a liquid, low-volume (50 mL) and short-time 10-minute infusion formulation of bendamustine hydrochloride that we licensed from Eagle Pharmaceuticals, Inc. (Eagle) to complement our bendamustine franchise, which also includes TREANDA. BENDEKA is now the most-used bendamustine product in the United States. The lyophilized formulation of TREANDA continues to be available, but its use has substantially declined in favor of BENDEKA.

BENDEKA s competitors include combination therapies such as R-CHOP (a combination of cyclophosphamide, vincristine, doxorubicin and prednisone in combination with rituximab) and CVP-R (a combination of cyclophosphamide, vincristine and prednisolone in combination with rituximab) for the treatment of NHL, as well as a combination of fludarabine, doxorubicin and rituximab for the treatment of CLL and also newer targeted oral therapies, ibrutinib and idelilisib.

There are 13 patents listed in the U.S. Orange Book for BENDEKA with expiry dates between 2026 and 2033. Teva and Eagle received notices of Abbreviated New Drug Application (ANDA) filings by Slayback Pharmaceuticals, Fresenius Kabi, Apotex and Mylan for generic versions of BENDEKA, which all contained Paragraph IV challenges against one or more of the patents listed in the U.S. Orange Book for BENDEKA. In response, Teva and Eagle filed patent infringement lawsuits against Slayback, Fresenius and Apotex in August 2017 and against Mylan in December 2017. All lawsuits were filed in the U.S. District Court for the District of Delaware. The respective 30 month stays expire starting in January 2020.

We have U.S. Orange Book patents for TREANDA expiring between 2026 and 2031. To date, one company has filed a 505(b)(2) new drug application (NDA) for a liquid version of bendamustine, and 19 others have filed ANDAs for a generic version of the lyophilized form of TREANDA. Trial against five of the 19 ANDA filers began in December 2015. In June 2017, the court issued a final judgement affirming the validity of certain claims of the patents. We have reached final settlements with 17 of the 19 ANDA filers, which provide for the launch of generic versions prior to patent expiration. The two ANDA filers with whom we have not reached final settlements filed an appeal of the final judgment.

TEVAGRASTIM, GRANIX and LONQUEX

Filgrastim (branded as TEVAGRASTIM (in the European Union) and GRANIX (in the United States) and LONQUEX (lipegfilgrastim) are Granulocyte Colony Stimulating Factor (G-CSF) medicines that stimulate the production of white blood cells and are primarily used to reduce the risk of infections in oncology patients receiving chemotherapy.

TEVAGRASTIM (short-acting G-CSF) was the first biosimilar G-CSF to be approved by the European Union in September 2008. TEVAGRASTIM has been approved in the European Union for multiple indications and is available in most European countries. TEVAGRASTIM is also marketed as RATIOGRASTIM and BIOGRASTIM™ in the European Union.

GRANIX (short-acting G-CSF) was the first new G-CSF to be approved in the United States in more than ten years and was approved via a BLA by the FDA in 2012 and launched in November 2013. GRANIX is not considered a biosimilar in the United States. The product is also approved and available in Japan and certain other markets. In December 2014, the FDA also approved GRANIX injection for self-administration by patients and caregivers.

LONQUEX (long-acting G-CSF) is a G-CSF with the active ingredient lipegfilgrastim, a glycoPEGylated (PEG; polyethylene glycol) filgrastim molecule. This is the first long-acting G-CSF to

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be approved in Europe in more than ten years and offers a new alternative in G-CSF therapy. LONQUEX was launched in November 2013 in Germany and has since been launched in 22 additional European countries. LONQUEX is protected by patents expiring in 2024 in Europe, with possible extension to 2028 in several countries.

Competitors to Teva s filgrastim include short acting G-CSF products such as Neupogen® and Zarxio®, which was launched in September 2015 in the United States; and in Europe Zarxio/Zarzio® and Nivestim®. Several additional competing short-acting G-CSF biosimilars are expected to launch in 2018 in the United States, and the first long-acting G-CSF biosimilars are expected to launch in the second quarter of 2018 in Europe and during the second half of 2018 in the United States.

Oncology Pipeline

Our pipeline of oncology products includes ***CT-P10 (biosimilar candidate to Rituxan® US) and CT-P6 (biosimilar candidate to Herceptin® US)***. In October 2016, we entered into an exclusive partnership with Celltrion to commercialize two proposed monoclonal antibodies (mAb) in the United States and Canada. CT-P10 is a biosimilar candidate to Rituxan® (rituximab) and CT-P6 is a biosimilar candidate to Herceptin® (trastuzumab). BLAs for both products were accepted for review by the FDA in 2017 with regulatory action expected in the first half of 2018.

In January 2018, Celltrion received an FDA warning letter for its facility in Incheon, South Korea. It is likely that the remediation by Celltrion of the issues addressed in the warning letter will result in a delayed approval of biosimilar products by the FDA.

Changes to Other Pipeline Projects During 2017

Development of the TV-46763 and TV-46139 pain products with potential abuse-deterrent properties were discontinued.

Commercialization opportunities for VANTRELA ER™, which was approved by the FDA in January 2017, are no longer being pursued. VANTRELA is a formulation of hydrocodone (opioid analgesic) which utilizes OraGuard®, our proprietary abuse deterrence technology platform that has been evaluated for resistance to physical manipulations, chemical extractions and multi-step chemical extraction methods.

Other Activities

We have other sources of revenues, primarily sales of third-party products for which we act as distributor in certain countries. In the United States, our Anda business distributes generic, specialty and OTC pharmaceutical products from more than 300 third party manufacturers, as well as our own products, to independent retail pharmacies, pharmacy retail chains, hospitals and physician offices. Anda is able to compete in the secondary distribution market by maintaining high inventory levels for a broad offering of products, next day delivery throughout the United States, competitive pricing and high-level customer service.

We also sell medical devices, provide contract manufacturing services related to products divested in connection with the Actavis Generics acquisition and the sale of our women s health business, as well as other miscellaneous items. Our other activities are not included in our generics and specialty segments described above.

Research and Development

Our R&D activities span the breadth of our business, including generic medicines (finished goods and API), specialty pharmaceuticals, innovation of existing molecules and OTC medicines.

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Following implementation of our comprehensive restructuring plan announced in December 2017, the generic, specialty and OTC R&D organizations are expected to be combined into one global group with overall responsibility for all R&D activities generic, specialty and biologics, enabling better focus and efficiency. We also announced the intention to close or sell a significant number of R&D facilities across all geographies, delivering efficiencies and substantial cost savings. We are conducting a thorough review of all R&D programs across the entire company, in generics and specialty, to prioritize core projects and terminate others, while maintaining a substantial pipeline.

For information about our R&D expenses during fiscal years 2017, 2016 and 2015, see Item 7 Management s Discussions and Analysis of Financial Condition and Results of Operations Research and Development.

Generics

A strong focus for Teva is the development of new generic medicines. We develop generic products for the United States, Europe, Japan and other selected ROW countries. Our focus is on developing complex formulations with complex technologies, which have higher barriers to entry. Generic R&D activities, which are carried out in development centers located around the world, include product formulation, analytical method development, stability testing, management of bioequivalence, bio-analytical studies, other clinical studies and registration of generic drugs in all of the markets where we operate. We also operate several clinics where most of our bioequivalent studies are performed. We have more than 1,700 generic products in our pre-approved global pipeline.

In addition, our generic R&D supports our OTC business, including PGT, in developing OTC products, as well as in overseeing the work performed by contract developers.

Current R&D capabilities include solid oral dosage forms, inhalation, semi-solid and liquid formulations, and sterile formulations, such as tablets, capsules, liquids, ointments, creams and other dosage forms and delivery systems, such as matrix systems, special coating systems for sustained release products, orally disintegrating systems, sterile systems such as vials, syringes and blow-fill-seal systems, and more recently, capability build-up in long-acting release injectable, transdermal patches, oral thin film, drug device combinations and nasal delivery systems. In addition, we are in the process of developing multiple AB-rated respiratory programs and devices for our long active injectable pipeline.

Our API R&D division focuses on the development of processes for the manufacturing of APIs, including intermediates, chemicals and fermentation products, for both our generic and proprietary drugs. Our facilities include four large development centers: a center in Israel focusing on synthetic products and peptides, a center in Hungary specializing in fermentation and semi-synthetic products and centers in India and Croatia, both focusing on synthetic products. Three additional smaller sites are located in Italy, Mexico and the Czech Republic for development of high-potency APIs. Our substantial investment in API R&D generates a steady flow of API products, enabling the timely introduction of generic products to market. The API R&D division also seeks methods to continuously reduce API production costs, enabling us to improve our cost structure.

Specialty

Our specialty R&D product pipeline is focused on novel small molecule and biologic products, biosimilar products, innovation of existing molecules as well as discovery of new small molecule and biologic candidates. Specialty development activities include preclinical assessment (including toxicology, pharmacokinetics, pharmacodynamics and pharmacology studies), clinical development (including pharmacology and the design, execution and analysis of global safety and efficacy trials), as well as regulatory strategy to deliver registration of our pipeline products.

Our specialty R&D develops novel specialty products in our core therapeutic and disease focus areas. We have CNS projects in areas such as migraine, pain, movement disorders/neurodegeneration and neuropsychiatry.

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Our respiratory projects are focused on asthma and COPD and include both novel compounds and delivery systems designed to address unmet patient needs. We also pursue select pipeline projects (e.g., biosimilars) in other therapeutic and disease areas that leverage our global R&D and commercial areas of expertise.

We pursue in-licensing, acquisition and partnership opportunities to supplement and expand our specialty pipeline (e.g., the transactions with Celltrion, Eagle and Regeneron) to create and maintain a robust global pipeline. In parallel, we evaluate and expand the development scope of our existing R&D pipeline products as well as our existing products for submission in additional markets.

Operations

We operate our business globally and believe that our global infrastructure provides us with the following capabilities and advantages:

- global R&D facilities that enable us to have a broad global generic pipeline and product line, as well as a focused pipeline of specialty products in our key therapeutic areas;
- pharmaceutical manufacturing facilities approved by the FDA, EMA and other regulatory authorities located around the world, which offer a broad range of production technologies and the ability to concentrate production in order to achieve high quality and economies of scale;
- API manufacturing capabilities that offer a stable, high-quality supply of key APIs, vertically integrated with our pharmaceutical operations; and
- high-volume, technologically advanced distribution facilities that allow us to deliver new products to our customers quickly and efficiently, providing a cost-effective, safe and reliable supply.

These capabilities provide us with the means to respond on a global scale to a wide range of therapeutic and commercial requirements of patients, customers and healthcare providers.

Pharmaceutical Production

We operate 62 finished dosage and packaging pharmaceutical plants in 33 countries. These plants manufacture solid dosage forms, sterile injectables, liquids, semi-solids, inhalers, transdermal patches and medical devices. In 2017, we produced approximately 88 billion tablets and capsules and approximately 720 million sterile units. The FDA has approved 33 of our finished dosage manufacturing facilities and we have 30 finished dosage manufacturing facilities approved by EMA authorities.

Our primary manufacturing technologies, solid dosage forms, injectables and blow-fill-seal, are available in North America, Europe, Latin America and Israel. The manufacturing sites located in Israel, Germany, Hungary, Croatia, Bulgaria, India, Spain and the Czech Republic make up the majority of our production capacity.

We use several external contract manufacturers to achieve operational and cost benefits. We continue to strengthen our third party operations unit to strategically work with our supplier base in order to meet cost, supply security and

quality targets on a sustainable base in alignment with our global procurement organization.

Our policy is to maintain multiple supply sources for our strategic products and APIs to appropriately mitigate risk in our supply chain to the extent possible. However, our ability to do so may be limited by regulatory and other requirements.

In connection with implementation of our comprehensive restructuring plan announced in December 2017, we intend to close or divest a significant number of manufacturing plants in the United States, Europe, Israel and other ROW markets.

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Raw Materials for Pharmaceutical Production

In general, we purchase our raw materials and supplies required for the production of our products in the open market. For some products, we purchase our raw materials and supplies from one source (the only source available to us) or a single source (the only approved source among many available to us), thereby requiring us to obtain such raw materials and supplies from that particular source. We attempt, if possible, to mitigate our raw material supply risks through inventory management and alternative sourcing strategies.

We source a large portion of our APIs from our own manufacturing facilities. Additional APIs are purchased from suppliers located in Europe, Asia and the United States. We have implemented a supplier audit program to ensure that our suppliers meet our high standards and take a global approach to managing our commercial relations with these suppliers.

We currently have 18 API production facilities, producing approximately 300 APIs in various therapeutic areas. Our API intellectual property portfolio includes approximately 600 granted patents and pending applications worldwide.

We have expertise in a variety of production technologies, including chemical synthesis, semi-synthetic fermentation, enzymatic synthesis, high-potency manufacturing, plant extract technology, peptides synthesis, vitamin D derivatives synthesis and prostaglandins synthesis. Our advanced technology and expertise in the field of solid state particle technology enable us to meet specifications for particle size distribution, bulk density, specific surface area and polymorphism, as well as other characteristics.

Our API facilities are required to comply with applicable current Good Manufacturing Practices (cGMP) requirements under U.S., European, Japanese and other applicable quality standards. Our API plants are regularly inspected by the FDA, European agencies or other authorities as applicable.

Patents and Other Intellectual Property Rights

We rely on a combination of patents, trademarks, copyrights, trade secrets and other proprietary know-how and regulatory exclusivities, as well as contractual protections, to establish and protect our intellectual property rights. We own or license a number of patents covering our products in the United States and other countries. We have also developed many brand names and own many trademarks covering our products. We consider the overall protection of our intellectual property rights to be of material value and act to protect these rights from infringement. We license or assign certain intellectual property rights to third parties in connection with certain business transactions.

Environment, Health and Safety

We are committed to business practices that promote socially and environmentally responsible economic growth. During 2017, we continued to make significant progress on our multi-year plan to move closer to our long-term environment, health and safety (EHS) vision of Target Zero : zero incidents, zero injuries and zero releases. Among other things, in 2017 we:

- continued the implementation of our global EHS management system, which promotes proactive compliance with applicable environment, health and safety requirements, establishes minimum expectations throughout our global operations and helps drive continuous improvement in our EHS performance;

provided EHS regulatory surveillance tools for all countries where we have significant operations;

proactively evaluated EHS compliance through self-evaluation and an internal audit program, addressing non-conformities through appropriate corrective and preventative action whose progress is tracked; and

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established targets to reduce the environmental impact of our operations, through energy and water conservation, recycling and reuse of waste products.

Quality

We are committed not only to complying with quality requirements but to developing and leveraging quality as a competitive advantage. In 2017, we successfully completed numerous inspections by various regulatory agencies of our finished dosage pharmaceutical plants and our pharmacovigilance function, continued discussions with authorities about drug shortages and participated in several industry-wide task forces. We continue to focus on maintaining a solid and sustainable quality compliance foundation, as well as making quality a priority beyond compliance. We seek to ensure that quality remains part of our corporate culture and is reflected in all of our operations, resulting in reliable and high quality products.

Following an FDA audit of our API production facility in China in September 2016, we received a warning letter from the FDA in April 2017. We have undertaken corrective actions to address both the specific concerns raised by investigators as well as the underlying causes of those concerns and resumed shipments from that facility in May 2017. We have requested that the FDA conduct a follow-up inspection to confirm compliance and issue a close-out letter.

Geographic Areas

Our business is conducted in many countries all over the world and a significant portion of our revenues is generated from operations outside the United States. The products we make and sell around the world include many of those described above under Our Segments Generic Medicines and Our Segments Specialty Medicines.

Investments and activities in some countries outside the Unites States are subject to higher risks than comparable U.S. activities because the investment and commercial climate may be influenced by financial instability in international economies, restrictive economic policies and political and legal system uncertainties. Changes in the relative values of currencies may materially affect our results of operations. For a discussion of these risks, see Item 1A Risk Factors.

For information regarding revenues and long-lived assets by geographic area, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations, and note 20 to our consolidated financial statements.

Competition

Generic Medicines Competition

Sales of generic medicines have benefitted from increasing awareness and acceptance on the part of healthcare insurers and institutions, consumers, physicians and pharmacists globally. Factors contributing to this increased awareness are the passage of legislation permitting or encouraging generic substitution and the publication by regulatory authorities of lists of equivalent pharmaceuticals, which provide physicians and pharmacists with generic alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of brand-name pharmaceuticals with generic products as a cost-savings measure in the purchase of, or reimbursement for, prescription pharmaceuticals.

In the United States, we are subject to competition in the generic drug market from domestic and international generic drug manufacturers, brand-name pharmaceutical companies through lifecycle management initiatives, authorized generics, existing brand equivalents and manufacturers of therapeutically similar drugs. An increase in FDA approvals

for generic products is increasing the competition on our base generic products. Price competition from additional generic versions of the same product typically results in margin pressures.

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The European market continues to be ever more competitive, especially in terms of pricing, higher quality standards, customer service and portfolio relevance. We are one of only a few companies with a pan-European footprint, while most of our European competitors focus on a limited number of selected markets or business lines. Our leadership position in Europe allows us to be a reliable partner to fulfill the needs of patients, physicians, pharmacies, customers and payers.

In our ROW markets, our global scale and broad portfolio give us a significant competitive advantage over local competitors, allowing us to optimize our offerings through a combination of high quality medicines and unique go-to-market approaches.

Furthermore, in significant markets such as France, Japan and Russia, governments have issued or are in process of issuing regulations designed to increase generic penetration. These conditions result in intense competition in the generic market, with generic companies competing for advantage based on pricing, time to market, reputation, and customer service.

Specialty Medicines Competition

Our specialty medicines business faces intense competition from both specialty and generic pharmaceutical companies. The specialty business may continue to be affected by price reforms and changes in the political landscape, following recent public debate in the United States. We believe that our primary competitive advantages include our commercial marketing teams, global R&D capabilities, the body of scientific evidence substantiating the safety and efficacy of our various medicines, our patient-centric solutions, physician and patient experience with our medicines and our medical capabilities, which are tailored to our product offerings and to our market and stakeholders needs.

Regulation

United States

Food and Drug Administration and the Drug Enforcement Administration

All pharmaceutical manufacturers selling products in the United States are subject to extensive regulation by the United States federal government, principally by the FDA and the Drug Enforcement Administration (DEA), and, to a lesser extent, by state and local governments. The Federal Food, Drug, and Cosmetic Act, the Controlled Substances Act (CSA) and other federal and state statutes and regulations govern or influence the development, manufacture, testing, safety, efficacy, labeling, approval, storage, distribution, recordkeeping, advertising, promotion, sale, import and export of our products. Our facilities are periodically inspected by the FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Noncompliance with applicable requirements may result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the government to enter into supply contracts or to approve NDAs, ANDAs, or BLAs and criminal prosecution by the Department of Justice. The FDA also has the authority to deny or revoke approvals of marketing applications and the power to halt the operations of non-complying manufacturers. Any failure to comply with applicable FDA policies and regulations could have a material adverse effect on our operations.

FDA approval is required before any new drug (including generic versions of previously approved drugs) may be marketed, including new strengths, dosage forms and formulations of previously approved drugs. Applications for FDA approval must contain information relating to bioequivalence (for generics), safety, toxicity and efficacy (for

new drugs), product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling and quality control. FDA procedures generally require that commercial manufacturing equipment be used to produce test batches for FDA approval. The FDA also requires validation of manufacturing processes so that a company may market new products. The FDA conducts pre-approval and post-approval reviews and plant inspections to implement these requirements.

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The federal CSA and its implementing regulations establish a closed system of controlled substance distribution for legitimate handlers. The CSA imposes registration, security, recordkeeping and reporting, storage, manufacturing, distribution, importation and other requirements upon legitimate handlers under the oversight of the DEA. The DEA categorizes controlled substances into one of five schedules Schedule I, II, III, IV, or V with varying qualifications for listing in each schedule. Facilities that manufacture, distribute, import or export any controlled substance must register annually with the DEA. The DEA inspects manufacturing facilities to review security, record keeping and reporting and handling prior to issuing a controlled substance registration. Failure to maintain compliance with applicable requirements, particularly as manifested in the loss or diversion of controlled substances, can result in enforcement action, such as civil penalties, refusal to renew necessary registrations, or the initiation of proceedings to revoke those registrations. In certain circumstances, violations could lead to criminal prosecution.

The Drug Price Competition and Patent Term Restoration Act (the Hatch-Waxman Act) established the procedures for obtaining FDA approval for generic forms of brand-name drugs. This act also provides market exclusivity provisions that can delay the approval of certain NDAs and ANDAs. One such provision allows a five-year period of data exclusivity for NDAs containing new chemical entities and a three-year period of market exclusivity for NDAs (including different dosage forms) containing new clinical trial(s) essential to the approval of the application. The Orphan Drug Act grants seven years of exclusive marketing rights to a specific drug for a specific orphan indication. The term orphan drug refers, generally, to a drug that treats a rare disease affecting fewer than 200,000 Americans. Market exclusivity provisions are distinct from patent protections and apply equally to patented and non-patented drug products. Another provision of the Hatch-Waxman Act extends certain patents for up to five years as compensation for the reduction of effective life of the patent which resulted from time spent in clinical trials and time spent by the FDA reviewing a drug application.

Under the Hatch-Waxman Act, any company submitting an ANDA or an NDA under Section 505(b)(2) of the Food, Drug, and Cosmetic Act (i.e., an NDA that, similar to an ANDA, relies, in whole or in part, on FDA s prior approval of another company s drug product; also known as a 505(b)(2) application) must make certain certifications with respect to the patent status of the drug for which it is seeking approval. In the event that such applicant plans to challenge the validity or enforceability of an existing listed patent or asserts that the proposed product does not infringe an existing listed patent, it files a Paragraph IV certification. In the case of ANDAs, the Hatch-Waxman Act provides for a potential 180-day period of generic exclusivity for the first company to submit an ANDA with a Paragraph IV certification. This filing triggers a regulatory process in which the FDA is required to delay the final approval of subsequently filed ANDAs containing Paragraph IV certifications until 180 days after the first commercial marketing. For both ANDAs and 505(b)(2) applications, when litigation is brought by the patent holder, in response to this Paragraph IV certification, the FDA generally may not approve the ANDA or 505(b)(2) application until the earlier of 30 months or a court decision finding the patent invalid, not infringed or unenforceable. Submission of an ANDA or a 505(b)(2) application with a Paragraph IV certification can result in protracted and expensive patent litigation.

Products manufactured outside the United States and marketed in the United States are subject to all of the above regulations, as well as to FDA and United States customs regulations at the port of entry. Products marketed outside the United States that are manufactured in the United States are additionally subject to various export statutes and regulations, as well as regulation by the country in which the products are to be sold.

Our products also include biopharmaceutical products that are comparable to brand-name biologics, but that are not approved as biosimilar versions of such brand-name products. Of this portfolio, TEV-TROPIN® and GRANIX are sold in the United States, while others are distributed outside of the United States. While regulations are still being developed by the FDA relating to the Biologics Price Competition and Innovation Act of 2009, which created a statutory pathway for the approval of biosimilar versions of brand-name biological products and a process to resolve patent disputes, the FDA has issued guidance to provide a roadmap for development of biosimilar products.

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In August 2017, the FDA user fee reauthorization legislation, known as the FDA Reauthorization Act of 2017 (FDARA) was enacted in the United States. The agreements for pharmaceuticals, biosimilars, and medical devices were negotiated with industry representatives over the course of 2016 to establish the amounts regulated companies would pay the FDA to support the product review process at the agency. Various fees must be paid by these manufacturers at different times, such as annually and with the submission of different types of applications. In return for this additional funding, the FDA has entered into agreements with each of the affected industries (known as the user fee agreements) that commit the agency to interacting with manufacturers and reviewing applications such as NDAs, ANDAs, and BLAs in certain ways, and taking action on those applications at certain times. The agency is obligated to set specific timelines to communicate with companies and meet with company product sponsors during the review process and take action on their applications. On the generics side, FDARA established a new 180-day exclusivity for generic drugs that are no longer protected by exclusivity or patents, as well as new programs for enhanced and priority review of certain generic drug applications. On the branded side, this was the sixth agreement between the industry and the FDA. The user fee agreement for biosimilars was reauthorized for the second time as well.

The Patient Protection and Affordable Care Act and Certain Government Programs

The Patient Protection and Affordable Care Act (ACA) from 2010 represented the most significant health care reform in the United States in over thirty years. It was passed to require individuals to have health insurance and to control the rate of growth in healthcare spending through, among other things, stronger prevention and wellness measures, increased access to primary care, changes in healthcare delivery systems and the creation of health insurance exchanges. Enrollment in the health insurance exchanges began in October 2013. However, the individual mandate was just repealed by Congress in the tax reform bill that was signed into law in December 2017. The Joint Committee on Taxation estimates that the repeal will result in over 13 million Americans losing their health insurance coverage over the next ten years and is likely to lead to increases in insurance premiums.

The ACA requires the pharmaceutical industry to share in the costs of reform, by, among other things, increasing Medicaid rebates and expanding Medicaid rebates to cover Medicaid managed care programs. The ACA also included funding of pharmaceutical costs for Medicare patients in excess of the prescription drug coverage limit and below the catastrophic coverage threshold. Under the ACA, pharmaceutical companies are obligated to fund 50% of the patient obligation for branded prescription pharmaceuticals in this gap, or donut hole. Additionally, an excise tax was levied against certain branded pharmaceutical products. The tax is specified by statute to be approximately $3.5 billion in 2017, $4.2 billion in 2018, and $2.8 billion each year thereafter. The tax is to be apportioned to qualifying pharmaceutical companies based on an allocation of their governmental programs as a portion of total pharmaceutical government programs. The Administration is currently looking at Medicare parts B and D in terms of policy changes in the next session of Congress.

The Centers for Medicare & Medicaid Services (CMS) administer the Medicaid drug rebate program, in which pharmaceutical manufacturers pay quarterly rebates to each state Medicaid agency. Generally, for generic drugs marketed under ANDAs, manufacturers (including Teva) are required to rebate 13% of the average manufacturer price, and for products marketed under NDAs or BLAs, manufacturers are required to rebate the greater of 23.1% of the average manufacturer price or the difference between such price and the best price during a specified period. An additional rebate for products marketed under NDAs or BLAs is payable if the average manufacturer price increases at a rate higher than inflation, and other methodologies apply to new formulations of existing drugs. This provision was extended at the end of 2015 to cover generic drugs marketed under ANDAs as well. The Association for Accessible Medicines, the generic drug manufacturers trade association, is working to undo this policy as penalty on the industry and will continue to lobby for its abolishment.

In addition, the ACA revised certain definitions used for purposes of calculating the rebates, including the definition of average manufacturer price. The Comprehensive Addiction and Recovery Act of 2016 contains language intended to exempt certain abuse-deterrent formulations of a drug from the definition of line extension for purposes of the program.

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Various state Medicaid programs have implemented voluntary supplemental drug rebate programs that may provide states with additional manufacturer rebates in exchange for preferred status on a state s formulary or for patient populations that are not included in the traditional Medicaid drug benefit coverage.

Europe

General

In Europe, marketing authorizations for pharmaceutical products may be obtained either through a centralized procedure involving the EMA, a mutual recognition procedure which requires submission of applications in other member states following approval by a so-called reference member state, a decentralized procedure that entails simultaneous submission of applications to chosen member states or occasionally through a local national procedure.

During 2017, we continued to register products in the European Union, primarily using the decentralized procedure (simultaneous submission of applications to chosen member states). We continue to use, on occasion, the mutual recognition and centralized procedures.

The European pharmaceutical industry is highly regulated and much of the legislative and regulatory framework is driven by the European Parliament and the European Commission. This has many benefits, including the potential to harmonize standards across the complex European market, but it also has the potential to create complexities affecting the whole of the European market.

In October 2015, the European Commission adopted regulations providing detailed rules for the safety features appearing on the packaging of medicinal products for human use. This legislation, part of the Falsified Medicines Directive, is intended to prevent counterfeit medicines entering into the supply chain and will allow wholesale distributors and others who supply medicines to the public to verify the authenticity of the medicine at the level of the individual pack. The safety features comprise a unique identifier and a tamper-evident seal on the outer packaging, which are to be applied to certain categories of medicines. We are working to ensure we have the necessary infrastructure in place to ensure there is no disruption to our supply chain when the regulations take effect in 2019.

In connection with the Actavis Generics acquisition, we made a number of commitments to the European Commission to divest certain Actavis Generics assets and operations. Transfer of the marketing authorizations to the respective buyers is an important step in meeting these commitments, but in many cases regulatory submissions will also be required to transfer production of the finished product to the buyer. We are working with the regulators to separate certain marketing authorizations to be transferred to the buyers from other linked authorizations, which we are retaining, a process that is expected to take 3-5 years to complete.

In November 2017, the last part of the 2012 European Union regulation regarding pharmacovigilance was implemented, requiring centralized reporting in the European Union instead of individual country reporting. Under this regulation, all adverse events need to be reported regardless of severity.

European Union

The medicines regulatory framework of the European Union requires that medicinal products, including generic versions of previously approved products and new strengths, dosage forms and formulations of previously approved products, receive a marketing authorization before they can be placed on the market in the European Union. Authorizations are granted after a favorable assessment of quality, safety and efficacy by the respective health authorities. In order to obtain authorization, application must be made to the EMA or to the competent authority of the

member state concerned. Besides various formal requirements, the application must contain the results of pharmaceutical (physico-chemical, biological or microbiological) tests, pre-clinical

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(toxicological and pharmacological) tests and clinical trials. All of these tests must have been conducted in accordance with relevant European regulations and must allow the reviewer to evaluate the quality, safety and efficacy of the medicinal product.

In order to control expenditures on pharmaceuticals, most member states of the European Union regulate the pricing of such products and in some cases limit the range of different forms of a drug available for prescription by national health services. These controls can result in considerable price differences among member states.

In addition to patent protection, exclusivity provisions in the European Union may prevent companies from applying for marketing approval for a generic product for eight (or ten years for orphan medicinal products) from the date of the first market authorization of the original product in the European Union. Further, the generic product will be barred from market entry (marketing exclusivity) for a further two years, with the possibility of extending the market exclusivity by one additional year under certain circumstances.

The term of certain pharmaceutical patents may be extended in the European Union by up to five years upon grant of Supplementary Patent Certificates (SPC). The purpose of this extension is to increase effective patent life (i.e., the period between grant of a marketing authorization and patent expiry) to 15 years.

Subject to the respective pediatric regulation, the holder of an SPC may obtain a further patent term extension of up to six months under certain conditions. This six-month period cannot be claimed if the license holder claims a one-year extension of the period of marketing exclusivity based on the grounds that a new pediatric indication brings a significant clinical benefit in comparison with other existing therapies.

Orphan designated products, which receive, under certain conditions, a blanket period of ten years of market exclusivity, may receive an additional two years of exclusivity instead of an extension of the SPC if the requirements of the pediatric regulation are met.

The legislation also allows for R&D work during the patent term for the purpose of developing and submitting registration dossiers.

In 2016, the United Kingdom conducted a referendum and voted to leave the European Union, also known as Brexit. On March 29, 2017, the British government invoked Article 50 of the Treaty on the European Union and, as a result, the United Kingdom is scheduled to leave the European Union on March 29, 2019. The United Kingdom and European Union are currently in the process of defining their future relationship, but as pharmaceutical legislation in the United Kingdom is largely derived from European Union law and relies on mutual recognition of decision making, implementation of a number of practical steps is required before the United Kingdom exits the European Union. We are working on processes to ensure a smooth transition irrespective of the future decisions between the parties.

Rest of World

In addition to regulations in the United States, we, and our partners, are subject to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales, marketing and distribution of our products, similar or more stringent than the laws of the United States.

Whether or not we, or our partners, obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries. The requirements and process governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In addition, we, and our partners, may be subject to foreign laws and

regulations and other compliance requirements, including, without limitation, anti-kickback laws, false claims laws and other fraud and abuse laws, as well as laws and regulations requiring transparency of pricing and marketing information and governing the privacy and security of health information.

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If we, or our partners, fail to comply with applicable foreign regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

Miscellaneous Regulatory Matters

We are subject to various national, regional and local laws of general applicability, such as laws regulating working conditions. We are also subject to country specific data protection laws and regulations applicable to the storage and processing of personal data throughout the world. In addition, we are subject to various national, regional and local environmental protection laws and regulations, including those governing the emission of material into the environment. We are also subject to various national, regional and local laws regulating how we interact with healthcare professionals and representatives of government that impact our promotional activities.

Data exclusivity provisions exist in many countries worldwide and may be introduced in additional countries in the future, although their application is not uniform. In general, these exclusivity provisions prevent the approval and/or submission of generic drug applications to the health authorities for a fixed period of time following the first approval of the brand-name product in that country. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the submission of generic drug applications for some products even after the patent protection has expired.

In November 2013, the Drug Supply Chain Security Act was enacted in the United States, mandating an industry-wide, national serialization system for pharmaceutical packaging with a ten-year phase-in process. By November 27, 2018, all manufacturers and re-packagers must mark each prescription drug package with a unique serialized code. We are working to meet these requirements on a timely basis. Other countries are following suit with variations of two main requirements: (i) to be able to associate the unit data with the uniquely-identified shipping package, or (ii) to report the data for tracking and tracing of products, reimbursements, and other purposes. The European Union, Russia, China, Korea, Turkey, Argentina, Brazil, India (for exported products) and certain other countries already have laws mandating serialization and we are working to comply with these requirements. Other countries, including India (domestic market), Indonesia, Malaysia, Taiwan and other Latin American countries are currently considering mandating similar requirements.

Employees

As of December 31, 2017, Teva s work force consisted of approximately 51,800 full-time-equivalent employees. In certain countries, we are party to collective bargaining agreements with certain groups of employees.

The following table presents our work force by geographic area:

	December 31,		
	2017	**2016**	**2015**
United States	12,416	10,168	6,342
Europe	22,350	24,170	18,316
Rest of the World (excluding Israel)	10,780	15,759	11,256
Israel	6,245	6,863	6,974
Total	51,792	56,960	42,888

As part of our restructuring announcement in December 2017, we expect to reduce our global work force by 14,000 positions, which is over 25% of Teva s total work force as of December 31, 2017, by the end of 2019 (excluding the impact of any future divestments). The majority of the reductions are expected to occur in 2018. Restructuring efforts will be done in accordance with applicable local requirements. Consultations with the relevant employee representatives began in January 2018.

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Available Information

Our main corporate website address is *http://www.tevapharm.com.* Copies of our Quarterly Reports on Form 10-Q, Annual Report on Form 10-K and Current Reports on Form 8-K filed or furnished to the U.S. Securities and Exchange Commission (the SEC), and any amendments to the foregoing, will be provided without charge to any shareholder submitting a written request to our company secretary at our principal executive offices or by calling 1-800-950-5089. All of our SEC filings are also available on our website at *http://www.tevapharm.com*, as soon as reasonably practicable after having been electronically filed or furnished to the SEC. The public may read and copy any materials filed by Teva with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580,Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. The information on our website is not, and will not be deemed, a part of this Report or incorporated into any other filings we make with the SEC. We also file our annual reports and other information with the Israeli Securities Authority through its fair disclosure electronic system called MAGNA. You may review these filings on the website of the MAGNA system operated by the Israeli Securities Authority at *www.magna.isa.gov.il* or on the website of the TASE at *www.tase.co.il*.

ITEM 1A. RISK FACTORS

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the SEC, including the following risk factors which we face and which are faced by our industry. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. This report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements, as a result of certain factors including the risks described below and elsewhere in this report and our other SEC filings. See Forward-Looking Statements on page 1.

Risks related to our generic medicines business

Our generic medicines business comprises a significant portion of our business, and we are therefore increasingly subject to the significant risks associated with that business.

In 2017, revenues from our generic medicines segment were $12.3 billion, or 55% of our total revenues. Gross profit from our generic medicines segment was $5.1 billion, or 47% of our total gross profit. Generic pharmaceuticals are, as a general matter, less profitable than specialty pharmaceuticals, and face regular and increasing price erosion each year, placing even greater importance on our ability to continually introduce new products. We expect to be more dependent on our generics business and increasingly subject to market and regulatory factors and other risks affecting generic pharmaceuticals worldwide.

Furthermore, in the second quarter of 2017, our generics business in the United States was negatively impacted by certain developments, including: (i) additional pricing pressure as a result of customer consolidation into larger buying groups capable of extracting greater price reductions, (ii) accelerated FDA approval process for generic versions of off-patent medicines, resulting in increased competition for these products and (iii) delays in the launch of some of our new generic products. These developments were the cause of a goodwill impairment of $6.1 billion in the second quarter of 2017.

In the fourth quarter of 2017, we noted further significantly adverse challenges in the U.S. generics market deriving from further limitations on our ability to influence generic medicine pricing in the long term and a decrease in value from future launches and growth. These new developments were the cause of an additional goodwill impairment of $11.0 billion in the fourth quarter of 2017. See note 7 to our consolidated financial statements. If these trends continue or worsen, or if we experience further difficulty in this market, this may continue to adversely affect our revenues and profits from the U.S. generic medicines market.

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Sales of our generic products may be adversely affected by the continuing consolidation of our customer base and commercial alliances among our customers.

A significant portion of our sales are made to relatively few U.S. retail drug chains, wholesalers, managed care purchasing organizations, mail order distributors and hospitals. These customers have undergone significant consolidation and formed various commercial alliances in recent years, which may continue to increase the pricing pressures that we face in the United States. Additionally, the emergence of large buying groups, and the prevalence and influence of managed care organizations and similar institutions, have increased pressure on price, as well as terms and conditions required to do business. There are three large Group Purchasing Organizations (GPOs) that account for approximately 80% of generics purchases in the United States. During 2017, certain of these GPOs made aggressive requests for pricing proposals and established commercial alliances resulting in greater bargaining power. We expect the trend of increased pricing pressures from our customers and price erosion in the U.S. generics market to continue.

The traditional model for distribution of pharmaceutical products is also undergoing disruption as a result of the entry or potential entry of new competitors and significant mergers among key industry participants. For example, Amazon.com has recently made initial moves to develop a pharmaceutical distribution business. Also, the consolidation resulting from the merger between CVS Health and Aetna, if consummated, is expected to create a vertically integrated organization with increased control over the physician and pharmacy networks and, ultimately, over which medicines are sold to patients. In addition, several major hospital systems in the United States announced a plan to form a nonprofit company that will provide U.S. hospitals with a number of generic drugs. In January 2018, Amazon Inc., Berkshire Hathaway Inc. and JPMorgan Chase & Co., announced that they plan to join forces by forming an independent health care company for their combined one million U.S. employees. This initiative is expected to further increase competition and enhance price erosion. These changes to the traditional supply chain could lead to our customers having increased negotiation leverage and to additional pricing pressure and price erosion.

Our net sales and quarterly growth comparisons may also be affected by fluctuations in the buying patterns of retail chains, mail order distributors, wholesalers, and other trade buyers, whether resulting from seasonality, pricing, wholesaler buying decisions or other factors. In addition, since a significant portion of our U.S. revenues is derived from relatively few key customers, any financial difficulties experienced by a single key customer, or any delay in receiving payments from such a customer, could have a material adverse effect on our business, financial condition and results of operations.

The increase in the number of competitors targeting generic opportunities and seeking U.S. market exclusivity for generic versions of significant products may adversely affect our revenues and profits.

Our ability to achieve continued growth and profitability through sales of generic pharmaceuticals is dependent on our continued success in challenging patents, developing non-infringing products or developing products with increased complexity to provide opportunities with U.S. market exclusivity or limited competition.

To the extent that we succeed in being the first to market a generic version of a product, and particularly if we are the only company authorized to sell during the 180-day period of exclusivity in the U.S. market, as provided under the Hatch-Waxman Act, our sales, profits and profitability can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of an equivalent product. Even after the exclusivity period ends, there is often continuing benefit from having the first generic product in the market.

However, the number of generic manufacturers targeting significant new generic opportunities with exclusivity under the Hatch-Waxman Act, or which are complex to develop, continues to increase. Additionally, many of the smaller

generic manufacturers have increased their capabilities, level of sophistication and development resources in recent years. The FDA has also been limiting the availability of exclusivity periods for

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new products, which reduces the economic benefit from being first-to-file for generic approvals. The failure to maintain our industry-leading performance in the United States on first-to-file opportunities and to develop and commercialize high complexity generic products could adversely affect our sales and profitability.

The 180-day market exclusivity period is triggered by commercial marketing of the generic product. However, the exclusivity period can be forfeited by our failure to obtain tentative or final approval of our product within a specified statutory period or to launch a product following final court decisions that are no longer subject to appeal holding the applicable patents to be invalid, unenforceable or not infringed. The Hatch-Waxman Act also contains other forfeiture provisions that may deprive the first Paragraph IV filer of exclusivity if certain conditions are met, some of which may be outside our control. Accordingly, we may face the risk that our exclusivity period is forfeited before we are able to commercialize a product.

Our revenues and profits from generic products may, and often do, decline as a result of competition from other pharmaceutical companies and changes in policy.

Our generic drugs face intense competition. Prices of generic drugs may, and often do, decline, sometimes dramatically, especially as additional generic pharmaceutical companies (including low-cost generic producers based in China and India) receive approvals and enter the market for a given product and competition intensifies. Consequently, our ability to sustain our sales and profitability on any given product over time is affected by the number of companies selling such product, including new market entrants, and the timing of their approvals. The goals established under the Generic Drug User Fee Act, and increased funding of the FDA s Office of Generic Drugs, have led to more and faster generic approvals, and consequently increased competition for some of our products. The FDA has stated that it has established new steps to enhance competition, promote access and lower drug prices and is approving record-breaking numbers of generic applications. While these FDA improvements are expected to benefit Teva s generic product pipeline, they will also benefit competitors that seek to launch products in established generic markets where Teva currently offers products.

Furthermore, brand pharmaceutical companies continue to defend their products vigorously through life cycle management and marketing agreements with payers, pharmacy benefits managers and generic manufacturers. For example, brand companies often sell or license their own generic versions of their products, either directly or through other generic pharmaceutical companies (so-called authorized generics). No significant regulatory approvals are required for authorized generics, and brand companies do not face any other significant barriers to entry into such market. Brand companies may seek to delay introductions of generic equivalents through a variety of commercial and regulatory tactics. These actions may increase the costs and risks of our efforts to introduce generic products and may delay or prevent such introduction altogether.

We have experienced, and may continue to experience, delays in launches of our new generic products.

Although we believe we have the most extensive pipeline of generic products in the industry, we were unable to successfully execute a number of key generic launches in 2017. Certain launches planned for 2018 and 2019 may also be delayed due to unforeseen circumstances. As a result of these delays, we may not realize the economic benefits previously anticipated in connection with these launches due to increased competition in the market for such products or otherwise. If we cannot execute timely launches of new products, we may not be able to offset the increasing price erosion on existing products in the United States resulting from pricing pressures and accelerated generics approvals for competing products. Delays in launches of new generic products could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to take advantage of the increasing number of high-value biosimilar opportunities.

Biosimilar products are expected to make up an increasing proportion of the high-value generic opportunities in upcoming years. The development, manufacture and commercialization of biosimilar products require specialized expertise and are very costly and subject to complex regulation, which is still evolving. We

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are behind many of our competitors in developing biosimilars and will require significant investments and collaborations with third parties to take advantage of these opportunities. In October 2016, we entered into an exclusive partnership with Celltrion to commercialize biosimilar candidates to Herceptin® and Rituxan®, which are in development for the U.S. and Canadian markets. There is no assurance that our current and future investments and collaborations regarding biosimilar products will be successful. In January 2018, Celltrion received an FDA warning letter for its facility in Incheon, South Korea. It is likely that the remediation by Celltrion of the issues addressed in the warning letter will result in a delayed approval of both biosimilar products by the FDA.

If pharmaceutical companies are successful in limiting the use of generics through their legislative, regulatory and other efforts, our sales of generic products may suffer.

Many pharmaceutical companies increasingly have used state and federal legislative and regulatory means to delay generic competition. These efforts have included:

- making changes to the formulation of the brand product and asserting that potential generic competitors must demonstrate bioequivalency or comparable abuse-resistance to the reformulated brand product;
- pursuing new patents for existing products which may be granted just before the expiration of earlier patents, which could extend patent protection for additional years or otherwise delay the launch of generic competitors;
- selling the brand product as their own generic equivalent (an authorized generic), either by the brand company directly, through an affiliate or by a marketing partner;
- using the Citizen Petition process to request amendments to FDA standards or otherwise delay generic drug approvals;
- seeking changes to U.S. Pharmacopeia, an organization which publishes industry recognized compendia of drug standards;
- attempting to use the legislative and regulatory process to have drugs reclassified or rescheduled;
- using the legislative and regulatory process to set definitions of abuse deterrent formulations to protect brand company patents and profits;
- attaching patent extension amendments to unrelated federal legislation;

engaging in state-by-state initiatives to enact legislation that restricts the substitution of some generic drugs, which could have an impact on products that we are developing;

entering into agreements with pharmacy benefit management companies that have the effect of blocking the dispensing of generic products; and

seeking patents on methods of manufacturing certain API.

If pharmaceutical companies or other third parties are successful in limiting the use of generic products through these or other means, our sales of generic products may decline. A material decline in generic product sales could have a material adverse effect on our business, financial condition and results of operations.

From time to time we may need to rely on licenses to proprietary technologies, which may be difficult or expensive to obtain.

We may need to obtain licenses to patents and other proprietary rights held by third parties to develop, manufacture and market products. If we are unable to timely obtain these licenses on commercially reasonable terms, our ability to commercially market our products may be inhibited or prevented, which could have a material adverse effect on our business, financial condition and results of operations. For example, because we

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license significant intellectual property with respect to certain of our products, such as AUSTEDO and fasinumab, any loss or suspension of our rights to licensed intellectual property could have a material adverse effect on our business, financial condition and results of operations.

Investigations of the calculation of wholesale prices may adversely affect our business.

Many government and third-party payers, including Medicare, Medicaid, Health Maintenance Organization (HMOs) and Managed Care Organization (MCOs), have historically reimbursed doctors, pharmacies and others for the purchase of certain prescription drugs based on a drug s average wholesale price (AWP) or wholesale acquisition cost (WAC). In the past several years, U.S. state and federal government agencies have conducted ongoing investigations of manufacturers reporting practices with respect to AWP and WAC, in which they have suggested that reporting of inflated AWP s or WAC s has led to excessive payments for prescription drugs. These investigations, if leading to successful proceedings or settlements, could adversely affect us and may have a material adverse effect on our business, financial condition and results of operations.

Risks related to our specialty medicines business

Our leading specialty medicine, COPAXONE, faces increasing competition, including from two generic versions of our 20 mg/mL product in the United States and one generic version of our 40 mg/mL product, which was launched at-risk in the United States, as well as from orally-administered therapies.

In October 2017, the FDA approved a generic version of COPAXONE 40 mg/mL and an additional generic version of COPAXONE 20 mg/mL. A hybrid version of COPAXONE 40 mg/mL was also approved in the European Union. At least one competitor has launched its generic 40 mg/mL product in the U.S. market. We consider the 40 mg/mL generic to be a launch at risk until final resolution of the pending patent litigation in this matter. Nevertheless, this launch, and any additional launches of generic 40 mg/mL products, will have an effect on our MS market share and revenues from COPAXONE.

The market for MS treatments continues to develop, particularly with the recent approvals of generic versions of COPAXONE as well as additional generic versions expected to be approved in the future, such as Glatopa® 40 mg/mL. Oral MS treatments, such as Tecfidera®, Gilenya® and Aubagio®, continue to present significant and increasing competition to COPAXONE. Other existing injectable products and monoclonal antibodies are additional sources of competition in this market.

Our MS franchise profit was $3.1 billion, $3.4 billion and $3.1 billion in 2017, 2016 and 2015, respectively. Profitability of our MS franchise as a percentage of COPAXONE revenues was 80.6%, 81.3% and 76.7% in 2017, 2016 and 2015, respectively. Following the approval of generic competition, it is expected that COPAXONE s revenues and profitability will decrease in the future, which is expected to have a material adverse effect on our financial results and cash flow.

If generic products that compete with any of our specialty products are approved and sold, sales of our specialty products will be adversely affected.

In addition to COPAXONE, certain of our other leading specialty medicines also face patent challenges and impending patent expirations. For example, our ProAir HFA product is expected to face generic competition in 2018 and TREANDA is expected to face generic competition prior to patent expiration beginning in 2019.

Generic equivalents for branded pharmaceutical products are typically sold at lower costs than the branded products. After the introduction of a competing generic product, a significant percentage of the prescriptions previously written for the branded product are often written for the generic version. Legislation enacted in most U.S. states allows or, in some instances mandates, that a pharmacist dispense an available generic equivalent when filling a prescription for a branded product in the absence of specific instructions from the prescribing

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physician. Pursuant to the provisions of the Hatch Waxman Act, manufacturers of branded products often bring lawsuits to enforce their patent rights against generic products released prior to the expiration of branded products patents, but it is possible for generic manufacturers to offer generic products while such litigation is pending. As a result, branded products typically experience a significant loss in revenues following the introduction of a competing generic product, even if subject to an existing patent. Our specialty products are or may become subject to competition from generic equivalents because our patent protection expired or may expire soon. In addition, we may not be successful in our efforts to extend the proprietary protection afforded our specialty products through the development and commercialization of proprietary product improvements and new and enhanced dosage forms.

Investments in our pipeline of specialty and other products may not achieve expected results.

We must invest significant resources to develop specialty medicines (including innovations utilizing existing molecules, as well as the development of complex generics), both through our own efforts and through collaborations and in-licensing or acquisition of products from or with third parties. In particular, in light of the recent approvals of generic versions of COPAXONE and the patent challenges and impending patent expirations facing certain of our other specialty medicines, we have in recent years increased our investments in the acquisition and development of products to build our specialty pipeline, including through our acquisitions of Auspex Pharmaceuticals, Inc. and Labrys Biologics, Inc. and in-licensing transactions with Celltrion, Eagle and Regeneron.

The development of specialty medicines involves processes and expertise different from those used in the development of generic medicines, which increase the risk of failure. For example, the time from discovery to commercial launch of a specialty medicine can be 15 years or more and involves multiple stages, including intensive preclinical and clinical testing and highly complex, lengthy and expensive approval processes, which vary from country to country. The longer it takes to develop a new product, the less time that remains to recover development costs and generate profits.

During each stage, we may encounter obstacles that delay the development process and increase expenses, potentially forcing us to abandon a potential product in which we may have invested substantial amounts of time and money. These obstacles may include preclinical failures, difficulty enrolling patients in clinical trials, delays in completing formulation and other work needed to support an application for approval, adverse reactions or other safety concerns arising during clinical testing, insufficient clinical trial data to support the safety or efficacy of the product candidate and delays or failure to obtain the required regulatory approvals for the product candidate or the facilities in which it is manufactured. For example, in 2017, the phase 3 clinical study for laquinimod as treatment for RRMS did not meet its primary endpoint and the phase 2 proof of concept study for laquinimod as treatment for primary progressive MS did not meet its primary or secondary endpoints. Also, the phase 2 proof of concept study for TV-45070 did not meet primary and secondary endpoints in 2017.

Because of the amounts required to be invested in strengthening our pipeline of specialty and other products, we are increasingly reliant on partnerships and joint ventures with third parties, such as our collaborations with Celltrion, Eagle, Otsuka, Nuvelution and Regeneron, and consequently face the risk that some of these third parties may fail to perform their obligations or fail to reach the levels of success that we are relying on to meet our revenue and profit goals. For example, in January 2018, Celltrion received an FDA warning letter for its facility in Incheon, South Korea. It is likely that the remediation by Celltrion of the issues addressed in the warning letter will result in delayed FDA approval for two biosimilar products Celltrion is developing as part of our partnership with them. There is a trend in the specialty pharmaceutical industry of seeking to outsource drug development by acquiring companies with promising drug candidates and we face substantial competition from historically innovative companies for such acquisition targets.

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Our specialty pharmaceuticals business faces intense competition from companies that have greater resources and capabilities.

We face intense competition in our specialty pharmaceutical business. Many of our competitors are larger and/or have substantially longer experience in the development, acquisition and marketing of branded, innovative and consumer-oriented products. They may be able to respond more quickly to new or emerging market preferences or to devote greater resources to the development and marketing of new products and/or technologies than we can. As a result, any products and/or innovations that we develop may become obsolete or noncompetitive before we can recover the expenses incurred in connection with their development. In addition, we must demonstrate the benefits of our products relative to competing products that are often more familiar or otherwise better established to physicians, patients and third-party payers. If competitors introduce new products or new variations on their existing products, our marketed products, even those protected by patents, may be replaced in the marketplace or we may be required to lower our prices.

In addition, our specialty pharmaceuticals business requires much greater use of a direct sales force than does our core generics business. Our ability to realize significant revenues from direct marketing and sales activities depends on our ability to attract and retain qualified sales personnel. Competition for qualified sales personnel is intense. We may also need to enter into co-promotion, contract sales force or other such arrangements with third parties, for example, where our own direct sales force is not large enough or sufficiently well-aligned to achieve maximum market penetration. Any failure to attract or retain qualified sales personnel or to enter into third-party arrangements on favorable terms could prevent us from successfully maintaining current sales levels or commercializing new innovative and specialty products.

We depend on the effectiveness of our patents, confidentiality agreements and other measures to protect our intellectual property rights.

The success of our specialty medicines business depends substantially on our ability to obtain patents and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market products identical or similar to ours. We have been issued numerous patents covering our specialty medicines, and have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the United States. Currently pending patent applications may not result in issued patents or be approved on a timely basis or at all. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may be challenged or circumvented by competitors.

In addition to the recently approved generic versions of COPAXONE, we have recently suffered an adverse court ruling and unfavorable appeal board decisions in lawsuits and proceedings challenging the validity and/or enforceability of the U.S. patents covering COPAXONE 40 mg/mL, which is our most significant single contributor to revenues and profits. While we are defending the validity of these patents and have appealed these decisions, such efforts are expensive and time-consuming. There can be no assurance that such efforts will be successful. Our ability to enforce our patents also depends on the laws of individual countries and each country s practices regarding the enforcement of intellectual property rights. The loss of patent protection or regulatory exclusivity on these or other specialty medicines could materially impact our business, results of operations, financial condition and prospects.

We also rely on trade secrets, unpatented proprietary know-how, trademarks, regulatory exclusivity and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. These measures may not provide adequate protection for our unpatented technology. If these agreements are breached, it is possible that we will not have adequate remedies. Disputes may arise concerning

the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products. If we are unable to adequately protect our technology, trade secrets or proprietary know-how, or enforce our intellectual property rights, our results of operations, financial condition and cash flows could suffer.

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Risks related to our substantially increased indebtedness

We have substantial debt of $32.5 billion as of December 31, 2017, which has increased our expenses and restricts our ability to incur additional indebtedness or engage in other transactions.

Our consolidated debt was $32.5 billion at December 31, 2017, compared to $35.8 billion at December 31, 2016 and approximately $9.9 billion at December 31, 2015, prior to the Actavis Generics acquisition. If we are unable to meet our debt service obligations and other financial obligations, we could be forced to restructure or refinance our indebtedness and other financial transactions, seek additional debt or equity capital or sell our assets. We might then be unable to obtain such financing or capital or sell our assets on satisfactory terms, if at all. Any refinancing of our indebtedness could be at significantly higher interest rates, incur significant transaction fees or include more restrictive covenants. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and note 11 to our consolidated financial statements for a detailed discussion of our outstanding indebtedness.

Our cash flows have declined and we may have lower-than-anticipated cash flows in the future, which could further reduce our available cash. Although we believe that we will have access to cash sufficient to meet our business objectives and capital needs, this reduced availability of cash could constrain our ability to grow our business. In addition, our earnings have declined and we may have lower-than-anticipated earnings in the future. Certain of our loan agreements include restrictive covenants, including the requirement to maintain compliance with a net debt to EBITDA ratio, which becomes more restrictive over time. Approximately $3.7 billion of our debt is subject to such covenants and, under specified circumstances, including non-compliance with such covenants and the unavailability of any waiver, amendment or other modification thereto and the expiration of any applicable grace period thereto, substantially all other debt could be negatively impacted by non-compliance with such covenants.

As of December 31, 2017, we were in compliance with all applicable financial ratios. We continue to take steps to reduce our debt levels and improve profitability to ensure continual compliance with the financial maintenance covenants. Based on our current forecast for the next twelve months from the date of issuance of these financial statements, we expect to remain in compliance with these financial covenants after taking into consideration the effect of implementation of certain cost-efficiency initiatives, such as rationalization of our plants, selling and marketing, general and administrative and research and development spend, which would allow us to continue to comply with the financial covenants. We have amended such covenants in the past, including the net debt to EBITDA ratio covenant to permit a higher ratio, most recently on February 1, 2018. Although we have successfully negotiated amendments to our loan agreements in the past, we cannot guarantee that we will be able to amend such agreements on terms satisfactory to us, or at all, if required to maintain compliance in the future. If we experience lower than required earnings and cash flows to continue to maintain compliance and efforts could not be successfully completed on commercially acceptable terms, we may curtail additional planned spending, may divest additional assets in order to generate enough cash to meet our debt requirements and all other financial obligations.

This substantial level of debt and lower levels of cash have severely impacted our business and resulted in the restructuring plan announced in December 2017, including: (i) a substantial reduction in our global workforce; (ii) substantial optimization of our generics medicines portfolio; (iii) the restructuring and optimization of our manufacturing and supply network, including the closure or divestment of a significant number of manufacturing plants around the world; (iv) a thorough review of R&D programs in preparation of the closure or divestment of a significant number of R&D facilities, headquarters and other office locations across all geographies; (v) an ongoing review of additional potential divestments of non-core assets; and (vi) the suspension of dividend payments to holders of ordinary shares.

Our substantial net debt could also have other important consequences to our business, including, but not limited to:

making it more difficult for us to satisfy our obligations;

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limiting our ability to borrow additional funds and increasing the cost of any such borrowing;

increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and

restricting us from pursuing certain business opportunities.

In addition, in light of the amount of unhedged floating-rate debt we currently have outstanding (approximately $3.4 billion at December 31, 2017), we have substantial exposure to increases in interest rates.

We may need to raise additional funds in the future, which may not be available on acceptable terms or at all.

We may consider issuing additional debt or equity securities in the future to refinance existing debt or for general corporate purposes, including to fund potential acquisitions or investments. If we issue ordinary equity, convertible preferred equity or convertible debt securities to raise additional funds, our existing shareholders may experience dilution, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing shareholders. If we incur additional debt, it may increase our leverage relative to our earnings or to our equity capitalization, requiring us to pay additional interest and potentially lowering our credit ratings. We may not be able to market such issuances on favorable terms, or at all, in which case, we may not be able to develop or enhance our products, execute our business plan, take advantage of future opportunities or respond to competitive pressures or unanticipated customer requirements.

If our credit ratings are further downgraded by leading rating agencies, we may not be able to raise debt or borrow funds in amounts or on terms that are favorable to us, if at all.

Our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our ratings at any time will reflect each rating organization s then opinion of our financial strength, operating performance and ability to meet our debt obligations. Following the completion of the Actavis Generics acquisition, Standard and Poor s Financial Services LLC (Standard and Poor s) and Moody s Investor Service, Inc. (Moody s) downgraded our ratings to BBB and Baa2, respectively, compared to A- and A2, respectively, prior to the announcement of the acquisition in July 2015. In February 2017, following the court ruling invalidating our COPAXONE 40 mg/mL patents, both Standard and Poor s and Moody s changed our ratings outlook from stable to negative. In August 2017, following our release of revised 2017 guidance, both Standard and Poor s and Moody s downgraded our rating to BBB- and Baa3, respectively. In November 2017, Fitch Ratings Inc. (Fitch) downgraded our rating to non-investment grade, from BBB- to BB, with a negative outlook. On January 12, 2018, Moody s downgraded our rating to non-investment grade from Baa3 to Ba2, with a stable outlook. On February 8, 2018, Standard and Poor s downgraded our rating to non-investment grade from BBB- to BB, with a stable outlook.

The downgrade of our ratings to non-investment grade by Fitch, Moody s and Standard & Poor s, limits our ability to borrow at interest rates consistent with the interest rates that were available to us prior to such downgrades. This may limit our ability to sell additional debt securities or borrow money in the amounts, at the times or interest rates, or upon the terms and conditions that would have been available to us if our previous credit ratings had been maintained. In addition, these downgrades have required us to increase the deferred purchase price of our trade receivables securitization program. As a result, we expect to incur a decrease of $100 $200 million in cash amounts received from such program in the first quarter of 2018.

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Additional risks related to our business and operations

Failure to effectively execute the recently announced restructuring plan may adversely affect our business, financial condition and results of operations.

In December 2017, we announced a comprehensive restructuring plan aimed at restoring our financial security and stabilizing our business by realizing operational efficiencies and reducing our total cost base by $3 billion by the end of 2019. The restructuring plan includes:

- substantial optimization of the generics portfolio globally, and most specifically in the United States, through a more tailored approach to the portfolio with increased focus on profitability;
- closure or divestment of a significant number of manufacturing plants in the United States, Europe, Israel and Growth Markets;
- closure or divestment of a significant number of R&D facilities, headquarters and other office locations across all geographies; and
- a thorough review of all R&D programs across the Company to prioritize core projects and immediately terminate others.

The restructuring plan is expected to result in the reduction of 14,000 positions globally (over 25% of Teva s total workforce) by the end of 2019. We expect to record an additional restructuring charge related to the implementation of the restructuring plan in 2018 and 2019, mainly related to severance costs.

We may not be able to achieve the level of benefit that we expect to realize from the restructuring plan within the expected time frame, or at all, due to unforeseen difficulties, delays or costs.

We may face wrongful termination, discrimination or other legal claims from employees affected by the workforce reduction. We may incur substantial costs defending against such claims, regardless of their merits, and such claims may significantly increase our severance costs. Additionally, we may see variances in the estimated severance costs depending on the category of employees and locations in which severance is incurred.

As part of plant closures and the transfer of production of pharmaceutical products to other sites, we are required to obtain the consent of customers and the relevant regulatory agencies. Delay or failure in obtaining such consents may have a material negative impact on our ability to effectively execute the restructuring plan. Withdrawal of business and operations from a market may result in claims for breach of contract from third parties, such as vendors, suppliers, contractors and customers that may materially impact the financial benefits of such move.

Upon the proposed divestiture of any facility in connection with our restructuring plan, we may not be able to divest such facility at a favorable price or in a timely manner. Any divestiture that we are unable to complete may cause additional costs associated with retaining the facility or closing and disposing of the impacted businesses.

The restructuring and streamlining of our manufacturing network and resulting announcements of the sale or closure of a significant number of manufacturing sites around the world could trigger labor unrest or strikes, potentially resulting in significant product supply disruptions.

The restructuring plan may lead to the loss of certain tax benefits we currently receive in Israel, which may have a material impact on our overall financial results.

The workforce reduction in connection with the restructuring plan may result in the loss of numerous long-term employees, the loss of institutional knowledge and expertise, the reallocation of certain job responsibilities and the disruption of business continuity, all of which could negatively affect operational efficiencies and increase our operating expenses in the short term.

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Our failure to effectively execute the restructuring plan may lead to significant volatility, and a decline, in the price of our securities. This may expose us to securities class action and shareholder derivative litigation, potentially resulting in substantial costs and expenses.

We cannot guarantee that the restructuring plan will be successful and we may need to take additional restructuring steps in the future to achieve the goals announced in December 2017.

Uncertainties related to, and failure to achieve, the potential benefits and success of our new senior management team and organizational structure may adversely affect our business, strategy, financial condition and results of operations.

Effective November 1, 2017, Kåre Schultz joined Teva as President and Chief Executive Officer, succeeding Dr. Yitzhak Peterburg. Dr. Peterburg replaced Erez Vigodman and served as Interim President and Chief Executive Officer from February to November 2017. Mr. Schultz is our seventh CEO since 2007 and sixth since 2012. In November 2017, we announced a new organizational and leadership structure, including:

- the departure of three executive officers from Teva;
- the internal promotion of six executives to Teva s executive management team;
- the combination of Teva s generic and specialty global groups into one commercial organization responsible for Teva s entire portfolio, including generics, specialty and OTC, which will operate through three regions, North America, Europe and Growth Markets;
- the combination of Teva s generic and specialty R&D organizations into a global group with overall responsibility for all R&D activities, including generics, specialty and biologics; and
- the formation of a newly formed Marketing & Portfolio function responsible for overseeing the interface between regions, R&D and operations.

Any significant leadership change or executive management transition involves risks. Failure to effectively transfer knowledge or otherwise conduct a smooth leadership transition process could hinder our strategic planning, execution and anticipated performance.

The establishment of a new executive management team may create a number of transitional challenges, which may cause disruptions to our business. We cannot be assured that a smooth transition of our executive management team has occurred or that we have taken all necessary steps to effect an orderly continuation of our operations during the transitional period. We cannot be assured that the integration of our new executive management team will occur in a timely manner, or that such integration will not present additional transitional challenges or adversely affect the operation of our business. We cannot be assured that our new management team will be successful in executing our restructuring plans and future business strategy.

We may experience operational disruptions as we implement our new organizational structure. The expected cost savings and operational efficiencies from the newly introduced organizational structure are based on assumptions and expectations, which are reasonable in our judgment, but may not be accurate due to unforeseen difficulties and challenges that are beyond our control. If these assumptions and expectations are incorrect or if we experience delays or unforeseen events in implementing the new organizational structure, our business operations and financial results may be harmed.

The recent changes in our senior management and organizational structure may be the source of uncertainty and concern for our employees, as well as for current and potential customers, other business partners, debtholders and shareholders. Any of these could have a material adverse effect on our business, reputation, financial condition or results of operations, and ultimately on the anticipated benefits of the reorganization.

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In addition, the establishment of a new management team following the relatively frequent senior management transitions in recent years, may result in disruption of our business operations, distraction of our employees and management, difficulty in recruiting, hiring, motivating and retaining talented and skilled personnel and difficulty in negotiating, maintaining or consummating business or strategic relationships or transactions. If we are unable to mitigate these or other potential risks, our business and operating results may be adversely impacted.

The expected review of our R&D programs may harm our pipeline of future products.

In December 2017, we announced our intention to close or sell a significant number of R&D facilities across all geographies after conducting a thorough review of all R&D programs across the company, including both generics and specialty. This review may lead to termination of R&D programs that are in advanced stages and may cause disruptions to our R&D programs and product pipeline. In addition, we may not realize the anticipated benefits of such closures and divestments, including the efficiencies and substantial cost savings expected, and such closures and divestments may result in difficulty maintaining a substantial pipeline of future generic and specialty products.

Our success depends on our ability to develop and commercialize additional pharmaceutical products.

Our financial results depend upon our ability to develop and commercialize additional pharmaceutical products, both specialty and generic, in a timely manner, particularly in light of the patent challenges, regulatory approvals and at-risk launch of a generic competitor to the 40 mg/mL version of our leading specialty medicine, COPAXONE, and patent challenges and impending patent expirations facing certain of our other specialty medicines. Commercialization requires that we successfully develop, test and manufacture both generic and specialty products. All of our products must receive regulatory approval and meet (and continue to comply with) regulatory and safety standards; if health or safety concerns arise with respect to a product, we may be forced to withdraw it from the market. Developing and commercializing additional pharmaceutical products is also subject to difficulties relating to the availability, on commercially reasonable terms, of raw materials, including API and other key ingredients; preclusion from commercialization by the proprietary rights of others; the costs of manufacture and commercialization; costly legal actions brought by our competitors that may delay or prevent development or commercialization of a new product; and delays and costs associated with the approval process of the FDA and other U.S. and international regulatory agencies.

The development and commercialization process, particularly with respect to specialty medicines as well as the complex generic medicines that we increasingly focus on, is both time-consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect. Necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to produce and market such products successfully and profitably. Delays in any part of the process or our inability to obtain regulatory approval of our products could adversely affect our operating results by restricting or delaying our introduction of new products.

We may be subject to further adverse consequences following our resolution with the United States government of our FCPA investigations and related matters.

We are required to comply with the U.S. Foreign Corrupt Practices Act (the FCPA) and similar anti-corruption laws in other jurisdictions around the world where we do business. Compliance with these laws has been the subject of increasing focus and activity by regulatory authorities, both in the United States and elsewhere, in recent years. Actions by our employees, or by third-party intermediaries acting on our behalf, in violation of such laws, whether carried out in the United States or elsewhere in connection with the conduct of our business (including the conduct described below) have exposed us, and may further expose us, to significant liability for violations of the FCPA or

other anti-corruption laws and accordingly may have a material adverse effect on our reputation, business, financial condition and results of operations.

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For several years, we conducted a voluntary worldwide investigation into business practices that may have implications under the FCPA, following the receipt, beginning in 2012, of subpoenas and informal document requests from the SEC and the Department of Justice (DOJ) with respect to compliance with the FCPA in certain countries. In December 2016, we reached a resolution with the SEC and DOJ to fully resolve these FCPA matters. The resolution, which relates to conduct in Russia, Mexico and Ukraine during 2007-2013, provides for: penalties of approximately $519 million, which include a fine, disgorgement and prejudgment interest; a three-year deferred prosecution agreement (DPA); a guilty plea by our Russian subsidiary to criminal charges of violations of the anti-bribery provisions of the FCPA; consent to entry of a final judgment against us settling civil claims of violations of the anti-bribery, internal controls and books and records provisions of the FCPA; and the retention of an independent compliance monitor for a period of three years. The SEC civil consent and DOJ deferred prosecution agreement have each obtained court approval. A court has also accepted the guilty plea entered by our Russian subsidiary and the negotiated settlement.

Under our DPA with the DOJ, we admitted to the conduct that violated the FCPA described in the statement of facts attached to the DPA and the DOJ agreed to defer the prosecution of certain FCPA-related charges against us and not to bring any further criminal or civil charges against us or any of our subsidiaries related to such conduct. We agreed, among other things, to continue to cooperate with the DOJ, review and maintain our anti-bribery compliance program and retain an independent compliance monitor. If, during the term of the DPA (approximately three years, unless extended), the DOJ determines that we have committed a felony under federal law, provided deliberately false or misleading information or otherwise breached the DPA, we could be subject to prosecution and additional fines or penalties, including the deferred charges.

As a result of the settlement and the underlying conduct, our sales and operations in the affected countries may be negatively impacted, and we may be subject to additional criminal or civil penalties or adverse impacts, including lawsuits by private litigants or investigations and fines imposed by authorities other than the U.S. government. We have received inquiries from governmental authorities in certain of the countries referenced in our resolution with the SEC and DOJ and we recently entered into a contingent cessation of proceedings arrangement with Israeli authorities regarding an investigation into the conduct that was the subject of the FCPA investigation and resulted in the above-mentioned resolution with the SEC and DOJ, requiring us to pay approximately $22 million. In addition, there can be no assurance that the remedial measures we have taken and will take in the future will be effective or that there will not be a finding of a material weakness in our internal controls. Any one or more of the foregoing, including any violation of the DPA, could have a material adverse effect on our reputation, business, financial condition and results of operations.

Sanctions and other trade control laws create the potential for significant liabilities, penalties and reputational harm.

As a company with global operations, we may be subject to national laws as well as international treaties and conventions controlling imports, exports, re-export and diversion of goods (including finished goods, materials, APIs, packaging materials, other products and machines) services and technology. These include import and customs laws, export controls, trade embargoes and economic sanctions, denied party watch lists and anti-boycott measures (collectively Customs and Trade Controls). Applicable Customs and Trade Controls are administered by Israel s Ministry of Finance, the U.S. Treasury s Office of Foreign Assets Control (OFAC), other U.S. agencies and multiple other agencies of other jurisdictions around the world where we do business. Customs and Trade Controls relate to a number of aspects of our business, including most notably the sales of finished goods and API as well as the licensing of our intellectual property. Compliance with Customs and Trade Controls has been the subject of increasing focus and activity by regulatory authorities, both in the United States. and elsewhere, in recent years. Although we have policies and procedures designed to address compliance with Customs and Trade Controls, actions by our employees,

by third-party intermediaries (such as distributors and wholesalers) or others acting on our behalf in violation of relevant laws and regulations may expose us to liability and penalties for violations of Customs and Trade Controls and accordingly may have a material adverse effect on our reputation and our business, financial condition and results of operations.

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Manufacturing or quality control problems may damage our reputation for quality production, demand costly remedial activities and negatively impact our financial results.

As a pharmaceutical company, we are subject to substantial regulation by various governmental authorities. For instance, we must comply with requirements of the FDA, EMA and other healthcare regulators with respect to the manufacture, labeling, sale, distribution, marketing, advertising, promotion and development of pharmaceutical products. Failure to strictly comply with these regulations and requirements may damage our reputation and lead to financial penalties, compliance expenditures, the recall or seizure of products, total or partial suspension of production and/or distribution, suspension of the applicable regulator s review of our submissions, enforcement actions, injunctions and criminal prosecution. We must register our facilities, whether located in the United States or elsewhere, with the FDA as well as regulators outside the United States, and our products must be made in a manner consistent with cGMP, or similar standards in each territory in which we manufacture. In addition, the FDA and other agencies periodically inspect our manufacturing facilities. Following an inspection, an agency may issue a notice listing conditions that are believed to violate cGMP or other regulations, or a warning letter for violations of regulatory significance that may result in enforcement action if not promptly and adequately corrected.

In recent years, there has been increasing regulatory scrutiny of pharmaceutical manufacturers, resulting in product recalls, plant shutdowns and other required remedial actions. We have been subject to increasing scrutiny of our manufacturing operations, and in previous years several of our facilities have been the subject of significant regulatory actions requiring substantial expenditures of resources to ensure compliance with more stringently applied production and quality control regulations. For example, we discontinued manufacturing activities at our facility in Godollo, Hungary following an FDA inspection in 2016, halted operations at our facility in Guadalajara, Mexico (acquired as part of the Rimsa acquisition) due to compliance issues that existed prior to the acquisition, and in May 2017 undertook corrective actions to address quality issues raised in connection with an FDA audit and warning letter received in April 2017 regarding our API production facility in China. These regulatory actions also adversely affected our ability to supply various products worldwide and to obtain new product approvals at such facilities. Also, in January 2018, Celltrion received an FDA warning letter for its facility in Incheon, South Korea. It is likely that the remediation by Celltrion of the issues addressed in the warning letter will result in a delay in FDA approval for two biosimilar products in our pipeline. If any regulatory body were to require one or more of our significant manufacturing facilities to cease or limit production, our business could be adversely affected. In addition, because regulatory approval to manufacture a drug is site-specific, the delay and cost of remedial actions or obtaining approval to manufacture at a different facility could also have a material adverse effect on our business, financial condition and results of operations.

The manufacture of our products is highly complex, and an interruption in our supply chain or problems with internal or third party information technology systems could adversely affect our results of operations.

Our products are either manufactured at our own facilities or obtained through supply agreements with third parties. Many of our products are the result of complex manufacturing processes, and some require highly specialized raw materials. For some of our key raw materials, we have only a single, external source of supply, and alternate sources of supply may not be readily available. If our supply of certain raw materials or finished products is interrupted from time to time, or proves insufficient to meet demand, our cash flows and results of operations could be adversely impacted. Moreover, as we accelerate the planned streamlining of our manufacturing network, as part of the recently announced restructuring plan, we may become more dependent on certain plants and operations for our supply. Our inability to timely manufacture any of our significant products could have a material adverse effect on our business, financial condition and results of operations.

We also rely on complex shipping arrangements to and from the various facilities of our supply chain. Customs clearance and shipping by land, air or sea routes rely on and may be affected by factors that are not in our full control or are hard to predict.

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The workforce reduction in connection with the restructuring plan announced in December 2017 may result in the loss of numerous long-term employees, the loss of institutional knowledge and expertise, and the reallocation of certain job responsibilities, all of which could negatively affect operational efficiencies.

In addition, we rely on complex information technology systems, including Internet-based systems, to support our supply-chain processes as well as internal and external communications. The size and complexity of our systems make them potentially vulnerable to breakdown or interruption, whether due to computer viruses or other causes that may result in the loss of key information or the impairment of production and other supply chain processes. Such disruptions and breaches of security could have a material adverse affect on our business, financial condition and results of operation.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. In the ordinary course of our business, we collect and store sensitive data in our data centers and on our networks, including intellectual property, proprietary business information (both ours and that of our customers, suppliers and business partners) and personally identifiable information of our employees. We could also experience business interruption, information theft, legal claims and liability, regulatory penalties and/or reputational damage from cyber-attacks, which may compromise our systems and lead to data leakage either internally or at our third party providers. Our systems have been, and are expected to continue to be, the target of malware and other cyber-attacks. Although we have invested in measures to reduce these risks, we cannot guarantee that these measures will be successful in preventing compromise and/or disruption of our information technology systems and related data.

The failure to recruit or retain key personnel, or to attract additional executive and managerial talent, could adversely affect our business.

Given the size, complexity and global reach of our business and our multiple areas of focus, each of which would be a significant stand-alone company, we are especially reliant upon our ability to recruit and retain highly qualified management and other employees. Our ability to retain key employees may be diminished by the recent restructuring announcements and financial challenges we face. In addition, the success of our R&D activities depends on our ability to attract and retain sufficient numbers of skilled scientific personnel, which may be limited by the planned streamlining and reduction of our R&D programs announced in December 2017. Any loss of service of key members of our organization, or any diminution in our ability to continue to attract high-quality employees, may delay or prevent the achievement of major business objectives.

Our President and CEO, Kåre Schultz, who was appointed after a thorough global search process, initiated the restructuring plan for our business in December 2017. If we cannot retain our CEO, we may have difficulty finding a replacement in a timely manner. This may impact our ability to effect our restructuring plan and business strategy and may also have a material adverse effect on our business, financial condition and results of operation.

Because our facilities are located throughout the world, we are subject to varying intellectual property laws that may adversely affect our ability to manufacture our products.

We are subject to intellectual property laws in all countries where we have manufacturing facilities. Modifications of such laws or court decisions regarding such laws may adversely affect us and may impact our ability to produce and export products manufactured in any such country in a timely fashion. Additionally, the existence of third-party

patents in such countries, with the attendant risk of litigation, may cause us to move production to a different country (potentially leading to significant production delays) or otherwise adversely affect our ability to export certain products from such countries.

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We have significant operations globally, including in countries that may be adversely affected by political or economic instability, major hostilities or acts of terrorism, which exposes us to risks and challenges associated with conducting business internationally.

We are a global pharmaceutical company with worldwide operations. Although approximately 80% of our sales are in the United States and Western Europe, an increasing portion of our sales and operational network are located in other regions, such as Latin America, Central and Eastern Europe and Asia, which may be more susceptible to political and economic instability. Our operations in Venezuela are increasingly challenging due to instability there. Our partnership with Celltrion for fremanezumab is located in South Korea, which is under political and military threat. Other countries and regions, such as the United States and Western Europe, also face potential instability due to political and other developments. In the United States, although the recent reforms in the U.S. tax code did not include a border adjustment tax or other restrictions on trade, if such tax or restriction were to be implemented in the future, this could interfere with international trade in pharmaceuticals. As a company that manufactures most of its products outside the United States, such a tax or other restriction, if enacted, may have a material adverse effect on our business, financial condition and results of operations.

Significant portions of our operations are conducted outside the markets in which our products are sold, and accordingly we often import a substantial number of products into such markets. We may, therefore, be denied access to our customers or suppliers or denied the ability to ship products from any of our sites as a result of a closing of the borders of the countries in which we sell our products, or in which our operations are located, due to economic, legislative, political and military conditions, including hostilities and acts of terror, in such countries. In addition, certain countries have put regulations in place requiring local manufacturing of goods, while foreign-made products are subject to pricing penalties or even bans from participation in public procurement auctions.

We face additional risks inherent in conducting business internationally, including compliance with laws and regulations of many jurisdictions that apply to our international operations. These laws and regulations include data privacy requirements, labor relations laws, tax laws, competition regulations, import and trade restrictions, economic sanctions, export requirements, the Foreign Corrupt Practices Act, the UK Bribery Act 2010 and other local laws that prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Given the high level of complexity of these laws, there is a risk that some provisions may be breached by us, for example through fraudulent or negligent behavior of individual employees (or third parties acting on our behalf), our failure to comply with certain formal documentation requirements, or otherwise. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, requirements to obtain export licenses, cessation of business activities in sanctioned countries, implementation of compliance programs and prohibitions on the conduct of our business. Any such violation could include prohibitions on our ability to offer our products in one or more countries and could materially damage our reputation, our brand, our ability to attract and retain employees, our business, our financial condition and our results of operations.

Our corporate headquarters and a significant portion of our manufacturing activities are located in Israel. Our Israeli operations are dependent upon materials imported from outside Israel. Accordingly, our operations could be materially and adversely affected by acts of terrorism or if major hostilities were to occur in the Middle East or trade between Israel and its present trading partners were materially impaired, including as a result of acts of terrorism in the United States or elsewhere.

A significant portion of our revenues is derived from sales to a limited number of customers.

A significant portion of our revenues are derived from sales to a limited number of customers. If we were to experience a significant reduction in or loss of business with one or more such customers, or if one or more such

customers were to experience difficulty in paying us on a timely basis, our business, financial condition and results of operations could be materially adversely affected. During the years ended December 31, 2017, 2016

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and 2015, McKesson Corporation represented 16%, 15% and 20% of our revenues, respectively, and AmerisourceBergen Corporation represented 15%, 19% and 20% of our revenues, respectively.

We may not be able to find or successfully bid for suitable acquisition targets or licensing opportunities, or consummate and integrate future acquisitions.

We may evaluate or pursue potential acquisitions, collaborations and licenses, among other transactions. Relying on acquisitions and other transactions as sources of new specialty and other products, or a means of growth, involves risks that could adversely affect our future revenues and operating results. For example:

- Appropriate opportunities to enable us to execute our business strategy may not exist, or we may fail to identify them.
- Competition in the pharmaceutical industry for target companies and development programs has intensified and has resulted in decreased availability of, or increased prices for, suitable transactions. We may not be able to pursue relevant transactions due to financial capacity constraints.
- We may not be able to obtain necessary regulatory approvals, including those of competition authorities, and as a result, or for other reasons, we may fail to consummate an announced acquisition.
- The negotiation of additional transactions may divert management s attention from our existing business operations, resulting in the loss of key customers and/or personnel and exposing us to unanticipated liabilities.
- We may fail to integrate acquisitions successfully in accordance with our business strategy or achieve expected synergies and other results. Integrating the operations of multiple new businesses with that of our own is a complex, costly and time-consuming process, which requires significant management attention and resources. The integration process may disrupt the businesses and, if implemented ineffectively, would preclude realization of the full benefits expected by us.
- We may not be able to retain experienced management and skilled employees from the businesses we acquire and, if we cannot retain such personnel, we may not be able to attract new skilled employees and experienced management to replace them.
- We may purchase a company that has excessive known or unknown contingent liabilities, including, among others, patent infringement or product liability claims, or that otherwise has significant regulatory or other issues not revealed as part of our due diligence, as occurred in the Rimsa transaction.

We may decide to sell assets, which could adversely affect our prospects and opportunities for growth.

We may from time to time consider selling certain assets if we determine that such assets are not critical to our strategy or we believe the opportunity to monetize the asset is attractive or for various other reasons, including for the reduction of indebtedness. In connection with our restructuring plan announced in December 2017, we intend to close or divest a significant number of manufacturing plants and R&D facilities. We have explored and may continue to explore the sale of certain non-core assets. We may fail to identify appropriate opportunities to divest assets on terms acceptable to us. If divestiture opportunities are found, consummation of any such divestiture may be subject to closing conditions, including obtaining necessary regulatory approvals, including those of competition authorities, and as a result, or for other reasons, we may fail to consummate an announced divestiture. Although our expectation is to engage in asset sales only if they advance or otherwise support our overall strategy, any such sale could reduce the size or scope of our business, our market share in particular markets or our opportunities with respect to certain markets.

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Compliance, regulatory and litigation risks

We are subject to extensive governmental regulation, which can be costly and subject our business to disruption, delays and potential penalties.

We are subject to extensive regulation by the FDA and various other U.S. federal and state authorities and the EMA and other foreign regulatory authorities. The process of obtaining regulatory approvals to market a drug or medical device can be costly and time-consuming, and approvals might not be granted for future products, or additional indications or uses of existing products, on a timely basis, if at all. Delays in the receipt of, or failure to obtain approvals for, future products, or new indications and uses, could result in delayed realization of product revenues, reduction in revenues and substantial additional costs. For example, in 2017 we experienced delays in obtaining anticipated approvals for various generic and specialty products, and we may continue to experience similar delays.

In addition, no assurance can be given that we will remain in compliance with applicable FDA and other regulatory requirements once approval or marketing authorization has been obtained for a product. These requirements include, among other things, regulations regarding manufacturing practices, product labeling, and advertising and post marketing reporting, including adverse event reports and field alerts due to manufacturing quality concerns. Our facilities are subject to ongoing regulation, including periodic inspection by the FDA and other regulatory authorities, and we must incur expense and expend effort to ensure compliance with these complex regulations.

Failure to comply with all applicable regulatory requirements may subject us to operating restrictions and criminal prosecution, monetary penalties and other disciplinary actions, including, sanctions, warning letters, product seizures, recalls, fines, injunctions, suspension, shutdown of production, revocation of approvals or the inability to obtain future approvals, or exclusion from future participation in government healthcare programs. Any of these events could disrupt our business and have a material adverse effect on our revenues, profitability and financial condition.

Healthcare reforms, and related reductions in pharmaceutical pricing, reimbursement and coverage, by governmental authorities and third-party payers may adversely affect our business.

The continuing increase in expenditures for healthcare has been the subject of considerable government attention almost everywhere we conduct business, particularly as public resources have been stretched by financial and economic crises in the United States, Western Europe and elsewhere. Both private health insurance funds and government health authorities continue to seek ways to reduce or contain healthcare costs, including by reducing or eliminating coverage for certain products and lowering reimbursement levels. In most of the countries and regions where we operate, including the United States, Western Europe, Israel, Russia, Japan, certain countries in Central and Eastern Europe and several countries in Latin America, pharmaceutical prices are subject to new government policies designed to reduce healthcare costs. These changes frequently adversely affect pricing and profitability and may cause delays in market entry. Public scrutiny has increased political and other pressures on pharmaceutical pricing, further inhibiting the raising of prices, which, in many cases, had become routine. We cannot predict which additional measures may be adopted or the impact of current and additional measures on the marketing, pricing and demand for our products.

Significant developments that may adversely affect pricing in the United States include (i) the enactment of federal healthcare reform laws and regulations, including the Medicare Prescription Drug Improvement and Modernization Act of 2003 and the ACA and (ii) trends in the practices of managed care groups and institutional and governmental purchasers, including the impact of consolidation of our customers. Changes to the healthcare system enacted as part of healthcare reform in the United States, as well as the increased purchasing power of entities that negotiate on behalf of Medicare, Medicaid, and private sector beneficiaries, may result in increased pricing pressure by influencing, for

instance, the reimbursement policies of third-party payers. Healthcare reform legislation has increased the number of patients who have insurance coverage for our products, but provisions

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such as the assessment of a branded pharmaceutical manufacturer fee and an increase in the amount of rebates that manufacturers pay for coverage of their drugs by Medicaid programs may have an adverse effect on us. It is uncertain how current and future reforms in these areas will influence the future of our business operations and financial condition. In 2017, a new administration, which had promised to repeal and replace the ACA, took office in the United States. We cannot predict the form any such replacement of the ACA may take, although it may have the impact of reducing the number of insured individuals as well as coverage for pharmaceutical products.

In addition, tender systems for generic pharmaceuticals have been implemented (by both public and private entities) in a number of significant markets in which we operate, including Germany and Russia, in an effort to lower prices. Under such tender systems, manufacturers submit bids that establish prices for generic pharmaceutical products. These measures impact marketing practices and reimbursement of drugs and may further increase pressure on reimbursement margins. Certain other countries may consider the implementation of a tender system. Failing to win tenders or our withdrawal from participating in tenders, or the implementation of similar systems in other markets leading to further price declines, could have a material adverse effect on our business, financial position and results of operations.

Governmental investigations into sales and marketing practices, particularly for our specialty pharmaceutical products, may result in substantial penalties.

We operate around the world in complex legal and regulatory environments, and any failure to comply with applicable laws, rules and regulations may result in civil and/or criminal legal proceedings. As those rules and regulations change or as interpretations of those rules and regulations evolve, our prior conduct or that of companies we have acquired may be called into question. In the United States, we are currently responding to federal investigations into our marketing practices with regard to several of our specialty pharmaceutical products, which could result in civil litigation brought on behalf of the federal government. Responding to such investigations is costly and involves a significant diversion of management attention. Such proceedings are unpredictable and may develop over lengthy periods of time. Future settlements may involve large monetary penalties. In addition, government authorities have significant leverage to persuade pharmaceutical companies to enter into corporate integrity agreements, which can be expensive and disruptive to operations. See Government Investigations and Litigation Relating to Pricing and Marketing in note 13 to our consolidated financial statements.

Third parties may claim that we infringe their proprietary rights and may prevent us from manufacturing and selling some of our products, and we have sold and may in the future elect to sell products prior to the final resolution of outstanding patent litigation, and, as a result, we could be subject to liability for damages in the United States, Europe and other markets where we do business.

Our ability to introduce new products depends in large part upon the success of our challenges to patent rights held by third parties or our ability to develop non-infringing products. Based upon a variety of legal and commercial factors, we may elect to sell a product even though patent litigation is still pending, either before any court decision is rendered or while an appeal of a lower court decision is pending. The outcome of such patent litigation could, in certain cases, materially adversely affect our business. For example, we launched a generic version of Protonix® (pantoprazole) despite pending litigation with the company that sells the brand versions, which we eventually settled in 2013 for $1.6 billion.

If we sell products prior to a final court decision, whether in the United States, Europe or elsewhere, and such decision is adverse to us, we could be required to cease selling the infringing products, causing us to lose future sales revenue from such products and to face substantial liabilities for patent infringement, in the form of either payment for the innovator s lost profits or a royalty on our sales of the infringing products. These damages may be significant, and

could materially adversely affect our business. In the United States, in the event of a finding of willful infringement, the damages assessed may be up to three times the profits lost by the patent

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owner. Because of the discount pricing typically involved with generic pharmaceutical products, patented brand products generally realize a significantly higher profit margin than generic pharmaceutical products. As a result, the damages assessed may be significantly higher than our profits. In addition, even if we do not suffer damages, we may incur significant legal and related expenses in the course of successfully defending against infringement claims.

We may be susceptible to significant product liability claims that are not covered by insurance.

Our business inherently exposes us to claims for injuries allegedly resulting from the use of our products. As our portfolio of available products expands, particularly with new specialty products, we may experience increases in product liability claims asserted against us. The potential for product liability claims may increase further upon the implementation of proposed regulations in the United States that would permit companies to change the labeling of their generic products.

With respect to product liability exposure for products we sell outside of the United States, we have limited insurance coverage, which is subject to varying levels of deductibles and/or self-insured retentions. For product liability exposure in the United States, although in the past we have had limited coverage, with very high deductibles and/or self-insured retentions, we are no longer buying coverage for product liability claims arising in the United States. Product liability coverage for pharmaceutical companies, including us, is increasingly expensive and difficult to obtain on reasonable terms. In addition, where claims are made under insurance policies, insurers may reserve the right to deny coverage on various grounds.

Our patent settlement agreements, which are important to our business, face increased government scrutiny in both the United States and Europe, and may expose us to significant damages.

We have been involved in numerous litigations involving challenges to the validity or enforceability of listed patents (including our own), and therefore settling patent litigations has been and is likely to continue to be an important part of our business. Parties to such settlement agreements in the United States, including us, are required by law to file them with the Federal Trade Commission (FTC) and the Antitrust Division of the DOJ for review. In June 2013, the United States Supreme Court held, in Federal Trade Commission v. Actavis, Inc. (the AndroGel case), that a rule of reason test analyzing settlements in their entirety should be applied to determine whether such settlements violate the federal antitrust laws. This test has resulted in increased scrutiny of Teva s patent settlements, additional action by the FTC and state and local authorities, and an increased risk of liability in Teva s currently pending antitrust litigations. The FTC has also brought actions against some brand and generic companies, including us, that have entered into such agreements. Accordingly, we may receive formal or informal requests from the FTC for information about a particular settlement agreement, and there is a risk that the FTC, or others, such as customers, may commence an action against us alleging violations of the antitrust laws. Such settlement agreements may further expose us to claims by purchasers of the products for unlawfully inhibiting competition. We are currently defendants in private antitrust actions involving numerous settlement agreements.

The European Commission (EU Commission) is also placing intense scrutiny on the European pharmaceutical sector. The EU Commission has initiated proceedings against us in connection with several patent settlement agreements. More generally, there is a risk that the increased scrutiny of the European pharmaceutical sector may lead to changes in the regulation of our business that may have an adverse impact on our results of operations in Europe. See Competition Matters in note 13 to our consolidated financial statements.

Any failure to comply with the complex reporting and payment obligations under the Medicare and Medicaid programs may result in further litigation or sanctions, in addition to those that we have announced in previous years.

The U.S. laws and regulations regarding Medicare and/or Medicaid reimbursement and rebates and other governmental programs are complex. Some of the applicable laws may impose liability even in the absence of

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specific intent to defraud. The subjective decisions and complex methodologies used in making calculations under these programs are subject to review and challenge, and it is possible that such reviews could result in material changes. A number of state attorney generals and others have filed lawsuits alleging that we and other pharmaceutical companies reported inflated average wholesale prices, leading to excessive payments by Medicare and/or Medicaid for prescription drugs. Such allegations could, if proven or settled, result in additional monetary penalties (beyond the lawsuits we have already settled) and possible exclusion from Medicare, Medicaid and other programs. In addition, we are notified from time to time of governmental investigations regarding drug reimbursement or pricing issues. See Government Investigations and Litigation Relating to Pricing and Marketing in note 13 to our consolidated financial statements. Certain parts of Medicare benefits are under scrutiny, as the U.S. Congress looks for ways to reduce government spending on prescription medicines.

Our failure to comply with applicable environmental laws and regulations worldwide could adversely impact our business and results of operations.

We are subject to laws and regulations concerning the environment, safety matters, regulation of chemicals and product safety in the countries where we manufacture and sell our products or otherwise operate our business. These requirements include regulation of the handling, manufacture, transportation, storage, use and disposal of materials, including the discharge of pollutants into the environment. If we fail to comply with these laws and regulations, we may be subject to enforcement proceedings including fines and penalties. In the normal course of our business, we are also exposed to risks relating to possible releases of hazardous substances into the environment, which could cause environmental or property damage or personal injuries, and which could require remediation of contaminated soil and groundwater. Under certain laws, we may be required to remediate contamination at certain of our properties, regardless of whether the contamination was caused by us or by previous occupants or users of the property.

Additional financial risks

Because we have substantial international operations, our sales and profits may be adversely affected by currency fluctuations and restrictions as well as credit risks.

In 2017, approximately 47% of our revenues were denominated in currencies other than the U.S. dollar. As a result, we are subject to significant foreign currency risks, including repatriation restrictions in certain countries, and may face heightened risks as we enter new markets. An increasing proportion of our sales, particularly in Latin America, Central and Eastern European countries and Asia, are recorded in local currencies, which exposes us to the direct risk of devaluations, hyperinflation or exchange rate fluctuations. Exchange rate movements during 2017 (excluding Venezuela) in comparison with 2016 negatively impacted revenues by $914 million and negatively impacted operating income by $290 million. The imposition of price controls or restrictions on the conversion of foreign currencies could also have a material adverse effect on our financial results.

In particular, although the majority of our net sales and operating costs is recorded in, or linked to, the U.S. dollar, our reporting currency, in 2017 we incurred a substantial amount of operating costs in currencies other than the U.S. dollar.

As a result, fluctuations in exchange rates between the currencies in which such costs are incurred and the U.S. dollar may have a material adverse effect on our results of operations, the value of balance sheet items denominated in foreign currencies and our financial condition.

We use derivative financial instruments and hedging techniques to manage some of our net exposure to currency exchange rate fluctuations in the major foreign currencies in which we operate. However, not all of our potential

exposure is covered, and some elements of our consolidated financial statements, such as our equity position or operating profit, are not fully protected against foreign currency exposures. Therefore, our exposure to exchange rate fluctuations could have a material adverse effect on our financial results.

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Our long-lived assets may continue to lead to significant impairments in the future.

We regularly review our long-lived assets, including identifiable intangible assets, goodwill and property, plant and equipment, for impairment. Goodwill and acquired indefinite life intangible assets are subject to impairment review on an annual basis and whenever potential impairment indicators are present. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. The amount of goodwill, identifiable intangible assets and property, plant and equipment on our consolidated balance sheet has increased significantly in the past five years mainly as a result of our acquisitions. In 2017, we recorded goodwill impairments of $17.1 billion and impairments of long-lived assets of $3.8 billion. Changes in market conditions or other changes in the future outlook of value may lead to further impairments in the future. In addition, we continue to review the potential divestment of certain assets, including the closure or divestment of a significant number of manufacturing plants and R&D facilities, headquarters and other office locations as part of our announced restructuring plan, which may lead to additional impairments. Future events or decisions may lead to asset impairments and/or related charges. For assets that are not impaired, we may adjust the remaining useful lives. Certain non-cash impairments may result from a change in our strategic goals, business direction or other factors relating to the overall business environment. Any significant impairment could have a material adverse effect on our results of operations.

Our tax liabilities could be larger than anticipated.

We are subject to tax in many jurisdictions, and significant judgment is required in determining our provision for income taxes. Likewise, we are subject to audit by tax authorities in many jurisdictions. In such audits, our interpretation of tax legislation may be challenged and tax authorities in various jurisdictions may disagree with, and subsequently challenge, the amount of profits taxed in such jurisdictions under our inter-company agreements.

Although we believe our estimates are reasonable, the ultimate outcome of such audits and related litigation could be different from our provision for taxes and may have a material adverse effect on our consolidated financial statements and cash flows.

The base erosion and profit shifting (BEPS) project undertaken by the Organization for Economic Cooperation and Development (OECD) may have adverse consequences to our tax liabilities. The BEPS project contemplates changes to numerous international tax principles, as well as national tax incentives, and these changes, when adopted by individual countries, could adversely affect our provision for income taxes. Countries have only recently begun to translate the BEPS recommendations into specific national tax laws, and it remains difficult to predict the magnitude of the effect of such new rules on our financial results.

The termination or expiration of governmental programs or tax benefits, or a change in our business, could adversely affect our overall effective tax rate.

Our tax expenses and the resulting effective tax rate reflected in our consolidated financial statements may increase over time as a result of changes in corporate income tax rates, other changes in the tax laws of the various countries in which we operate or changes in our product mix or the mix of countries where we generate profit. We have benefited, and currently benefit, from a variety of Israeli and other government programs and tax benefits that generally carry conditions that we must meet in order to be eligible to obtain such benefits. If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received. Additionally, some of these programs and the related tax benefits are available to us for a limited number of years, and these benefits expire from time to time.

Any of the following could have a material effect on our overall effective tax rate:

some government programs may be discontinued, or the applicable tax rates may increase;

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we may be unable to meet the requirements for continuing to qualify for some programs and the restructuring plan may lead to the loss of certain tax benefits we currently receive in Israel;

these programs and tax benefits may be unavailable at their current levels;

upon expiration of a particular benefit, we may not be eligible to participate in a new program or qualify for a new tax benefit that would offset the loss of the expiring tax benefit; or

we may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Equity ownership risks

Shareholder rights and responsibilities as a shareholder are governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.

The rights and responsibilities of the holders of our ordinary shares are governed by our articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders of U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising his or her rights and performing his or her obligations towards the company and other shareholders, and to refrain from abusing his or her power in the company, including, among other things, in voting at a general meeting of shareholders on matters such as amendments to a company s articles of association, increases in a company s authorized share capital, mergers and acquisitions and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

Provisions of Israeli law and our articles of association may delay, prevent or make difficult an acquisition of us, prevent a change of control and negatively impact our share price.

Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving directors, officers or significant shareholders, and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential acquisition transactions unappealing to us or to some of our shareholders. For example, Israeli tax law may subject a shareholder who exchanges his or her ordinary shares for shares in a foreign corporation to taxation before disposition of the investment in the foreign corporation. These provisions of Israeli law may delay, prevent or make difficult an acquisition of our company, which could prevent a change of control and, therefore, depress the price of our shares.

In addition, our articles of association contain certain provisions that may make it more difficult to acquire us, such as provisions that provide for a classified Board of Directors and that our Board of Directors may issue preferred shares. These provisions may have the effect of delaying or deterring a change in control of us, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our securities.

We do not expect to pay dividends in the near future.

Although we have paid dividends in the past, we do not expect to pay dividends in the near future. Any decision to declare and pay dividends in the future will be made by our Board of Directors, and will depend on, among other things, our results of operations, financial condition, future prospects, contractual restrictions, restrictions imposed by applicable law and other factors our Board of Directors may deem relevant. Accordingly,

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investors cannot rely on dividend income from our ordinary shares, and any returns in the near future on an investment in our ordinary shares will likely depend entirely upon any future appreciation in the price of our ordinary shares.

Our ADSs and ordinary shares are traded on different markets and this may result in price variations.

Our ADSs have been traded in the United States since 1982, and since 2012 on the New York Stock Exchange (the NYSE), and our ordinary shares have been listed on the Tel Aviv Stock Exchange (the TASE) since 1951. Trading in our securities on these markets takes place in different currencies (our ADSs are traded in U.S. dollars and our ordinary shares are traded in New Israeli Shekels), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). As a result, the trading prices of our securities on these two markets may differ due to these factors. In addition, any decrease in the price of our securities on one of these markets could cause a decrease in the trading price of our securities on the other market.

It may be difficult to enforce a non-Israeli judgment against us, our officers and our directors.

We are incorporated in Israel. Certain of our executive officers and directors and our outside auditors are not residents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce against us or any of those persons in an Israeli court a U.S. court judgment based on the civil liability provisions of the U.S. federal securities laws. It may also be difficult to effect service of process on these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to enforce civil liabilities under U.S. federal securities laws in original actions filed in Israel.

Substantial future sales or the perception of sales of our ADSs or ordinary shares, or securities convertible into our ADSs or ordinary shares, could cause the price of our ADSs or ordinary shares to decline.

Sales of substantial amounts of our ADSs or ordinary shares, or securities convertible into our ADSs or ordinary shares, in the public market, or the perception that these sales could occur, could adversely affect the price of our ADSs and ordinary shares, and could impair our ability to raise capital through the sale of such securities.

As reported on an amendment to Schedule 13D filed with the SEC on January 12, 2018 by Allergan plc, Allergan plc beneficially owned approximately 68.7 million of our ordinary shares as of such date, represented by ADSs, acquired by Allergan plc as a portion of the consideration in connection with our acquisition of Actavis Generics from Allergan plc. Allergan plc has previously announced its intention to sell ADSs that it beneficially owns.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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ITEM 2. PROPERTIES

We own or lease 88 manufacturing and R&D facilities occupying approximately 27.3 million square feet. As of December 31, 2017, these manufacturing and R&D facilities are used by our business segments as follows:

Segment	Number of Facilities	Square Feet (in thousands)
Generic Medicines	80	25,565
Specialty Medicines	5	484
Combined facilities for Generic and Specialty Medicines	3	1,256
Worldwide Total Manufacturing and R&D Facilities	88	27,305

Of the manufacturing and R&D facilities used by the generic medicines segment, 16 are located in the United States, 31 in Europe and 33 in ROW. Of the manufacturing and R&D facilities used by the specialty medicines segment, one is located in Europe and four are located in ROW. Combined sites are located as follows: one in the United States, one in Europe and one in ROW.

As of December 31, 2017, the locations of the manufacturing and R&D facilities by major geographic areas are as follows:

Geographic Area	Number of Facilities	Square Feet (in thousands)
United States	17	2,758
Europe	33	13,229
ROW	38	11,317
Worldwide Total Manufacturing and R&D Facilities	88	27,305

In addition to the manufacturing facilities discussed above, we maintain numerous office, distribution and warehouse facilities throughout the world.

We generally seek to own our manufacturing and R&D facilities, although some, principally in non-U.S. locations, are leased. Office, distribution and warehouse facilities are often leased.

We are committed to maintaining all of our properties in good operating condition and repair, and the facilities are well utilized.

In Israel, our principal executive offices and corporate headquarters in Petach Tikva are leased until December 2021. In the United States, our principal leased properties are our North American headquarters, warehousing and distribution centers and offices in North Wales and Frazer, Pennsylvania, which have lease terms expiring in 2022.

Following implementation of our comprehensive restructuring plan announced in December 2017, we intend to accelerate the restructuring and optimization of our manufacturing and supply network, including the closure or divestment of a significant number of manufacturing plants around the world.

ITEM 3. LEGAL PROCEEDINGS

Information pertaining to legal proceedings can be found in Item 8. Financial Statements Note 13b. Contingencies and is incorporated by reference herein.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE COMPANY S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

American Depositary Shares (ADSs)

Our ADSs, which have been traded in the United States since 1982, were admitted to trade on the Nasdaq National Market in October 1987 and were subsequently traded on the Nasdaq Global Select Market. On May 30, 2012, we transferred the listing of our ADSs to the New York Stock Exchange (the NYSE). The ADSs are quoted under the symbol TEVA. JPMorgan Chase Bank, N.A. serves as depositary for the shares. As of December 31, 2017, we had 921,056,365 ADSs outstanding. Each ADS represents one ordinary share.

The following table sets forth, for the periods indicated, the high and low intraday prices of our ADSs on the NYSE, in U.S. dollars:

Period	High	Low
Q4 2017	19.31	10.85
Q3 2017	33.82	15.22
Q2 2017	33.53	27.60
Q1 2017	38.31	31.90
Q4 2016	46.51	34.57
Q3 2016	56.44	45.76
Q2 2016	58.16	48.01
Q1 2016	65.92	52.62

Various other stock exchanges quote derivatives and options on our ADSs under the symbol TEVA.

Ordinary Shares

Our ordinary shares have been listed on the Tel Aviv Stock Exchange (TASE) since 1951. As of December 31, 2017, we had 1,016,877,139 ordinary shares outstanding, including ordinary shares underlying outstanding ADSs.

The following table sets forth, for the periods indicated, the high and low intraday sale prices of our ordinary shares on the TASE, in NIS and U.S. dollars. The translation into dollars is based on the daily representative rate of exchange published by the Bank of Israel. The TASE also quotes options on our ordinary shares.

	High		Low	
Period	NIS	$	NIS	$
Q4 2017	67.81	19.31	38.20	10.85
Q3 2017	118.50	33.82	54.31	15.22

Q2 2017	121.90	33.53	99.40	27.60
Q1 2017	147.40	38.31	116.40	31.90
Q4 2016	175.30	46.51	131.60	34.57
Q3 2016	217.70	56.44	179.90	45.76
Q2 2016	217.30	58.16	189.40	48.01
Q1 2016	258.50	65.92	200.30	52.62

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Holders

The number of record holders of ADSs at December 31, 2017 was 3,027.

The number of record holders of ordinary shares at December 31, 2017 was 206.

The number of record holders is based upon the actual number of holders registered on our books at such date and does not include holders of shares in street names or persons, partnerships, associations, corporations or other entities identified in security position listings maintained by depository trust companies.

Dividends

In December 2017, we announced an immediate suspension of dividends on our ordinary shares and ADSs and that dividends on our mandatory convertible preferred shares will be evaluated on a quarterly basis per current practice. Until that time, we paid dividends on a regular quarterly basis since 1986.

We suspended dividends on our mandatory convertible preferred shares in the fourth quarter of 2017, due to our accumulated deficit.

Our dividend policy is regularly reviewed by our Board of Directors based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. Our ability to pay cash dividends in the future may be restricted by instruments governing our debt obligations. When paid, dividends are declared in U.S. dollars and are paid by the depositary of our ADSs for the benefit of owners of ADSs.

Dividends on our mandatory convertible preferred shares are payable on a cumulative basis when, as and if declared by our Board of Directors at an annual rate of 7% on the liquidation preference of $1,000 per mandatory convertible preferred share. Declared dividends are paid in cash on March 15, June 15, September 15 and December 15 of each year to and including December 15, 2018. So long as any mandatory convertible preferred shares remain outstanding, no dividends may be declared or paid on our ordinary shares or ADSs, unless all accumulated and unpaid dividends for all preceding dividend periods have been declared and paid, or a sufficient sum of cash has been set aside for the payment of such dividends, on all outstanding mandatory convertible preferred shares.

Dividends paid by an Israeli company to non-Israeli residents are generally subject to withholding of Israeli income tax at a rate of up to 25%. Such tax rates apply unless a lower rate is provided in a treaty between Israel and the shareholder s country of residence. In our case, the applicable withholding tax rate will depend on the particular Israeli production facilities that have generated the earnings that are the source of the specific dividend and, accordingly, the applicable rate may change from time to time. A 15% tax is generally withheld on dividends declared and distributed.

The following table sets forth the amounts of dividends declared on our ordinary shares/ADSs in respect of each period indicated prior to deductions for applicable Israeli withholding taxes (in $ cents per share):

	2017	2016
Period		
Q1 2017	34.0	34.0
Q2 2017	8.5	34.0
Q3 2017	8.5	34.0

Q4 2017	34.0

Unregistered Sales of Equity Securities and Use of Proceeds

None.

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Performance Graph

Set forth below is a performance graph comparing the cumulative total return (assuming reinvestment of dividends), in U.S. dollars, for the calendar years ended December 31, 2013, 2014, 2015, 2016 and 2017, of $100 invested on December 31, 2012 in the Company s ADSs, the Standard & Poor s 500 Index and the Dow Jones U.S. Pharmaceuticals Index.

* $100 invested on December 31, 2012 in stock or index including reinvestment of dividends. Indexes calculated on month-end basis

Repurchase of shares

In December 2011, our Board of Directors authorized us to repurchase up to an aggregate amount of $3.0 billion of our ordinary shares/ADSs, of which $1.3 billion remained available for purchase. In October 2014, the Board of Directors authorized us to increase our share repurchase program by $1.7 billion to $3.0 billion, of which $2.1 billion remained available as of December 31, 2017. We did not repurchase any of our shares during 2017 and currently cannot do so due to our accumulated deficit. The repurchase program has no time limit. Repurchases may be commenced or suspended at any time, subject to applicable law.

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ITEM 6. SELECTED FINANCIAL DATA
Operating Data

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	U.S. dollars in millions (except share and per share amounts)				
Net revenues	22,385	21,903	19,652	20,272	20,314
Cost of sales	11,560	10,044	8,296	9,216	9,607
Gross profit	10,825	11,859	11,356	11,056	10,707
Research and development expenses	1,848	2,111	1,525	1,488	1,427
Selling and marketing expenses	3,656	3,860	3,478	3,861	4,080
General and administrative expenses	1,330	1,285	1,360	1,217	1,239
Goodwill impairment	17,100	900			
Other asset impairments, restructuring and other items	5,074	1,419	1,176	650	788
Legal settlements and loss contingencies	500	899	631	(111)	1,524
Other Income	(1,199)	(769)	(166)		
Operating income (loss)	(17,484)	2,154	3,352	3,951	1,649
Financial expenses net	895	1,330	1,000	313	399
Income (loss) before income taxes	(18,379)	824	2,352	3,638	1,250
Income taxes (benefit)	(1,933)	521	634	591	(43)
Share in (profits) losses of associated companies net	3	(8)	121	5	40
Net income (loss)	(16,449)	311	1,597	3,042	1,253
Net income (loss) attributable to non-controlling interests	(184)	(18)	9	(13)	(16)
Net income (loss) attributable to Teva	(16,265)	329	1,588	3,055	1,269
Accrued dividends on preferred shares	260	261	15		
Net income (loss) attributable to ordinary shareholders	(16,525)	68	1,573	3,055	1,269
Earnings (loss) per share attributable to ordinary shareholders:					
Basic ($)	(16.26)	0.07	1.84	3.58	1.49
Diluted ($)	(16.26)	0.07	1.82	3.56	1.49
Weighted average number of shares (in millions):					
Basic	1,016	955	855	853	849
Diluted	1,016	961	864	858	850

Balance Sheet Data

	As of December 31,				
	2017	2016	2015	2014	2013
	(U.S. dollars in millions)				
Financial assets (cash, cash equivalents and investment in securities)	1,060	1,949	8,404	2,601	1,245
Identifiable intangible assets, net	17,640	21,487	7,675	5,512	6,476
Goodwill	28,414	44,409	19,025	18,408	18,981
Working capital (operating assets minus liabilities)	(384)	303	32	1,642	2,493
Total assets	70,615	93,057	54,233	46,420	47,508
Short-term debt, including current maturities	3,646	3,276	1,585	1,761	1,804
Long-term debt, net of current maturities	28,829	32,524	8,358	8,566	10,387
Total debt	32,475	35,800	9,943	10,327	12,191
Total equity	18,745	34,993	29,927	23,355	22,636

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business Overview

We are a global pharmaceutical company, committed to increasing access to high-quality healthcare to patients around the world. We operate worldwide, with headquarters in Israel and a significant presence in the United States, Europe and many other markets around the world. Our key strengths include our world-leading generics expertise and portfolio, focused specialty portfolio and global infrastructure and scale.

Teva was incorporated in Israel on February 13, 1944, and is the successor to a number of Israeli corporations, the oldest of which was established in 1901.

In November 2017, we announced a new organizational structure and leadership changes to enable strategic alignment across our portfolios, regions and functions. Under this new structure, our business will be integrated into one commercial organization, operating through three regions North America, Europe and Growth Markets. Each region will manage the entire portfolio of our medicines, including generics, specialty and over-the-counter (OTC). The new structure will enable stronger alignment and integration between R&D, operations and commercial regions, allowing us to become a more agile, lean and profitable company. Prior to the implementation of our new organizational structure, we operated our business and reported our financial results in two segments:

- **Generic Medicines**, which includes chemical and therapeutic equivalents of originator medicines in a variety of dosage forms, such as tablets, capsules, injectables, inhalants, liquids, ointments and creams. This segment includes our OTC business, a significant part of which is conducted through PGT, as well as our world-leading active pharmaceutical ingredient (API) manufacturing business. We are the leading generic drug company in the United States and Europe, and we have a significant presence in certain ROW markets.

- **Specialty Medicines**, which includes our core therapeutic areas of central nervous system (CNS) medicines such as COPAXONE® and AUSTEDO® and respiratory medicines, such as ProAir® and QVAR®. Our specialty medicines segment also includes other products, such as BENDEKA® and GRANIX® in oncology.

In addition to these two segments, we have other activities, primarily sales of third-party products for which we act as distributor in the United States and in other countries.

For a breakdown of our revenues and profitability by segment and by geography, see Results of Operations and note 20 to our consolidated financial statements. For information regarding our major customers, see note 20 to our consolidated financial statements.

In December 2017, we announced a comprehensive restructuring plan intended to significantly reduce our cost base, unify and simplify our organization and improve business performance, profitability, cash flow generation and productivity. The restructuring plan will focus on:

- The immediate deployment of the new unified and simplified organizational structure announced in November 2017, which will increase internal efficiencies and simplify business structures and processes across our global operations.

Substantial optimization of the generics portfolio globally, and most specifically in the United States, through a more tailored approach to the portfolio with increased focus on profitability, which will likely result in certain product discontinuations. This will enable us to accelerate the restructuring and optimization of our manufacturing and supply network, including the closure or divestment of a significant number of manufacturing plants around the world.

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Closure or divestment of a significant number of R&D facilities, headquarters and other office locations across all geographies, delivering efficiencies and substantial cost savings.

A thorough review of all R&D programs in generics and specialty, to prioritize core projects and terminate non-essential projects, while maintaining a substantial pipeline.

In addition to the restructuring plan, we continue to review the potential for additional divestment of non-core assets.

Highlights

Significant highlights of 2017 included:

In our generic medicines business, we noted significant deterioration in the U.S. generics market and economic environment. Consequently, we recorded goodwill impairments of $17.1 billion in 2017, mainly with respect to our U.S. generics reporting unit. In our specialty medicines business, we faced increased generic competition to certain of our key specialty products, including COPAXONE. In addition, we have substantial debt of $32.5 billion as of December 31, 2017.

In December 2017, we announced a comprehensive restructuring plan intended to significantly reduce our cost base, unify and simplify our organization and improve business performance, profitability, cash flow generation and productivity.

Our revenues were $22.4 billion, an increase of 2%, or 6% in local currency terms, compared to 2016. The increase was primarily due to (i) an increase in our generic medicines segment from the inclusion of Actavis Generics revenues for the full year of 2017, compared to five months in 2016, partially offset by the adverse market dynamics in the United States; (ii) the acquisition of Anda in the fourth quarter of 2016; partially offset by (iii) a decrease in our specialty medicines segment due to generic competition to certain of our key products.

Our generic medicines segment generated revenues of $12.3 billion and profit of $2.8 billion. Revenues increased 2%, or 10% in local currency terms compared to 2016. Profit decreased 15% compared to 2016. Our higher revenues in 2017 were mainly due to the inclusion of Actavis Generics revenues for the full year of 2017 compared to five months in 2016, partially offset by the adverse market dynamics in the United States. Our lower profit in 2017 was mainly due to price erosion in the U.S. generics market.

Our specialty medicines segment generated revenues of $7.9 billion and profit of $4.3 billion. Revenues decreased 9% in both U.S. dollar and local currency terms compared to 2016. Profit decreased 7%. The decrease was mainly due to generic competition to COPAXONE, AZILECT® and NUVIGIL®.

Expenses related to other asset impairments, restructuring and other items were $5.1 billion, compared to $1.4 billion in 2016. The expenses in 2017 were mainly due to impairments of $3.8 billion of long-lived

assets and a charge of $396 million in connection with the deconsolidation of our subsidiaries in Venezuela.

Legal settlements and loss contingencies were $500 million, compared to $899 million in 2016.

Other income was $1.2 billion, compared to $769 million in 2016. Other income in 2017 was mainly due to the sale of (i) PARAGARD® for $1.1 billion and (ii) PLAN B ONE-STEP® and other women s health products for $675 million, in cash.

Operating loss was $17.5 billion, compared to operating income of $2.2 billion in 2016, mainly due to the goodwill and long-lived asset impairments.

Financial expenses were $895 million, compared to $1.3 billion in 2016. The decrease was mainly due to higher impairment of our monetary balance sheet items related to Venezuela in 2016, partially offset by an increase in interest expenses in 2017 due to our debt issuances in July 2016.

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In 2017, we recognized a tax benefit of $1.9 billion, or 11% of a pre-tax loss of $18 billion, which is mainly due to a one-time effect resulting from the remeasurement of our deferred taxes related to U.S. tax reform legislation.

Net loss attributable to ordinary shareholders was $16.5 billion in 2017, compared to net income of $68 million in 2016. In December 2017, we announced an immediate suspension of dividends on our ordinary shares and ADSs. We have suspended dividends on our mandatory convertible preferred shares in the fourth quarter of 2017, due to our accumulated deficit.

Exchange rate movements during 2017, in comparison with 2016, negatively impacted revenues by $914 million and negatively impacted operating income by $290 million. We excluded changes in revenues and operating profit in Venezuela from any discussion of local currency results. We did not exclude the $396 million charge in connection with the deconsolidation of our subsidiaries in Venezuela.

Cash flow from operating activities was $3.5 billion, compared to $5.2 billion in 2016. The decrease was mainly due to the impact of change in working capital in 2017, compared to 2016.

In 2017 we repaid $4.4 billion of net debt on our various term loans.

Changes in Senior Management

Effective November 1, 2017, Kåre Schultz joined Teva as President and Chief Executive Officer and was also appointed to the Board of Directors. He succeeded Dr. Yitzhak Peterburg, who served as Interim President and Chief Executive Officer from February to October 31, 2017.

On November 27, 2017, Michael McClellan was appointed Executive Vice President, Chief Financial Officer, after serving as Interim Chief Financial Officer since July 1, 2017. He succeeded Eyal Desheh who served as Group Executive Vice President, Chief Financial Officer from 2008 to June 30, 2017.

See Item 10 Directors, Executive Officers and Corporate Governance for additional changes to our executive management team that were announced in November 2017.

Transactions

Certain Women s Health and Other Specialty Products

On January 31, 2018, we completed the sale of a portfolio of products to CVC Capital Partners Fund VI for $703 million in cash. The portfolio of products, which is marketed and sold outside of the United States, includes the women s health products OVALEAP®, ZOELY®, SEASONIQUE®, COLPOTROPHINE® and other specialty products such as ACTONEL®.

PLAN B ONE-STEP and Other Women s Health Products

On November 2, 2017, we completed the sale of PLAN B ONE-STEP and our brands of emergency contraception TAKE ACTION®, AFTERA® and NEXT CHOICE ONE DOSE® to Foundation Consumer Healthcare for

$675 million in cash.

PARAGARD

On November 1, 2017, we completed the sale of PARAGARD, a copper releasing intrauterine contraceptive manufactured and sold in the United States, to CooperSurgical for $1.1 billion in cash.

AUSTEDO

On September, 19, 2017, we entered into a partnership agreement with Nuvelution Pharma, Inc. (Nuvelution) for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the

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United States. Nuvelution will fund and manage phase 3 clinical development, driving all operational aspects of the program. Upon successful completion of the development, we will lead the regulatory approval process and be responsible for commercialization. Upon U.S. Food and Drug Administration (the FDA) approval of AUSTEDO for Tourette syndrome, we will pay Nuvelution a pre-agreed amount as compensation for their contribution to our partnership.

Fremanezumab

On May 12, 2017, we entered into a license and collaboration agreement with Otsuka Pharmaceutical Co. Ltd. (Otsuka) providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for fremanezumab in Japan and, once approved, to commercialize the product in Japan. Otsuka paid us an upfront payment of $50 million in consideration for the transaction and we may receive additional milestone payments upon filing with Japanese regulatory authorities, receipt of regulatory approval and achievement of certain revenue targets. Otsuka will also pay us royalties on fremanezumab sales in Japan.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data derived from our financial statements, presented according to generally accepted accounting principles in the United States (U.S. GAAP), presented as percentages of net revenues, and the percentage change for each item as compared to the previous year.

	Percentage of Net Revenues Year Ended December 31,			Percentage Change Comparison	
	2017	2016	2015	2017-2016	2016-2015
	%	%	%	%	%
Net revenues	100.0	100.0	100.0	2	11
Gross profit	48.4	54.1	57.8	(9)	4
Research and development expenses	8.3	9.6	7.8	(12)	38
Selling and marketing expenses	16.3	17.6	17.7	(5)	11
General and administrative expenses	5.9	5.9	6.9	4	(6)
Goodwill impairment	76.4	4.1		1,800	n/a
Other asset impairments, restructuring and other items	22.7	6.5	6.0	258	21
Legal settlements and loss contingencies	2.2	4.1	3.2	(44)	42
Other Income	(5.4)	(3.5)	(0.8)	56	363
Operating (loss) income	(78.1)	9.8	17.0	n/a	(36)
Financial expenses net	4.0	6.1	5.1	(33)	33
Income (loss) before income taxes	(82.1)	3.7	11.9	n/a	(65)
Income taxes (benefit)	(8.6)	2.4	3.2	n/a	(18)
Share in (profits) losses of associated companies net	*	*	0.6	(138)	(107)
Net income (loss) attributable to non-controlling interests	(0.8)	*	(0.1)	922	(300)
Net income (loss) attributable to Teva	(72.7)	1.5	8.1	n/a	(79)

* Represents an amount less than 0.5%.

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Segment Information

Generic Medicines Segment

The following table presents revenues, expenses and profit for our generic medicines segment for the past three years:

	Generic Medicines Year Ended December 31,					
	2017		2016		2015	
	(U.S. $ in millions / % of Segment Revenues)					
Revenues	$ 12,257	100.0%	$ 11,990	100.0%	$ 10,540	100.0%
Gross profit	5,115	41.7%	5,696	47.5%	4,903	46.5%
R&D expenses	702	5.7%	659	5.5%	519	4.9%
S&M expenses	1,584	12.9%	1,727	14.4%	1,459	13.8%
Segment profit*	$ 2,829	23.1%	$ 3,310	27.6%	$ 2,925	27.8%

* Segment profit consists of gross profit for the segment, less R&D and S&M expenses related to the segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 20 to our consolidated financial statements and Operating Income below for additional information.

Generic Medicines Revenues

Our generic medicines segment includes generic medicines and our OTC business as well as API products sold to third parties. Revenues from our generic medicines segment in 2017 were $12.3 billion, an increase of $267 million, or 2%, compared to 2016. In local currency terms, revenues increased 10%, mainly due to the inclusion of Actavis Generics revenues for the full year of 2017 compared to five months in 2016.

We adjusted the exchange rates that we use for the Venezuelan bolivar twice during 2016 and three times during 2017, most recently in September 2017, when we updated the applicable exchange rate to the DICOM rate of 3,345 bolivar per U.S. dollar. This resulted in a decrease of $1.1 billion in revenues in 2017, including $568 million in OTC revenues, compared to 2016. We exclude these changes in revenues in Venezuela from any discussion of local currency results. We did not exclude the $396 million charge in connection with the deconsolidation of our subsidiaries in Venezuela.

Revenues of generic medicines in the United States, our largest generics market, were $5.0 billion, an increase of $480 million, or 11%, compared to 2016. Revenues of generic medicines in Europe were $4.0 billion, an increase of $431 million, or 12%, compared to 2016. In local currency terms, European revenues increased 11%. Revenues from generic medicines in our ROW markets were $3.2 billion, a decrease of $644 million or 17%, compared to 2016. In local currency terms, ROW revenues increased 10%.

Our revenues from OTC products in 2017 were $1.2 billion, a decrease of 15% compared to $1.4 billion in 2016. In local currency terms, revenues increased 24%. The increase in local currency terms was mainly due to the inclusion of Actavis Generics for the full year compared to five months in 2016.

API sales to third parties in 2017 were $753 million, a decrease of 3% compared to 2016, mainly due to a decrease in sales in the United States, partially offset by an increase in sales in our ROW markets.

Comparison of 2016 to 2015. In 2016, revenues from generic medicines were $12.0 billion, an increase of 14% compared to $10.5 billion in 2015.

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The following table presents generic segment revenues by geographic area for the past three years:

	Year Ended December 31,			Percentage Change	
	2017	2016	2015	2017-2016	2016-2015
	(U.S. $ in millions)				
United States	$ 5,036	$ 4,556	$ 4,795	11%	(5%)
Europe	3,994	3,563	3,146	12%	13%
Rest of the World	3,227	3,871	2,599	(17%)	49%
Total Generic Medicines	$ 12,257	$ 11,990	$ 10,540	2%	14%

United States Generic Medicines Revenues

In 2017, we led the U.S. generic market in total prescriptions and new prescriptions, with approximately 583 million total prescriptions, representing 15.2% of total U.S. generic prescriptions, according to IQVIA data. We will continue to focus our efforts in the United States on maintaining our position as an industry leader in introducing new generic equivalents for brand-name products on a timely basis, with a focus on complex generics and other high-barrier products that will create value for our patients. We will conduct a substantial optimization of the generics portfolio globally, and most specifically in the United States, through a more tailored approach to the portfolio with increased focus on profitability. These efforts will be supported by our strong emphasis on customer service, the breadth of our product pipeline and our commitment to quality and regulatory compliance.

Revenues from generic medicines in the United States in 2017 were $5.0 billion, an increase of 11% compared to $4.6 billion in 2016. The increase resulted mainly from the inclusion of Actavis Generics revenues for the full year of 2017 compared to five months in 2016 and products sold in 2017 that were not sold in 2016, partially offset by:

- decline in sales of budesonide (the generic equivalent of Pulmicort®) and methylphenidate extended-release tablets (Concerta® authorized generic) due to increased competition;
- price erosion resulting from the following factors:
  - customer consolidation into larger buying groups; and
  - accelerated FDA approvals for additional generic versions of competing off-patent medicines; and
- loss of revenues following our divestment of certain products in connection with the Actavis Generics acquisition.

In the second and fourth quarters of 2017, we recorded impairments of $6.1 billion and $10.4 billion, respectively, on the goodwill allocated to our U.S. generics reporting unit. For further details and analysis of the changes in the U.S. generics market, see note 7 to our consolidated financial statements.

Among the most significant generic products we sold in the United States in 2017 were methylphenidate extended-release tablets (Concerta® authorized generic), daptomycin injection (the generic equivalent of Cubicin®), imatinib mesylate tablets (the generic equivalent of Gleevec®), budesonide (the generic equivalent of Pulmicort®) and lidocaine patch (the generic equivalent of Lidoderm Patch®).

Comparison of 2016 to 2015. Revenues from generic medicines in the United States in 2016 were $4.6 billion, compared to $4.8 billion in 2015. This decrease was mainly due to increased competition and loss of exclusivity for key products.

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***Products*.** In 2017, we launched generic versions of the following branded products in the United States (listed by month of launch):

Generic Name	Brand Name	Launch Date	Total Annual U.S. Branded Sales at Time of Launch $ millions (IQVIA)*
Dexmedetomidine hydrochloride injection 100 mcg/mL, 200 mcg	Precedex®	January	56
Rasagiline tablets 0.5 & 1 mg**	Azilect®	January	360
Norepinephrine bitartrate injection, USP 1 mg/mL, 4 mg***	Levophed®	January	91
Lamotrigine extended-release tablets, USP 250 mg	Lamictal® XR	January	39
Melphalan hydrochloride for injection, 50 mg/vial	Alkeran®	January	127
Amantadine hydrochloride capsules, USP 100 mg	Symmetrel®	January	37
Levoleucovorin for injection 50 mg/vial	Fusilev®	February	1
Levoleucovorin for injection 175 mg/vial****	Fusilev®	February	
Desvenlafaxine extended-release tablets 25, 50, & 100 mg	Pristiq®	March	883
Fludarabine phosphate injection, USP 25 mg/mL, 50 mg		March	4
Norethindrone acetate and ethinyl estradiol tablets and ferrous fumarate tablets 1 mg/20 mcg*****	Minastrin® 24 Fe	March	361
Rivelsa (levonorgestrel/ethinyl estradiol and ethinyl estradiol) tablets 0.15 mg/0.02 mg; 0.15 mg/0.025 mg; 0.15 mg/0.03 mg; 0.01 mg**	Quartette	April	11
Fluticasone propionate and salmeterol inhalation powder (multidose dry powder inhaler) 55 mcg/14 mcg, 113 mcg/14 mcg & 232 mcg/14 mcg**	AirDuo RespiClick®	April	
Olmesartan medoxomil and hydrochlorothiazide tablets 20 mg/12.5 mg, 40 mg/12.5 mg & 40 mg/25 mg	Benicar HCT®	April	713
Olmesartan medoxomil tablets, 5mg, 20mg & 40mg	Benicar®	April	950
Atorvastatin calcium tablets, 10 mg, 20mg, 40mg & 80mg	Lipitor®	April	732
Ezetimibe and simvastatin tablets, 10 mg/10 mg, 10 mg/20 mg, 10 mg/40 mg & 10 mg/80 mg	Vytorin®	April	675
Metformin hydrochloride extended-release tablets, USP, 500 mg & 1000 mg	Glumetza®	May	1,027

Atomoxetine capsules, USP, 10 mg, 18 mg, 25 mg, 40 mg, 60 mg, 80 mg & 100 mg	Strattera®	May	1,121
Buprenorphine transdermal system CIII, 5 mcg/hour, 10 mcg/hour, 15 mcg/hour & 20 mcg/hour*****	Butrans®	May	282
Olopatadine hydrochloride ophthalmic solution, USP, 0.2%	Pataday®	June	303
Ezetimibe tablets, USP, 10mg	Zetia®	June	2,697
Doxycycline hyclate tablets, USP 75mg & 150 mg	Acticlate®	June	255
Metaxalone tablets, USP, 800 mg	Skelaxin®	June	158
Perphenazine tablets, USP, 2mg, 4mg, 8mg & 16mg		June	40

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Generic Name	Brand Name	Launch Date	Total Annual U.S. Branded Sales at Time of Launch $ millions (IQVIA)*
Dexmethylphenidate hydrochloride extended-release capsules CII, 25 mg & 35 mg	Focalin XR®	July	93
Estradiol vaginal inserts, USP, 10 mcg	Vagifem®	July	368
Eletriptan hydrobromide tablets, 20 mg & 40 mg	Relpax®	July	386
Adapalene and benzoyl peroxide gel, 0.1%/2.5%	Epiduo®	July	221
Vecuronium bromide for injection, 10 mg/vial***		August	8
Testosterone topical solution CIII, 30 mg/1.5 mL	Axiron®	August	244
Medroxyprogesterone acetate injectable suspension USP, 150 mg/mL, 150 mg***	Depo-Provera®	September	212
Alprostadil injection, USP, 500 mcg/mL, 500 mcg***	Prostin VR Pediatric®	September	7
Haloperidol decanoate injection, 50 mg/mL, 50 mg, 50 mg/mL, 250 mg, 100 mg/mL, 100 mg & 100 mg/mL, 500 mg***	Haldol® Decanoate	October	90
Testosterone gel, 1%	Testim®	October	111
Sildenafil tablets, USP, 25 mg, 50mg & 100 mg	Viagra®	December	1,436
Tenofovir disoproxil fumarate tablets, 300 mg	Viread®	December	771
Methylprednisolone acetate injectable suspension, USP, 40 mg/mL, 40 mg, 40 mg/mL, 200 mg, 40 mg/mL, 400 mg, 80 mg/mL, 80 mg & 80 mg/mL, 400 mg***	Depo-Medrol®	December	180
Montelukast sodium oral granules, USP, 4 mg	Singulair®	December	29
Atazanavir sulfate capsules, 150 mg, 200 mg & 300 mg	Reyataz®	December	412

* The figures given are for the twelve months ended in the calendar quarter closest to our launch or re-launch.
** Authorized generic of a Teva specialty product.
*** Products were re-launched.
**** Approved via 505(b)(2) regulatory pathway; not equivalent to a brand product.
***** Authorized generic.

Our generic medicines pipeline in the United States includes, as of December 31, 2017, 343 product applications awaiting FDA approval, including 84 tentative approvals. This total reflects all pending ANDAs, supplements for product line extensions and tentatively approved applications and includes some instances where more than one application was submitted for the same reference product. Excluding overlaps, the branded products underlying these pending applications had U.S. sales for the year ended December 31, 2017 exceeding $109 billion, according to IQVIA. Approximately 70% of pending applications include a paragraph IV patent challenge and we believe we are

first to file with respect to 102 of these products, or 122 products including final approvals where launch is pending a settlement agreement or court decision. Collectively, these first to file opportunities represent over $60 billion in U.S. brand sales for the year ended December 31, 2017, according to IQVIA. IQVIA reported brand sales are one of the many indicators of future potential value of a launch, but equally important are the mix and timing of competition, as well as cost effectiveness. The potential advantages of being the first filer with respect to some of these products may be subject to forfeiture, shared exclusivity or competition from so-called authorized generics, which may ultimately affect the value derived.

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In 2017, we received tentative approvals for generic equivalents of the products listed in the table below, excluding overlapping applications. A tentative approval indicates that the FDA has substantially completed its review of an application and final approval is expected once the relevant patent expires, a court decision is reached, a 30-month regulatory stay lapses or a 180-day exclusivity period awarded to another manufacturer either expires or is forfeited.

Generic Name	Brand Name	Total U.S. Annual Branded Market $ millions (IQVIA)*
Adapalene and benzoyl peroxide gel, 0.3%/2.5%	Epiduo Forte®	$ 200
Azelaic acid gel, 15%	Finacea®	$ 69
Azelastine hydrochloride and fluticasone propionate nasal spray, 137 mcg/50 mcg	Dymista®	$ 144
Azelastine hydrochloride nasal spray, 0.1876 mg base/spray	Astepro®	$ 36
Bortezomib for injection, 3.5 mg/vial lyophilized	Velcade®	$ 639
Buprenorphine and naloxone sublingual film, 8 mg/2 mg & 12 mg/3 mg	Suboxone®	$ 1,666
Dabigatran capsules, 75 mg, 110 mg & 150 mg	Pradaxa®	$ 909
Darunavir tablets, 800 mg	Prezista®	$ 748
Deferasirox tablets, 90 mg, 180 mg & 360 mg	Jadenu®	$ 416
Eltrombopag tablets, 50 mg	Promacta®	$ 231
Estradiol valerate and dienogest tablets, 3 mg, 1 mg tablets and 2 mg/2mg, 2 mg/3 mg	Natazia®	$ 32
Fingolimod capsules, 0.5 mg	Gilenya®	$ 2,045
Fosaprepitant dimeglumine for injection, 150mg base/vial	Emend IV®	$ 332
Lacosamide tablets, 50 mg, 100 mg, 150 mg & 200 mg	Vimpat®	$ 931
Linagliptin tablets, 5 mg	Tradjenta®	$ 1,322
Mesalamine delayed-release tablets, USP, 1.2 g	Lialda®	$ 1,050
Methylphenidate hydrochloride extended-release capsules, 10 mg, 15 mg, 20 mg, 30 mg, 40 mg, 50 mg & 60 mg	Aptensio XR®	$ 13
Minoxidil topical aerosol, 5%	Rogaine®	$ 62
Omeprazole magnesium delayed-release tablets, 20.6 mg	Prilosec OTC®	$ 212
Ranolazine extended-release tablets, 500 mg & 1000 mg	Ranexa®	$ 862
Tadalafil tablets, 2.5 mg, 5mg, 10 mg & 20 mg	Cialis®	$ 1,931
Testosterone gel, 1.62%	Androgel HC®	$ 943

* For the twelve months ended in the calendar quarter closest to the receipt of tentative approval.

Europe Generic Medicines Revenues

We define our European region as the European Union and certain other European countries.

Revenues from generic medicines in Europe in 2017 were $4.0 billion, an increase of 12% compared to 2016. In local currency terms, revenues increased 11%, mainly as a result of the inclusion of Actavis Generics revenues for the full year compared to five months in 2016 and the divestment of certain assets and operations of Actavis Generics in the United Kingdom in the beginning of 2017.

As in previous years, European regulatory measures aimed at reducing healthcare and drug expenditures have led to modest growth in the generic medicines market, and have adversely affected our revenues in some markets. In Germany, Italy, France, Spain and Poland, governmental measures (such as tenders and price-referencing) have reduced prices. We are addressing these changes by focusing on new product launches, gaining market share in selective markets, strong portfolio management and a focus on cost reduction.

During the year ended December 31, 2017, we received 1,131 generic approvals in Europe relating to 157 compounds in 328 formulations, including two EMA approvals valid in 30 EU member states, and

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approximately 1,755 marketing authorization applications pending approval in 37 European countries, relating to 204 compounds in 418 formulations, including one application pending with the EMA for four strengths in 30 countries.

Comparison of 2016 to 2015. Total generic revenues in Europe in 2016 were $3.6 billion, compared to $3.1 billion in 2015. In local currency terms, revenues increased by 16% compared to 2015.

ROW Generic Medicines Revenues

Our ROW markets include all countries other than the United States and those in our European region. Our key ROW markets are Japan, Canada and Russia. The countries in this category range from highly regulated, pure generic markets, such as Canada and Israel, to hybrid markets, such as Japan and Brazil, to branded generics oriented markets, such as Russia and certain Commonwealth of Independent States (CIS), Latin American and Asia Pacific markets.

In our ROW markets, generics revenues were $3.2 billion, a decrease of 17% compared to 2016. In local currency terms, revenues increased 10%, mainly due to the inclusion of Actavis Generics for the full year compared to five months in 2016.

We adjusted the exchange rates that we use for the Venezuelan bolivar twice during 2016 and three times during 2017, most recently in September 2017, when we updated the applicable exchange rate to the DICOM rate of 3,345 bolivar per U.S. dollar. This resulted in a decrease of $1.1 billion in revenues in 2017, including $568 million in OTC revenues, compared to 2016. We exclude these changes in revenues in Venezuela from any discussion of local currency results. We did not exclude the $396 million charge in connection with the deconsolidation of our subsidiaries in Venezuela.

Comparison of 2016 to 2015. In 2016, generic medicines revenues in our ROW markets were $3.9 billion, an increase of 49% compared to 2015. In local currency terms, revenues increased 30%.

Generic Medicines Gross Profit

In 2017, gross profit from our generic medicines segment was $5.1 billion, a decrease of $581 million, or 10%, compared to $5.7 billion in 2016. The lower gross profit was mainly a result of higher other production expenses, lower gross profit in the United States due to price erosion and lower gross profit in ROW markets, partially offset by higher gross profit in Europe and higher gross profit from API sales to third parties.

Gross profit margin for our generic medicines segment in 2017 decreased to 41.7%, from 47.5% in 2016. This decrease was mainly the result of higher other production expenses (3.0 points), lower gross profit in the United States (1.9 points) and lower gross profit in ROW markets (1.8 points), partially offset by higher gross profit in Europe (0.6 points) and higher gross profit from API sales to third parties (0.4 points).

Comparison of 2016 to 2015. Our generic medicines segment gross profit was $5.7 billion in 2016, compared to $4.9 billion in 2015. Gross profit margin was 47.5% in 2016, compared to 46.5% in 2015.

Generic Medicines R&D Expenses

R&D expenses relating to our generic medicines segment in 2017 were $702 million, an increase of 7% compared to $659 million in 2016. The increase was mainly due to the inclusion of Actavis Generics for the full year in 2017, compared to five months in 2016, partially offset by portfolio optimization as well as cost reduction and efficiency measures in 2017. As a percentage of segment revenues, generic R&D expenses were 5.7% in 2017, compared to

5.5% in 2016.

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Our R&D activities for the generic medicines segment include both (i) direct expenses relating to product formulation, analytical method development, stability testing, management of bioequivalence and other clinical studies, regulatory filings and other expenses relating to patent review and challenges prior to obtaining tentative approval, and (ii) indirect expenses, such as costs of internal administration, infrastructure and personnel involved in generic R&D.

Comparison of 2016 to 2015. Generic medicines R&D expenses in 2016 were $659 million, an increase of 27% compared to 2015. As a percentage of segment revenues, generic R&D expenses were 5.5% in 2016, compared to 4.9% in 2015.

Generic Medicines S&M Expenses

S&M expenses related to our generic medicines segment in 2017 were $1.6 billion, a decrease of 8% compared to $1.7 billion in 2016, mainly due to lower S&M expenses in certain ROW markets, partially offset by higher S&M expenses in the United States and Europe.

As a percentage of segment revenues, S&M expenses increased to 12.9% in 2017 from 14.4% in 2016.

Comparison of 2016 to 2015. Generic medicines S&M expenses in 2016 were $1.7 billion, compared to $1.5 billion in 2015.

Generic Medicines Profit

The profit of our generic medicines segment consists of gross profit for the segment less S&M expenses and R&D expenses related to this segment. Segment profit does not include G&A expenses, amortization and certain other items. Beginning in 2016, our OTC business is included in our generic medicines segment. See note 17 to our consolidated financial statements and Teva Consolidated Results Operating Income (Loss) below for additional information.

Profit of our generic medicines segment was $2.8 billion in 2017, compared to $3.3 billion in 2016. The decrease was mainly due to lower gross profit and higher R&D expenses, partially offset by lower S&M expenses.

Generic medicines profit as a percentage of generic medicines revenues was 23.1% in 2017, compared to 27.6% in 2016, mainly due to lower gross profit margin (decrease of 5.8 points) and higher R&D expenses (increase of 0.2 points), offset by lower S&M expenses (decrease of 1.5 points).

Comparison of 2016 to 2015. Generic medicines profit was $3.3 billion in 2016, compared to $2.9 billion in 2015. In 2016, segment profit as a percentage of revenues was 27.6%, compared to 27.8% in 2015.

Specialty Medicines Segment

The following table presents revenues, expenses and profit for our specialty medicines segment for the past three years:

	Specialty Medicines Year Ended December 31,		
	2017	**2016**	**2015**

	(U.S. $ in millions / % of Segment Revenues)					
Revenues	$ 7,914	100.0%	$ 8,674	100.0%	$ 8,338	100.0%
Gross profit	6,877	86.9%	7,558	87.1%	7,200	86.4%
R&D expenses	884	11.2%	998	11.5%	918	11.0%
S&M expenses	1,660	20.9%	1,899	21.9%	1,921	23.0%
Segment profit*	$ 4,333	54.8%	$ 4,661	53.7%	$ 4,361	52.3%

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* Segment profit consists of gross profit for the segment, less R&D and S&M expenses related to the segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 20 to our consolidated financial statements and Teva Consolidated Results Operating Income (Loss) below for additional information.

Specialty Medicines Revenues

Specialty medicines revenues in 2017 were $7.9 billion, a decrease of 9% in both U.S. dollar and local currency terms, compared to 2016. Specialty medicines revenues in the United States were $5.7 billion, a decrease of 15% compared to 2016. Specialty medicines revenues in Europe were $1.8 billion, an increase of 11%, or 10% in local currency terms, compared to 2016. Specialty medicines revenues in our ROW markets were $448 million, an increase of 27% in both U.S. dollar and local currency terms compared to 2016.

Between November 2017 and January 2018, we sold certain non-core specialty products, including our global women s health business. See Transactions above. We are pursuing opportunities to sell additional non-core specialty products, which will be subject to negotiation of acceptable terms, board approval and applicable regulatory approvals.

Comparison of 2016 to 2015. In 2016, specialty medicines revenues were $8.7 billion compared to $8.3 billion in 2015. Specialty medicines revenues in the United States were $6.7 billion, an increase of 4% compared to 2015. Specialty medicines revenues in Europe were $1.6 billion, an increase of 5%, or 7% in local currency terms, compared to 2015. Specialty medicines revenues in our ROW markets in 2016 were $352 million, a decrease of 7%, or 1% in local currency terms, compared to 2015.

Specialty Medicines Revenues Breakdown

The following table presents revenues by therapeutic area and key products for our specialty medicines segment for the past three years:

	Year Ended December 31,			Percentage Change	
	2017	2016	2015	2017-2016	2016-2015
	(U.S. $ in millions)				
CNS	$ 4,426	$ 5,283	$ 5,213	(16%)	1%
COPAXONE	3,801	4,223	4,023	(10%)	5%
AZILECT	170	410	384	(59%)	7%
NUVIGIL	61	200	373	(70%)	(46%)
Respiratory	1,270	1,274	1,129	(0%)	13%
ProAir	501	565	549	(11%)	3%
QVAR	361	462	392	(22%)	18%
Oncology	1,135	1,139	1,201	(0%)	(5%)
BENDEKA and TREANDA	658	661	741	(0%)	(11%)
Women s Health	426	458	461	(7%)	(1%)
Other Specialty*	657	520	334	26%	56%
Total Specialty Medicines	**$ 7,914**	**$ 8,674**	**$ 8,338**	**(9%)**	**4%**

* Includes $150 million royalty payments from the Ninlaro® transaction in each of the years 2016 and 2017.

Central Nervous System

Our CNS portfolio, one of our two core therapeutic areas, includes COPAXONE® and AUSTEDO®, which was launched in the United States in 2017, as well as several other medicines. In 2017, our CNS sales were

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$4.4 billion, a decrease of 16%, in U.S dollar and local currency terms, compared to 2016, primarily due to generic competition to COPAXONE 40 mg/mL in the United Sates commencing in October 2017, as well as generic competition to AZILECT and NUVIGIL.

COPAXONE revenues in the United States in 2017 decreased by 12% to $3.0 billion, mainly due to generic competition which resulted in higher rebates and lower volumes, partially offset by a price increase of 7.9% in January 2017 for both the 20 mg/mL and 40 mg/mL versions.

Revenues in the United States were 80% of global COPAXONE revenues in 2017, compared to 82% in 2016.

Our COPAXONE revenues outside the United States were $752 million in 2017, an increase of 1%, or 0.3% in local currency terms, compared to 2016.

COPAXONE accounted for approximately 17% of our revenues in 2017 and a significantly higher percentage of our profits and cash flow from operations during this period.

In October 2017, the FDA approved a generic version of COPAXONE 40 mg/mL and a second generic version of COPAXONE 20 mg/mL. A hybrid version of COPAXONE 40 mg/mL was approved in the European Union. See Item 1 Business Specialty Medicines Central Nervous System COPAXONE.

Comparison of 2016 to 2015. In 2016, global sales of COPAXONE were approximately $4.2 billion, an increase of 5% compared to 2015. Revenues in the United States in 2016 accounted for 82% of global sales of COPAXONE, an increase from 81% in 2015.

Our sales of **AZILECT** were $170 million in 2017, a decrease of 59% compared to 2016. The decrease is mainly due to lower volumes following the introduction of generic competition in the United States and Europe.

Comparison of 2016 to 2015. In 2016, global in-market sales of AZILECT were $418 million, a decrease of 19% compared to 2015. Our sales of AZILECT in 2016 were $410 million, an increase of 7% compared to 2015.

Our sales of **NUVIGIL** (armodafinil) were $61 million in 2017, a decrease of 70% compared to 2016. The decrease is mainly due to generic competition.

Comparison of 2016 to 2015. Our sales of NUVIGIL in 2016 were $200 million, a decrease of 46% compared to 2015.

Respiratory

Our respiratory portfolio, one of our two core therapeutic areas, includes ProAir®, QVAR®, RespiClick® and CINQAIR®/CINQAERO®, as well as several other medicines. Revenues from our specialty respiratory products in 2017 were $1.3 billion, flat compared to 2016.

ProAir revenues in 2017 were $501 million, a decrease of 11% compared to 2016, mainly due to negative net pricing effects. ProAir is the second-largest short-acting beta-agonist in the market, with an exit market share of 47% in terms of total number of prescriptions during the fourth quarter of 2017, flat compared to the fourth quarter of 2016.

QVAR revenues in 2017 were $361 million, a decrease of 22% compared to 2016, primarily due to net pricing effects. QVAR maintained its second-place position in the inhaled corticosteroids category in the United States, with

an exit market share of 35.3% in terms of total number of prescriptions during the fourth quarter of 2017, a decrease of 3.2 points compared to the fourth quarter of 2016.

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Comparison of 2016 to 2015. In 2016, revenues of our respiratory products were approximately $1.3 billion, an increase of 13% compared to 2015.

Oncology

Our oncology portfolio includes BENDEKA, TREANDA, GRANIX and TRISENOX® in the United States and LONQUEX®, TEVAGRASTIM®/RATIOGRASTIM® and TRISENOX outside the United States. Sales of these products were $1.1 billion in 2017, flat compared to 2016.

BENDEKA and **TREANDA** combined revenues were $658 million in 2017, compared to $661 million in 2016.

Comparison of 2016 to 2015. In 2016, sales of our oncology products were $1.1 billion, a decrease of 5% compared to 2015.

Women s Health

Revenues from our global women s health products were $426 million in 2017, a decrease of 7% compared to 2016, mainly due to the sale of PARAGARD and PLAN B ONE-STEP in November 2017. See Transactions above, regarding the sale of our global women s health business, together with other products.

Comparison of 2016 to 2015. In 2016, sales of our women s health products were $458 million, a decrease of 1% from $461 million in 2015.

Specialty Medicines Gross Profit

In 2017, gross profit from our specialty medicines segment was $6.9 billion, a decrease of 9% compared to $7.6 billion in 2016. The lower gross profit was mainly a result of lower revenues.

Gross profit margin for our specialty medicines segment in 2017 was 86.9%, compared to 87.1% in 2016. The decrease in gross profit margin was mainly a result of lower sales of COPAXONE.

Comparison of 2016 to 2015. Specialty medicines segment gross profit was $7.6 billion in 2016, compared to $7.2 billion in 2015. Specialty medicines segment gross profit margin was 87.1% in 2016, compared to 86.4% in 2015.

Specialty Medicines R&D Expenses

Our specialty R&D activities focus primarily on product candidates in the migraine and headache, pain and respiratory therapeutic areas, with additional activities in selected areas. R&D expenses relating to our specialty medicines in 2017 were $884 million, down 11%, compared to $998 million in 2016. The decrease was mainly due to portfolio optimization, partially offset by increased expenses related to our late-stage product candidates.

As a percentage of segment revenues, R&D expenses were 11.2% in 2017, compared to 11.5% in 2016.

Specialty R&D expenditures include certain upfront and milestone payments for products in the development phase, the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, clinical trials and product registration costs. These expenditures are reported net of contributions received from collaboration partners. Our specialty R&D spending takes place throughout the development process, including (i) early-stage projects in both discovery and preclinical phases; (ii) middle-stage projects in clinical programs up to

phase 3; (iii) late-stage projects in phase 3 programs, including where a new drug application is currently pending approval; (iv) life cycle management and post-approval studies for

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marketed products; and (v) indirect expenses that support our overall specialty R&D efforts but are not allocated by product or to specific R&D projects, such as the costs of internal administration, infrastructure and personnel. Furthermore, our R&D activities relating to innovation using existing molecules were managed and reported as part of our specialty R&D expenses.

The following table presents the composition of our specialty R&D expenditures and the number of projects by stage of development:

	2017 Expenditure (U.S.$ in millions)	No. of Projects as of Dec. 31, 2017	2016 Expenditure (U.S.$ in millions)	No. of Projects as of Dec. 31, 2016	2015 Expenditure (U.S.$ in millions)	No. of Projects as of Dec. 31, 2015
Early stage*: discovery and pre-clinical	$ 83	n/a	$ 76	n/a	$ 65	n/a
Middle stage: clinical up to phase 3	62	14	151	22	203	22
Late stage: phase 3, registration and post-approval regulatory requirements	456	55	441	40	346	37
Unallocated R&D**	313		347		321	
Total gross R&D expenses***	914		1,015		935	
Total net R&D expenses	$ 884		$ 998		$ 918	

* Including early stage innovation using existing molecules.

** Unallocated R&D expenses are indirect expenses that support our overall specialty R&D efforts but are not allocated by product or to specific R&D projects, such as the costs of internal administration, infrastructure and personnel.

*** Gross R&D expenses include the full cost of programs that are partially funded by third parties.

Comparison of 2016 to 2015. Specialty medicines R&D expenses in 2016 were $998 million, compared to $918 million in 2015.

Specialty Medicines S&M Expenses

S&M expenses related to our specialty medicines segment in 2017 were $1.7 billion, a decrease of 13% compared to 2016. The decrease was mainly due to cost reduction and efficiency measures in our commercial operations, aligning with the life cycle of our product portfolio.

As a percentage of segment revenues, S&M expenses decreased to 20.9% in 2017 from 21.9% in 2016.

Comparison of 2016 to 2015. Specialty medicines S&M expenses in 2016 were $1.9 billion, a decrease of 1% compared to 2015.

Specialty Medicines Profit

The profit of our specialty medicines segment consists of the gross profit for the segment, less S&M expenses and R&D expenses related to this segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 20 to our consolidated financial statements and Operating Income below for additional information.

Profit of our specialty medicines segment was $4.3 billion in 2017, compared to $4.7 billion in 2016, a decrease of 7%. This is a result of the factors discussed above.

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Specialty medicines profit as a percentage of segment revenues was 54.8% in 2017, compared to 53.7% in 2016. The increase was mainly due to lower S&M expenses as a percentage of specialty medicines revenues (0.9 points) and lower R&D expenses as a percentage of specialty medicines revenues (0.3 points), as discussed above.

Comparison of 2016 to 2015. Specialty medicines profit was $4.7 billion in 2016, compared to $4.4 billion in 2015, an increase of 7%. Specialty medicines profit as a percentage of segment revenues was 53.7%, compared to 52.3% in 2015.

Our MS franchise includes our COPAXONE products and laquinimod. The profit of our MS franchise consists of COPAXONE revenues and cost of goods sold as well as S&M and R&D expenses related to our MS franchise. It does not include G&A expenses, amortization and certain other items. Our MS franchise profit was $3.1 billion, $3.4 billion and $3.1 billion in 2017, 2016 and 2015, respectively. Profit of our MS franchise as a percentage of COPAXONE revenues was 80.6%, 81.3% and 76.7% in 2017, 2016 and 2015, respectively.

Other Activities

We have other sources of revenues, primarily sales of third-party products for which we act as distributor in certain countries. In the United States, our Anda business distributes generic, specialty and OTC pharmaceutical products from various third party manufacturers, as well as our own products, to independent retail pharmacies, pharmacy retail chains, hospitals and physician offices. Anda is able to compete in the secondary distribution market by maintaining high inventory levels for a broad offering of products, next day delivery throughout the United States, competitive pricing and high-level customer service.

We also sell medical devices, provide contract manufacturing services related to products divested in connection with the Actavis Generics acquisition and the sale of our women s health business, as well as other miscellaneous items. Our other activities are not included in our generics and specialty segments described above.

Our revenues from other activities in 2017 were $2.2 billion, an increase of 79% compared to revenues of $1.2 billion in 2016. The increase was mainly related to the inclusion of Anda s revenues commencing in the fourth quarter of 2016.

Comparison of 2016 to 2015. In 2016, revenues from other activities were $1.2 billion compared to $774 million in 2015.

Teva Consolidated Results

Revenues

Revenues in 2017 were $22.4 billion, an increase of 2%, or 6% in local currency terms, compared to 2016, primarily due to (i) an increase in our generic medicines segment from the inclusion of Actavis Generics revenues for the full year of 2017, compared to five months in 2016, partially offset by the adverse market dynamics in the United States; (ii) the acquisition of Anda in the fourth quarter of 2016; partially offset by (iii) a decrease in our specialty medicines segment due to generic competition to certain of our key products. See Generic Medicines Revenues, Specialty Medicines Revenues and Other Activities above.

Exchange rate movements during 2017 in comparison with 2016 negatively impacted revenues by $914 million. In light of the political and economic conditions in Venezuela, we exclude the changes in revenues and operating profit in Venezuela from any discussion of local currency results. We did not exclude the $396 million charge in connection

with the deconsolidation of our subsidiaries in Venezuela.

Comparison of 2016 to 2015. Revenues in 2016 were $21.9 billion, an increase of 11% compared to 2015.

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Gross Profit

In 2017, gross profit was $10.8 billion, a decrease of 9% compared to 2016.

The lower gross profit was mainly a result of factors discussed above under Generic Medicines Gross Profit and Specialty Medicines Gross Profit and higher amortization of purchased intangible assets, partially offset by lower inventory step-up expenses, lower costs related to regulatory actions taken in facilities and lower inventory related expenses in connection with the devaluation in Venezuela.

Gross profit as a percentage of revenues was 48.4% in 2017, compared to 54.1% in 2016.

The decrease in gross profit as a percentage of revenues primarily reflects lower profitability of our generic segment (a decrease of 3.3 points), higher amortization of purchased intangible assets (a decrease of 1.6 points), lower profitability of our specialty medicines segment (a decrease of 1.5 points), the inclusion of Anda (a decrease of 1.4 points), lower profitability of our other activities (a decrease of 0.5 points), partially offset by lower inventory step-up expenses (an increase of 1.4 points), inventory related expenses in connection with the devaluation in Venezuela (an increase of 0.5 points) and lower costs related to regulatory actions taken in certain facilities (an increase of 0.5 points).

Comparison of 2016 to 2015. Gross profit in 2016 was $11.9 billion, an increase of 4% compared to 2015. Gross profit as a percentage of revenues was 54.1% in 2016, compared to 57.8% in 2015.

Research and Development (R&D) Expenses

Net R&D expenses for 2017 were $1.8 billion, a decrease of 12% compared to 2016. Specialty R&D expenses were $884 million and generic R&D expenses were $702 million in 2017, compared to $998 million and $659 million, respectively, in 2016. Our R&D expenses were primarily the result of the factors discussed above under Generic Medicines R&D Expenses and Specialty Medicines R&D Expenses , as well as milestone payments of $60 million to Regeneron, compared to upfront payments of $250 million and $160 million to Regeneron and Celltrion, respectively, in 2016 and the purchase of an FDA priority review voucher to allow us to accelerate the review period for fremanezumab in 2017.

As a percentage of revenues, R&D expenses were 8.3% in 2017, compared to 9.6% in 2016.

Comparison of 2016 to 2015. In 2016, R&D expenses were $2.1 billion, an increase of 38% compared to 2015.

Selling and Marketing (S&M) Expenses

S&M expenses in 2017 were $3.7 billion, a decrease of 5% compared to 2016. As a percentage of revenues, S&M expenses were 16.3% in 2017, compared to 17.6% in 2016.

In 2017, we decreased our generic S&M expenses, as discussed above under Generic Medicines S&M Expenses and decreased our specialty S&M expenses, as discussed above under Specialty Medicines S&M Expenses .

Comparison of 2016 to 2015. S&M expenses in 2016 were $3.9 billion, an increase of 11% compared to 2015. As a percentage of revenues, S&M expenses decreased from 17.7% in 2015 to 17.6% in 2016.

General and Administrative (G&A) Expenses

G&A expenses in 2017 were $1.3 billion, an increase of $45 million compared to 2016. As a percentage of revenues, G&A expenses were 5.9%, flat compared to 2016.

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Comparison of 2016 to 2015. G&A expenses in 2016 were $1.3 billion, a decrease of $75 million compared to 2015. As a percentage of revenues, G&A expenses decreased from 6.9% in 2015 to 5.9% in 2016.

Other Asset Impairments, Restructuring and Other Items

In 2017, we recorded expenses of $5.1 billion for other impairments, restructuring and other items, compared to $1.4 billion of expenses in 2016. The expenses in 2017 consisted of:

Impairments

Impairments of long-lived intangible assets in 2017 were $3.8 billion, consisting mainly of:

Identifiable IPR&D of $1.6 billion, primarily comprised of: (i) $838 million related to revaluation of generics products acquired from Actavis Generics due to development progress, changes in other key valuation indications (market size, legal landscape or launch date); (ii) $390 million related to discontinued Actavis Generics products; (iii) $153 million related to discontinued Rimsa projects; and (iv) $188 million related to discontinued specialty products in the United States, primarily LAMA/LABA from MicroDose, in addition to reduction in value of reslizumab following the results of the recent phase 3 clinical trial;

Identifiable product rights of $1.6 billion, primarily comprised of: (i) $583 million related to revaluation of Actavis Generics product rights in the United States; (ii) $523 million related to Teva Takeda product and marketing rights for certain products; (iii) $390 million related to Actavis Generics product rights in Europe and ROW; and (iv) $47 million related to termination of VANTRELA product rights in the United States.

Comparison of 2016 and 2015. In 2016, impairments of identifiable intangible assets were $589 million, compared to $265 million, in 2015.

Impairments of property, plant and equipment were $544 million, consisting of:

$382 million related to restructuring costs, including, mainly:

$156 million related to the closure of our facilities in Jerusalem, Israel;

$144 million primarily related to plant and R&D rationalizations in Puerto Rico, New Jersey and Canada; and

$69 million related to discontinued manufacturing activities at our Godollo, Hungary site during 2017, following our decision in the second quarter of 2017 to divest or close this facility. We previously recorded an impairment of $80 million for this facility in the fourth quarter of 2016.

Other impairment costs, mainly:

$62 million related to site closures in Japan; and

$42 million related to the sale of our Ra anana, Israel site.

Comparison of 2016 and 2015. In 2016, property, plant and equipment impairments were $149 million, compared to $96 million in 2015.

Comparison of 2016 to 2015. Impairments in 2016 were $746 million, compared to $361 million in 2015.

Contingent consideration

In 2017, we recorded $154 million of contingent consideration expenses, compared to $83 million in 2016. The expenses in 2017 consisted mainly of $178 million related to BENDEKA, in connection with royalty accruals, $40 million related to re-evaluation of a Labrys project, partially offset by an $89 million reversal of contingent consideration related to a cancelled LAMA/LABA (MicroDose) project.

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Comparison of 2016 to 2015. Contingent consideration expenses in 2016 were $83 million, compared to an income of $399 million in 2015.

Acquisition, integration and related expenses

In 2017, we recorded $105 million of acquisition and integration expenses, compared to $261 million in 2016. The expenses in 2017 mainly consisted of expenses related to the acquisition and integration of Actavis Generics.

Comparison of 2016 to 2015. Acquisition and integration expenses in 2016 were $261 million, compared to $221 million in 2015.

Restructuring

In 2017, we recorded $535 million of restructuring expenses, compared to $245 million in 2016. The expenses in 2017 were primarily related to our network restructuring plan, which seeks to further optimize and consolidate our manufacturing footprint and restructure our generic R&D network. In addition we incurred restructuring expenses in connection with the acquisition of Actavis Generics. See note 18 to our consolidated financial statements.

Comparison of 2016 to 2015. Restructuring expenses in 2016 were $245 million, compared to $183 million in 2015.

Venezuela deconsolidation charge

In 2017 we recorded a deconsolidation charge of $396 million in connection with our subsidiaries in Venezuela. See Impact of Currency Fluctuations on Results of Operations.

Legal Settlements and Loss Contingencies

Legal settlements and loss contingencies for 2017 were $500 million, compared to $899 million in 2016. The 2017 expenses primarily consist of a $235 million reserve for an award to GSK with respect to the carvedilol patent litigation, $157 million related to the Lidoderm settlement and $70 million related to the Aggrenox® antitrust litigation.

Comparison of 2016 to 2015. Legal settlements and loss contingencies in 2016 amounted to $899 million, compared to $631 million in 2015.

Other Income

Other income for 2017 was $1.2 billion compared to $769 million in 2016. Other income in 2017 was mainly due to the sale of PARAGARD to CooperSurgical for $1.1 billion in cash. Other income in 2016 was primarily due to a gain associated with the divestiture of certain Actavis Generics and Teva products which was required by the FTC in order to complete the Actavis Generics acquisition.

Goodwill Impairment

We recognized goodwill impairments of $6.1 billion and $11.0 billion in the second quarter and fourth quarter of 2017, respectively, mainly in connection with our U.S. generics reporting unit. See note 7 to our consolidated financial statements.

Operating Income (Loss)

Operating loss was $17.5 billion in 2017, compared to operating income of $2.2 billion in 2016.

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The operating loss was due to factors discussed above, in particular the goodwill impairments and impairments of long-lived assets.

Comparison of 2016 to 2015. Operating income in 2016 amounted to $2.2 billion, compared to $3.4 billion in 2015. As a percentage of revenues, operating income decreased to 9.8% in 2016 from 17% in 2015.

The following table presents a reconciliation of our segment profits to Teva s consolidated operating income (loss) and to consolidated income (loss) before income taxes for the past three years:

	Year ended December 31,		
	2017	2016	2015
	(U.S.$ in millions)		
Generic medicines profit	$ 2,829	$ 3,310	$ 2,925
Specialty medicines profit	4,333	4,661	4,361
Total segment profit	7,162	7,971	7,286
Profit of other activities	86	68	75
	7,248	8,039	7,361
Amounts not allocated to segments:			
Amortization	1,444	993	838
General and administrative expenses	1,330	1,285	1,360
Other asset impairments, restructuring and other items**	5,074	1,419	1,176
Goodwill impairment	17,100	900	
Inventory step-up	67	383	
Other R&D expenses	221	426	69
Costs related to regulatory actions taken in facilities	47	153	36
Legal settlements and loss contingencies	500	899	631
Gain on sales of business and long-lived assets	(1,083)	(720)	(45)
Other unallocated amounts*	32	147	(56)
Consolidated operating income (loss)	(17,484)	2,154	3,352
Financial expenses net	895	1,330	1,000
Consolidated income (loss) before income taxes	$ (18,379)	$ 824	$ 2,352

* Includes for 2016, $133 million in inventory-related expenses in connection with the devaluation in Venezuela.

** Includes for 2017, $396 million related to Venezuela deconsolidation charge.

Financial Expenses-Net

In 2017, financial expenses were $895 million, compared to $1.3 billion in 2016. The decrease was mainly due to a $746 million impairment of our monetary balance sheet items related to Venezuela in 2016, compared to $42 million

in 2017, as well as $136 million other-than temporary impairment of securities in 2016, partially offset by an increase of $329 million in interest expenses in 2017 due to our debt issuances in July 2016, as well as a loss of $65 million in 2017 compared to a gain of $49 million in 2016 from exchange rate fluctuations including the impact of our hedging activities.

Comparison of 2016 to 2015. In 2016, financial expenses were $1.3 billion, compared to $1 billion in 2015.

Tax Rate

In 2017, we recognized a tax benefit of $1.9 billion, or 11% of a pre-tax loss of $18 billion. In 2016, income taxes amounted to $521 million, or 63% of pre-tax income of $824 million. In 2015, income taxes amounted to $634 million, or 27% of pre-tax income of $2.4 billion. The decrease in our 2017 effective tax rate compared to

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previous years is mainly due to a one-time effect resulting from the remeasurement of our deferred taxes and imposition of a deemed repatriation tax following the enactment of the Tax Cuts and Jobs Act in December 2017 in the United States, as well as a one-time tax benefit associated with the utilization of Actavis Generics historical capital losses. In addition, in 2017 we recorded goodwill impairments that did not have a corresponding tax effect.

The statutory Israeli corporate tax rate was 24% in 2017 (reduced to 23% in 2018 and onwards). Our tax rate differs from the Israeli statutory tax rate mainly due to the mix of profits generated in various jurisdictions where tax rates are different than the Israeli tax rate, tax benefits in Israel and other countries, as well as infrequent or nonrecurring items.

In the future, our effective tax rate is expected to increase following the enactment of the Tax Cuts and Jobs Act in the United States.

Net Income (Loss)

Net loss attributable to Teva in 2017 was $16.3 billion, compared to net income of $329 million in 2016. This decrease was primarily due to our goodwill impairment, an impairment of long-lived assets and lower profit in our generic medicines segment, partially offset by an income tax benefit in 2017 and lower legal settlements and loss contingencies.

Comparison of 2016 to 2015. Net income attributable to Teva in 2016 was $329 million, compared to $1.6 billion in 2015.

Diluted Shares Outstanding and Earnings (Loss) Per Share

On December 8, 2015, we sold 54 million ADSs at $62.50 per ADS and 3,375,000 of our 7.0% mandatory convertible preferred shares at $1,000 per share. In addition, on January 6, 2016, we sold an additional 5.4 million ADSs and 337,500 mandatory convertible preferred shares pursuant to the exercise of the underwriters over-allotment option. On August 2, 2016, we issued approximately 100.3 million shares to Allergan in connection with the closing of the Actavis Generics acquisition.

The weighted average diluted shares outstanding used for the fully diluted share calculation for 2017, 2016 and 2015 were 1,016 million, 961 million and 864 million shares, respectively.

In computing loss per share for the twelve months ended December 31, 2017, the assumed exercise of employee stock options and non-vested RSUs granted under employee stock compensation plans and convertible senior debentures had an anti-dilutive effect on loss per share and were therefore excluded from the outstanding shares calculation.

Additionally, for the twelve months ended December 31, 2017 and December 31, 2016, the mandatory convertible preferred shares amounting to 59 million weighted average shares had an anti-dilutive effect on loss per share in 2017 and on earnings per share in 2016 and were therefore excluded from the outstanding shares calculation.

Diluted loss per share was $16.26 for the year ended December 31, 2017, compared to earnings per share of $0.07 for the year ended December 31, 2016.

Share Count for Market Capitalization

We calculate share amounts using the outstanding number of shares (i.e., excluding treasury shares) plus shares that would be outstanding upon the exercise of options and vesting of RSUs and performance share units (PSUs), as well

as the conversion of our convertible senior debentures and mandatory convertible preferred shares, in each case, at period end.

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As of December 31, 2017 and 2016, the fully diluted share count for purposes of calculating our market capitalization was approximately 1,086 million and 1,079 million, respectively.

Impact of Currency Fluctuations on Results of Operations

In 2017, approximately 47% of our revenues came from sales outside of the United States. Because our results are reported in U.S. dollars, we are subject to significant foreign currency risks and accordingly, changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the euro, Japanese yen, new Israeli shekel, British pound, Canadian dollar, Russian ruble, Hungarian forint and Polish zloty) impact our results. During 2017, the following main currencies relevant to our operations decreased in value against the U.S. dollar (each on an annual average compared to annual average basis): the Japanese yen by 3%, the British pound by 5%, the Argentinian peso by 11% and the Turkish lira by 17%. During 2017, the following main currencies relevant to our operations increased in value against the U.S. dollar: the Russian ruble by 14%, the Israeli shekel by 7%, the Polish zloty by 5%, the Hungarian forint by 3%, the Canadian dollar by 2% and the euro by 2%.

As a result, exchange rate movements during 2017 in comparison with 2016 negatively impacted overall revenues by $914 million and negatively impacted our operating income by $290 million.

We adjusted the exchange rates that we use for the Venezuelan bolivar twice during 2016 and three times during 2017, most recently in September 2017, when we updated the applicable exchange rate to the DICOM rate of 3,345 bolivar per U.S. dollar. This resulted in a decrease of $1.1 billion in revenues and $249 million in operating income in 2017, compared to $1.2 billion in revenues and $228 million in operating income in 2016. We exclude these changes in revenues and operating profit in Venezuela from any discussion of local currency results. We did not exclude the $396 million charge incurred in connection with the deconsolidation of our subsidiaries in Venezuela.

The evolving economic and political conditions in Venezuela, including increasingly restrictive currency exchange control regulations and reduced access to U.S. dollars through official currency exchange markets, resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and the U.S. dollar, which significantly impacted our ability to effectively manage our subsidiaries in Venezuela, including restrictions on the ability of our subsidiaries in Venezuela to import certain raw materials to maintain normal production and to settle U.S. dollar-denominated obligations.

We attempted to identify alternative currency exchange mechanisms that will allow us access to U.S. dollars, but during the fourth quarter of 2017, we determined that the alternative was inconsistent and non-compliant with our business standards.

In light of the above conditions, we concluded that as of November 30, 2017, we do not meet the accounting criteria for control over our wholly-owned subsidiaries in Venezuela and that we no longer have significant influence over such subsidiaries. Therefore, effective November 30, 2017, we deconsolidated our subsidiaries in Venezuela.

In 2017, we recorded deconsolidation charges of $396 million under other assets impairments, restructuring and other items in connection with our subsidiaries in Venezuela, of which $326 million resulted from reclassification of currency translation adjustments from accumulated other comprehensive income to the statement of income.

Liquidity and Capital Resources

Total balance sheet assets were $70.6 billion as of December 31, 2017, compared to $93.1 billion as of December 31, 2016. The decrease was mainly due to impairments of goodwill and long-lived assets.

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Trade receivables as of December 31, 2017, net of sales reserves and allowances (SR&A), were negative $0.8 billion, compared to negative $0.3 billion as of December 31, 2016, in line with a decrease in sales in the fourth quarter of 2017, compared to the fourth quarter of 2016.

Prepaid expenses as of December 31, 2017, were $1.1 billion, compared to $1.6 billion as of December 31, 2016, mainly due to a decrease of $0.5 billion in prepaid income tax.

Other current assets as of December 31, 2017, were $0.7 billion, compared to $1.3 billion as of December 31, 2016. The decrease was mainly due to the sale of our Mylan shares during 2017.

During September 2017, we entered into several agreements to sell certain non-core specialty products, including our global women s health business. As a result of these agreements, we currently present net assets held for sale in the amount of $0.5 billion, with a corresponding reduction of other balance sheet assets, mainly intangible assets and goodwill. Net assets held for sale, as of December 31, 2016, were $0.7 billion, mainly comprised of the divestiture of certain assets and operations of Actavis Generics in the U.K. and Ireland that was completed in January 2017.

Accrued expenses as of December 31, 2017, were $3.0 billion, compared to $3.4 billion as of December 31, 2016. The decrease was mainly due to $0.5 billion in connection with the FCPA settlement with the DOJ and SEC.

Our working capital balance, which includes trade receivables net of SR&A, inventories, prepaid expenses and other current assets, trade payables, employee-related obligations, accrued expenses and other current liabilities, was negative $0.4 billion at December 31, 2017, compared to $0.3 billion as of December 31, 2016.

Investment in property, plant and equipment in 2017 was $0.9 billion, flat compared to 2016. Depreciation was $632 million in 2017, compared to $501 million in 2016.

Cash and cash equivalents and short-term and long-term investments as of December 31, 2017 were $1.1 billion, compared to $1.9 billion as of December 31, 2016. The decrease was mainly due to the sale of our Mylan shares during 2017.

Our cash on hand that is not used for ongoing operations is generally invested in bank deposits, as well as liquid securities that bear fixed and floating rates.

Our principal sources of short-term liquidity are our internally generated funds, liquid securities and available credit facilities, primarily our $3.0 billion syndicated revolving line of credit, which was not utilized as of December 31, 2017. We believe that these sources of liquidity, together with the proceeds from the working capital adjustment with Allergan and expected divestitures, are sufficient to meet our on-going operating needs.

2017 Debt Balance and Movements

As of December 31, 2017, our debt was $32.5 billion, a decrease of $3.3 billion compared to $35.8 billion at December 31, 2016. The decrease was mainly due to $4.4 billion of net debt repayments on our various term loans, our revolving credit facility and other short term loans, partially offset by foreign exchange fluctuations of $1.1 billion.

In January 2017, we repaid our GBP 510 million short-term loan.

In March 2017, we repaid at maturity a JPY 8.0 billion term loan.

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In March 2017, we entered into a JPY 86.8 billion term loan agreement, consisting of two tranches, JPY 58.5 billion with five years maturity and JPY 28.3 billion with one year maturity with an optional six month extension.

In April 2017, we repaid at maturity a JPY 65.5 billion term loan.

In August 2017, we repaid at maturity $0.25 billion of our 5 year term loan.

During 2017, we prepaid $2.2 billion of our 3 year term loan and $0.25 billion of our 5 year term loan.

During 2017, we repaid $1.2 billion of our revolving credit facility.

Our debt as of December 31, 2017 was effectively denominated in the following currencies: 64% in U.S. dollars, 27% in euros, 5% in Swiss francs and 4% in Japanese yen.

The portion of total debt classified as short-term as of December 31, 2017 was 11%, compared to 9% as of December 31, 2016, mainly due to changes in the current portion of our long-term debt.

Our financial leverage was 63% as of December 31, 2017, compared to 51% as of December 31, 2016.

Our average debt maturity was approximately 6.4 years as of December 31, 2017, compared to 6.5 years as of June 30, 2017.

In November 2015, we entered into a $3.0 billion five-year unsecured syndicated revolving line of credit, which was increased to $4.5 billion upon closing of the Actavis Generics acquisition. On February 2018 the facility was decreased to $3.0 billion. This revolving line of credit was not utilized as of December 31, 2017.

In 2015, we entered into forward starting interest rate swap and treasury lock agreements designated as cash flow hedges of the U.S. dollar debt issuances in July 2016, with respect to $5.25 billion notional amount in multiple transactions. These agreements hedged the variability in anticipated future interest payments due to possible changes in the benchmark interest rate between the date the agreements were entered into and the actual date of the U.S. dollar debt issuance in July 2016 (in connection with the closing of the Actavis Generics acquisition). Certain of the forward starting interest rate swaps and treasury lock agreements matured during the first half of 2016. Following our U.S. dollar debt issuances in July 2016, the remaining agreements were terminated, resulting in a loss position of $493 million, of which $242 million were settled on October 7, 2016 and the remaining amount was settled in January 2017. This loss is recorded in other comprehensive income and will be amortized under financial expenses-net over the life of the debt.

2016 Debt Movements

In June 2016, we entered into a GBP 510 million short-term loan, which was fully repaid in January 2017.

In July 2016, we completed debt issuances for an aggregate principal amount of $20.4 billion, or $20.3 billion in net proceeds, consisting of senior notes with aggregate principal amounts of $15.0 billion, 4.0 billion and CHF 1.0 billion with maturities of between two to 30 years. The effective average interest rate of the notes is 2.32% per annum. See note 11 to our consolidated financial statements.

Upon closing of the Actavis Generics acquisition in August 2016, we borrowed $5.0 billion under our term loan facilities with a syndicate of banks. The term facilities consist of two tranches of $2.5 billion each, with the first

tranche maturing in full in 2018; the second tranche matures in 2020 with payment installments each year (10% to be repaid in each of 2017 and 2018, 20% to be repaid in 2019 and the remaining 60% to be repaid in 2020). In addition, in July and August 2016, we terminated our $22 billion bridge loan credit agreement.

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Total Equity

Total equity was $18.7 billion as of December 31, 2017, compared to $35.0 billion as of December 31, 2016. The decrease was mainly due to the net loss of $16.4 billion, dividend payments of $1.2 billion, $0.1 billion of unrealized loss from derivative financial instruments, partially offset by the positive impact of foreign exchange fluctuations of $1.5 billion. Accumulated deficit amounted to $3.8 billion as of December 31, 2017, compared to retained earnings $13.6 billion as of December 31, 2016. The decrease was mainly due to the goodwill impairments in 2017.

Exchange rate fluctuations affected our balance sheet, as approximately 56% of our net assets (including both non-monetary and monetary assets) were in currencies other than the U.S. dollar. When compared to December 31, 2016, changes in currency rates had a positive impact of $1.5 billion on our equity as of December 31, 2017, mainly due to the change in value against the U.S. dollar of: the euro by (12%), the Polish zloty by (17%), the British pound by (9%), the Japanese yen by (4%), the Mexican peso by (5%), the Bulgarian lev by (12%), the Canadian dollar by (6%) and the Chilean peso by (8%). All comparisons are on a year-end to year-end basis.

Cash Flow

Cash flow generated from operating activities in 2017 was $3.5 billion, a decrease of $1.7 billion compared to 2016. The decrease was mainly due to the impact of change in working capital in 2017, compared to 2016.

Cash flow generated from operating activities in 2017, net of cash used for capital investments, was $2.7 billion, compared to $4.4 billion in 2016. The decrease resulted mainly from lower cash flow generated from operating activities.

In 2011, we established a trade receivables securitization program to sell trade receivables to BNP Paribas Bank. Under the program, we receive an initial cash purchase price and the right to receive a deferred purchase price (DPP) for the receivables sold. The proceeds from the sale of these receivables are included in cash from operating activities in the consolidated statement of cash flows. In August 2016, the FASB issued guidance on statements of cash flows, which is described in note 1b. to our consolidated financial statements. Early adoption of the new guidance would have resulted in a reclassification of approximately $1.3 billion from net cash provided by operating activities to investment activities for the year ended December 31, 2017. Applying the expected changes in DPP terms and volume of the securitization program for 2018, is expected to result in a reclassification of approximately $2 billion from net cash provided by operating activities to investment activities. See note 16b to our consolidated financial statements.

We seek to continually improve the efficiency of our working capital management. In 2017, as in prior periods, cash flow from operations benefited significantly from our active working capital management, including by extending the time to pay our suppliers. For example, our standard payment terms, which apply to the majority of our suppliers, were amended in 2017 to extend such payment terms to at least 75 days net in the United States and 60 days net outside the United States, counted from the date of receipt of the valid invoice and required documentation by us from the supplier. In addition, as part of our working capital management program, in certain prior periods, we extended the time to pay certain suppliers that we would have paid near quarter-end under our standard payment terms to the beginning of the following fiscal quarter. Such extensions have the effect of increasing cash flow from operations in the quarter in which such extension occurs. In the fourth quarter of 2017, we generally did not extend the time to pay our suppliers beyond our standard terms for such suppliers, which had the effect of decreasing cash flows from operations in the fourth quarter of 2017 compared to prior quarters in which such payment times were extended.

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Dividends

In December 2017, we announced an immediate suspension of dividends on our ordinary shares and ADSs and that dividends on our mandatory convertible preferred shares will be evaluated on a quarterly basis per current practice.

Teva has suspended dividends on its mandatory convertible preferred shares in the fourth quarter of 2017, due to our accumulated deficit.

Commitments

In addition to financing obligations under short-term debt and long-term senior notes and loans, debentures and convertible debentures, our major contractual obligations and commercial commitments include leases, royalty payments, contingent payments pursuant to acquisition agreements and participation in joint ventures associated with R&D activities.

In September 2016, we entered into an agreement to develop and commercialize Regeneron s pain medication product, fasinumab. We paid Regeneron $250 million upfront and will share equally with Regeneron in the global commercial benefits of this product, as well as ongoing associated research and development costs of approximately $1.0 billion.

In October 2016, we entered into an exclusive partnership with Celltrion to commercialize two of Celltrion s biosimilar products in development for the U.S. and Canadian markets. We paid Celltrion $160 million, of which up to $60 million is refundable or creditable under certain circumstances. We will share the profit from the commercialization of these products with Celltrion.

On September, 19, 2017, we entered into a partnership agreement with Nuvelution for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. Nuvelution will fund and manage clinical development, driving all operational aspects of the phase 3 program, and we will lead the regulatory process and be responsible for commercialization. Upon FDA approval of AUSTEDO for Tourette syndrome, we will pay Nuvelution a pre-agreed return.

Dividends on our mandatory convertible preferred shares (aggregate liquidation preference of approximately $3.7 billion) are payable on a cumulative basis when, as and if declared by our Board of Directors at an annual rate of 7% on the liquidation preference of $1,000 per mandatory convertible preferred share. Declared dividends are paid in cash on March 15, June 15, September 15 and December 15 of each year to and including December 15, 2018.

We are committed to pay royalties to owners of know-how, partners in alliances and certain other arrangements and to parties that financed R&D, at a wide range of rates as a percentage of sales of certain products, as defined in the agreements. In some cases, the royalty period is not defined; in other cases, royalties will be paid over various periods not exceeding 20 years.

In connection with certain development, supply and marketing, and research and collaboration or services agreements, we are required to indemnify, in unspecified amounts, the parties to such agreements against third-party claims relating to (i) infringement or violation of intellectual property or other rights of such third party; or (ii) damages to users of the related products. Except as described in our financial statements, we are not aware of any material pending action that may result in the counterparties to these agreements claiming such indemnification.

Certain of our loan agreements include restrictive covenants, including the requirement to maintain compliance with a net debt to EBITDA ratio, which becomes more restrictive over time. Approximately $3.7

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billion of our debt is subject to such covenants and, under specified circumstances, including non-compliance with such covenants and the unavailability of any waiver, amendment or other modification thereto and the expiration of any applicable grace period thereto, substantially all other debt could be negatively impacted by non-compliance with such covenants.

As of December 31, 2017, we were in compliance with all applicable financial ratios. We continue to take steps to reduce our debt levels and improve profitability to ensure continual compliance with the financial maintenance covenants. Based on our current forecast for the next twelve months from the date of issuance of these financial statements, we expect to remain in compliance with these financial covenants after taking into consideration the effect of implementation of certain cost-efficiency initiatives, such as rationalization of our plants, selling and marketing, general and administrative and research and development spend, which would allow us to continue to comply with the financial covenants. We have amended such covenants in the past, including the net debt to EBITDA ratio covenant to permit a higher ratio, most recently on February 1, 2018. Although we have successfully negotiated amendments to our loan agreements in the past, we cannot guarantee that we will be able to amend such agreements on terms satisfactory to us, or at all, if required to maintain compliance in the future. If we experience lower than required earnings and cash flows to continue to maintain compliance and efforts could not be successfully completed on commercially acceptable terms, we may curtail additional planned spending, may divest additional assets in order to generate enough cash to meet our debt requirements and all other financial obligations.

Supplemental Non-GAAP Income Data

We utilize certain non-GAAP financial measures to evaluate performance, in conjunction with other performance metrics. The following are examples of how we utilize the non-GAAP measures:

- our management and Board of Directors use the non-GAAP measures to evaluate our operational performance, to compare against work plans and budgets, and ultimately to evaluate the performance of management;

- our annual budgets are prepared on a non-GAAP basis; and

- senior management s annual compensation is derived, in part, using these non-GAAP measures. While qualitative factors and judgment also affect annual bonuses, the principal quantitative element in the determination of such bonuses is performance targets tied to the work plan, and thus is based on the non-GAAP presentation set forth below.

Non-GAAP financial measures have no standardized meaning and accordingly have limitations in their usefulness to investors. We provide such non-GAAP data because management believes that such data provide useful information to investors. However, investors are cautioned that, unlike financial measures prepared in accordance with U.S. GAAP, non-GAAP measures may not be comparable with the calculation of similar measures for other companies. These non-GAAP financial measures are presented solely to permit investors to more fully understand how management assesses our performance. The limitations of using these non-GAAP financial measures as performance measures are that they provide a view of our results of operations without including all events during a period and may not provide a comparable view of our performance to other companies in the pharmaceutical industry.

Investors should consider non-GAAP financial measures in addition to, and not as replacements for, or superior to, measures of financial performance prepared in accordance with GAAP.

In arriving at our non-GAAP presentation, we exclude items that either have a non-recurring impact on the income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. In addition, we also exclude equity compensation expenses to facilitate a better understanding of

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our financial results, since we believe that this exclusion is important for understanding the trends in our financial results and that these expenses do not affect our business operations. While not all inclusive, examples of these items include:

- amortization of purchased intangible assets;
- legal settlements and/or loss contingencies, due to the difficulty in predicting their timing and size;
- impairments of long-lived assets, including intangibles, property, plant and equipment and goodwill;
- restructuring expenses, including severance, retention costs, contract cancellation costs and certain accelerated depreciation expenses primarily related to the rationalization of our plants, or to certain other strategic activities such as the realignment of R&D focus or other similar activities;
- acquisition or divestment related items, including changes in contingent consideration, integration costs, banker and other professional fees, inventory step-up and in-process R&D acquired in development arrangements;
- expenses related to our equity compensation;
- significant one-time financing costs and devaluation losses;
- deconsolidation charges;
- material tax and other awards or settlements, both amounts paid and received;
- other exceptional items that we believe are sufficiently large that their exclusion is important to understanding trends in our financial results, such as impacts due to changes in accounting, significant costs for remediation of plants such as inventory write-offs or related consulting costs or other unusual events; and
- tax effects of the foregoing items.

The following tables present supplemental non-GAAP data, in U.S. dollar, which we believe facilitates an understanding of the factors affecting our business. In these tables, we exclude the following amounts:

	Year Ended December 31,		
	2017	2016	2015
	U.S. dollars in millions		
Amortization of purchased intangible assets	1,444	993	838
Goodwill impairment	17,100	900	
Legal settlements and loss contingencies	500	899	631
Impairment of long-lived assets	3,782	746	361
Other R&D expenses	221	426	69
Inventory step-up	67	383	
Acquisition, integration and related expenses	105	261	221
Restructuring expenses	535	245	183
Costs related to regulatory actions taken in facilities	47	153	36
Equity compensation	129	121	112
Contingent consideration	154	83	399
Gain on sales of business	(1,083)	(720)	(45)
Venezuela deconsolidation charge	396		
Other non-GAAP items	160	203	17
Financial expense (income)	(13)	888	777
Tax effect and other income tax items*	(2,721)	(593)	(631)
Impairment of equity investment net	47	3	124
Minority interest changes	(270)	(76)	16

* Includes $1.0 billion U.S Tax Cuts and Jobs Act Effect

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	Year Ended December 31, 2017 U.S. dollars and shares in millions (except per share amounts)				
	GAAP	Non-GAAP Adjustments	Dividends on Preferred Shares	Non-GAAP	% of Net Revenues
Gross profit [1]	10,825	1,419		12,244	55%
Operating income [1][2]	(17,484)	23,557		6,073	27%
Net income attributable to ordinary shareholders [1][2][3]	(16,525)	20,600		4,075	18%
Earnings per share attributable to ordinary shareholders diluted [4]	(16.26)	20.27		4.01	
(1) Amortization of purchased intangible assets		1,235			
Inventory step-up		67			
Costs related to regulatory actions taken in facilities		47			
Equity compensation		23			
Other COGS related adjustments		47			
Gross profit adjustments		1,419			
(2) Goodwill impairment		17,100			
Legal settlements and loss contingencies		500			
Impairment of long-lived assets		3,782			
Other R&D expenses		221			
Acquisition, integration and related expenses		105			
Restructuring expenses		535			
Amortization of purchased intangible assets		209			
Equity compensation		106			
Contingent consideration		154			
Gain on sale of business		(1,083)			
Venezuela deconsolidation charge		396			
Other operating related expenses		113			
		22,138			
Operating income adjustments		23,557			
(3) Finance expense (Income)		(13)			
Tax effect and other income tax items*		(2,721)			
Changes in minority interest		(270)			
Impairment of equity investment net		47			
Net income adjustments		20,600			

(4) The non-GAAP weighted average number of shares was 1,018 million for the year ended December 31, 2017. Non-GAAP earnings per share can be reconciled with GAAP earnings per share by dividing each of the amounts included in footnotes 1-3 above by the applicable weighted average share number.

* Includes $1.0 billion U.S tax cuts and jobs act effect

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	Year ended December 31, 2016 U.S. dollars and shares in millions (except per share amounts)				
	GAAP	Non-GAAP Adjustments	Dividends on Preferred Shares	Non-GAAP	% of Net Revenues
Gross profit [1]	11,859	1,559		13,418	61%
Operating income [1][2]	2,154	4,693		6,847	31%
Net income attributable to ordinary shareholders [1][2][3]	68	4,915	261	5,244	24%
Earnings per share attributable to ordinary shareholders diluted [4]	0.07	5.07		5.14	
(1) Amortization of purchased intangible assets		881			
Inventory step-up		383			
Costs related to regulatory actions taken in facilities		153			
Equity compensation expenses		14			
Other COGS related adjustments		128			
Gross profit adjustments		1,559			
(2) Goodwill impairment		900			
Legal settlements and loss contingencies		899			
Impairment of long-lived assets		746			
Other R&D expenses		426			
Acquisition, integration and related expenses		261			
Restructuring expenses		245			
Amortization of purchased intangible assets		112			
Equity compensation expenses		107			
Contingent consideration		83			
Gain on sale of business		(720)			
Other operating related adjustments		75			
		3,134			
Operating income adjustments		4,693			
(3) Finance expense (Income)		888			
Tax effect		(593)			
Changes in minority interest		(76)			
Impairment of equity investment net		3			
Net income adjustments		4,915			

(4) Non-GAAP net income attributable to ordinary shareholders for the year ended December 31, 2016 includes an add back of $261 million of accrued dividends on preferred shares since they had a dilutive effect on earnings per share.

(5) The non-GAAP weighted average number of shares was 1,020 million for the year ended December 31, 2016. Non-GAAP earnings per share can be reconciled with GAAP earnings per share by dividing each of the amounts included in footnotes 1-3 above by the applicable weighted average share number.

(6) Includes for 2016, $133 million in inventory-related expenses in connection with the devaluation in Venezuela.

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	Year ended December 31, 2015 U.S. dollars and shares in millions (except per share amounts)				
	GAAP	Non-GAAP Adjustments	Dividends on Preferred Shares	Non-GAAP	% of Net Revenues
Gross profit [1]	11,356	859		12,215	62%
Operating income [1][2]	3,352	2,822		6,174	31%
Net income attributable to ordinary shareholders [1][2][3]	1,573	3,108	15	4,696	24%
Earnings per share attributable to ordinary shareholders diluted [4]	1.82	3.60		5.42	
(1) Amortization of purchased intangible assets		808			
Costs related to regulatory actions taken in facilities		36			
Equity compensation		13			
Other COGS related adjustments		2			
Gross profit adjustments		859			
(2) Legal settlements and loss contingencies		631			
Impairment of long-lived assets		361			
Other R&D expenses		69			
Acquisition, integration and related expenses		221			
Restructuring expenses		183			
Amortization of purchased intangible assets		30			
Equity compensation		99			
Contingent consideration		399			
Gain on sale of business		(45)			
Other operating related expenses		15			
		1,963			
Operating income adjustments		2,822			
(3) Financial expense		777			
Tax effect		(631)			
Changes in minority interest		16			
Impairment of equity investment net		124			
Net income adjustments		3,108			

(4) Non-GAAP net income attributable to ordinary shareholders for the year ended December 31, 2015 includes an add back of $15 million accrued dividends on preferred shares since they had a dilutive effect on earnings per share.

(5) The non-GAAP weighted average number of shares was 867 million for the year ended December 31, 2015. Non-GAAP earnings per share can be reconciled with GAAP earnings per share by dividing each of the amounts included in footnotes 1-3 above by the applicable weighted average share number.

Non-GAAP Effective Tax Rate

The non-GAAP income taxes for 2017 were $788 million on pre-tax non-GAAP income of $5.2 billion. The non-GAAP income taxes in 2016 were $1.1 billion on pre-tax income of $6.4 billion, and in 2015 were $1.3 billion on pre-tax income of $6.0 billion. The non-GAAP tax rate for 2017 was 15%, compared to 17% in 2016 and 21% in 2015. The decrease in our annual non-GAAP effective tax rate for 2017 compared to the

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non-GAAP effective tax rate in previous years resulted primarily from the synergies associated with the Actavis Generics acquisition and tax benefits resulting from utilization of losses which were fully provided for in the past.

In the future, our effective tax rate is expected to increase following the enactment of the Tax Cuts and Jobs Act in the United States.

Trend Information

The following factors are expected to have a significant effect on our 2018 results:

- execution of our restructuring plan, which will significantly affect our business and operations, and the risk of incurring additional restructuring expenses;
- our high debt levels and downgrades to non-investment grade will have a negative effect on our ability to borrow additional funds and may increase the cost of any such borrowing;
- a decrease in sales of COPAXONE following the launch, and possibility of additional launches, of generic versions to the product;
- a decrease in sales of other specialty products due to generic competition or divestment;
- continued price erosion and pricing pressure in the generics markets resulting from changes in market dynamics, particularly in the United States;
- continued impact of currency fluctuations on revenues and net income, as well as on various balance sheet line items; and
- continued review of the potential for additional divestment of non-core assets.

For additional information, please see Item 1 Business and elsewhere in this Item 7.

Aggregated Contractual Obligations

The following table summarizes our material contractual obligations and commitments as of December 31, 2017:

	Payments Due by Period			
Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(U.S. $ in millions)			

Long-term debt obligations, including estimated interest*	$ 38,543	$ 3,612	$ 9,554	$ 6,858	$ 18,519
Operating lease obligations	591	160	232	124	75
Purchase obligations (including purchase orders)	1,765	1,506	240	19	
Total	$ 40,899	$ 5,278	$ 10,026	$ 7,001	$ 18,594

* Long-term debt obligations mainly include senior notes and convertible senior debentures as disclosed in notes 11 to our consolidated financial statements.

The total gross amount of unrecognized tax benefits for uncertain tax positions was $1 billion at December 31, 2017. Payment of these obligations would result from settlements with tax authorities. Due to the difficulty in determining the timing and magnitude of settlements, these obligations are not included in the above table. Correspondingly, it is difficult to ascertain whether we will pay any significant amount related to these obligations within the next year.

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We have committed to future expenditures relating to joint ventures in accordance with the terms of the applicable agreements, mainly our PGT venture. However, the amounts of these future expenditures have not been predetermined, and are subject to management approval.

We have committed to make potential future milestone payments to third parties under various agreements. Such payments are contingent upon the achievement of certain regulatory milestones and sales targets. As of December 31, 2017, were all milestones and targets, for compounds in phase 2 and more advanced stages of development, to be achieved, the total contingent payments could reach an aggregate of up to approximately $407 million.

We have committed to pay royalties to owners of know-how, partners in alliances and other certain arrangements and to parties that financed research and development, at a wide range of rates as a percentage of sales or of the gross margin of certain products, as defined in the underlying agreements.

Due to the uncertainty of the timing of these payments, these amounts, and the amounts described in the previous paragraph, are not included in the above table.

Dividends on our mandatory convertible preferred shares (aggregate liquidation preference of approximately $3.7 billion) are payable on a cumulative basis when, as and if declared by our Board of Directors at an annual rate of 7% on the liquidation preference of $1,000 per mandatory convertible preferred share. Declared dividends are paid in cash on March 15, June 15, September 15 and December 15 of each year to and including December 15, 2018. We have suspended dividends on our mandatory convertible preferred shares in the fourth quarter of 2017, due to our accumulated deficit.

Off-Balance Sheet Arrangements

Except for securitization transactions, which are disclosed in note 16d. to our consolidated financial statements, we do not have any material off-balance sheet arrangements.

Critical Accounting Policies

For a description of our significant accounting policies, see note 1 to our consolidated financial statements.

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. We base our judgments on our experience and on various assumptions that we believe to be reasonable under the circumstances.

Of our policies, the following are considered critical to an understanding of our consolidated financial statements as they require the application of the most subjective and the most complex judgments, involving critical accounting estimates and assumptions impacting our consolidated financial statements. We have applied our policies and critical accounting estimates consistently to all our businesses, including the Actavis Generics, Anda and Rimsa businesses acquisitions and our Teva Takeda business venture.

For a discussion of the valuation allowance, deferred tax and valuation allowance estimates see notes 1 and 15 of our consolidated financial statements.

Revenue Recognition and SR&A

Revenue is recognized from product sales, including sales to distributors when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. This generally occurs when products are shipped and title, risk and rewards for the products are transferred to the customer.

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Revenues from product sales are recorded net of provisions for estimated chargebacks, rebates, returns, cash discounts and other deductions, such as shelf stock adjustments, which can be reasonably estimated. When sales provisions are not considered reasonably estimable by Teva, the revenue is deferred to a future period when more information is available to evaluate the impact. These provisions primarily relate to sales of pharmaceutical products in the U.S.

Revenue resulting from the achievement of milestone events stipulated in agreements is recognized when the milestone is achieved. Milestones are based on the occurance of a substantive element specified in the contract or as a measure of substantive progress toward completion under the contract.

Revenues from licensees, sales of licensed products and technology are recorded in accordance with the contract terms, when third-party sales can be reliably measured and collection of the funds is reasonably assured.

Royalty revenue is recognized as a component of net revenues in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and when revenue can be reasonably measured.

Provisions for rebates including Medicaid and other governmental allowances, chargebacks, returns and other promotional items, such as shelf stock adjustments, are included in Sales Reserves and Allowances under current liabilities. Provisions for doubtful debts and prompt payment discounts are netted against accounts receivable.

We adjust these provisions in the event that it appears that the actual amounts may differ from the estimated provisions. The following briefly describes the nature of each deduction and how provisions are estimated in our financial statements.

Customer Volume Rebates. Rebates are primarily related to volume incentives and are offered to key customers to promote loyalty. These rebate programs provide that, upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives a rebate. Since rebates are contractually agreed upon, they are estimated based on the specific terms in each agreement. Externally obtained inventory levels are evaluated in relation to estimates made for rebates payable to indirect customers.

Medicaid and Other Governmental Rebates. Pharmaceutical manufacturers whose products are covered by the Medicaid program are required to rebate to each state a percentage of their average manufacturer s price for the products dispensed. Many states have also implemented supplemental rebate programs that obligate manufacturers to pay rebates in excess of those required under federal law. We estimate these rebates based on historical trends of rebates paid as well as on changes in wholesaler inventory levels and increases or decreases in sales.

Shelf Stock Adjustments. The custom in the pharmaceutical industry is generally to grant customers a shelf stock adjustment based on the customers existing inventory contemporaneously with decreases in the market price of the related product. The most significant of these relate to products for which an exclusive or semi-exclusive period exists. Provisions for price reductions depend on future events, including price competition, new competitive launches and the level of customer inventories at the time of the price decline. We regularly monitor the competitive factors that influence the pricing of our products and customer inventory levels and adjust these estimates where appropriate.

Other Promotional Arrangements. Other promotional or incentive arrangements are periodically offered to customers specifically related to the launch of products or other targeted promotions. Provisions are made or expenses recorded in the period for which the customer earns the incentive in accordance with the contractual terms.

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Prompt Pay Discounts. Prompt pay discounts are offered to most customers to encourage timely payment. Discounts are estimated at the time of invoice based on historical discounts in relation to sales. Prompt pay discounts are almost always utilized by customers. As a result, the actual discounts do not vary significantly from the estimated amount.

Chargebacks. We have arrangements with various third parties, such as managed care organizations and drug store chains, establishing prices for certain of our products. While these arrangements are made between us and the customers, the customers independently select a wholesaler from which they purchase the products. Alternatively, certain wholesalers may enter into agreements with the customers, with our concurrence, which establishes the pricing for certain products which the wholesalers provide. Under either arrangement, we will issue a credit (referred to as a chargeback) to the wholesaler for the difference between the invoice price to the wholesaler and the customer s contract price.

Provisions for chargebacks involve estimates of contract prices of over 2,000 products and multiple contracts with multiple wholesalers. The provision for chargebacks varies in relation to changes in product mix, pricing and the level of inventory at the wholesalers and therefore will not necessarily fluctuate in proportion to an increase or decrease in sales.

Provisions for estimating chargebacks are calculated using historical chargeback experience, or expected chargeback levels for new products. We consider current and expected price competition when evaluating the provision for chargebacks. Chargeback provisions are compared to externally obtained distribution channel reports for reasonableness. We regularly monitor the provision for chargebacks and make adjustments when we believe that actual chargebacks may differ from estimated provisions.

Returns. Returns primarily relate to customer returns for expired products which the customer has the right to return up to one year following the expiration date. Such returned products are destroyed, and credits and/or refunds are issued to the customer for the value of the returns. The returns provision is estimated by applying a historical return rate to the amounts of revenue estimated to be subject to returns. Revenue subject to returns is estimated based on the lag time from time of sale to date of return. The estimated lag time is developed by analyzing historical experience. Lag times during 2017 and 2016 were estimated at approximately 24 months from the date of sale. Additionally, we consider specific factors such as levels of inventory in the distribution channel, product dating and expiration, size and maturity of launch, entrance of new competitors, changes in formularies or packaging and any changes to customer terms for determining the overall expected levels of returns.

Sales reserves and allowances to U.S. customers comprise over 86% of our total sales reserves and allowances as of December 31, 2017, with the remaining balance primarily in Canada and Germany.

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SR&A for third-party sales as of December 31, 2017 and 2016 were as set forth in the table below.

	Sales Reserves and Allowances							
	Reserves included in Accounts Receivable, net	Rebates	Medicaid and other governmental allowances	Chargebacks	Returns	Other	Total reserves included in Sales Reserves and Allowances	Total
	(U.S. dollars in millions)							
Balance at December 31, 2015	$ 120	$ 3,382	$ 1,319	$ 1,091	$ 598	$ 211	$ 6,601	$ 6,721
Acquisition of Actavis Generics and other	101	738	408	567	244	37	1,994	2,095
Provisions related to sales made in current year period	525	7,152	1,513	7,519	291	361	16,836	17,361
Provisions related to sales made in prior periods	7	(214)	(181)	4	20	(9)	(380)	(373)
Credits and payments	(555)	(7,564)	(1,334)	(7,596)	(302)	(404)	(17,200)	(17,755)
Translation differences	1	(12)	4	(1)	(7)	4	(12)	(11)
Balance at December 31, 2016	$ 199	3,482	$ 1,729	$ 1,584	$ 844	$ 200	$ 7,839	$ 8,038
Measurement period adjustments			48				48	48
Provisions related to sales made in current year period	613	6,435	1,589	12,408	280	469	21,181	21,794
Provisions related to sales made in prior periods	3	(79)	(60)	11	(30)	(18)	(176)	(173)
Credits and payments	(618)	(6,821)	(1,405)	(12,153)	(321)	(401)	(21,101)	(21,719)
Translation differences	(1)	60	7	(1)	7	17	90	89
Balance at December 31, 2017	$ 196	$ 3,077	$ 1,908	$ 1,849	$ 780	$ 267	$ 7,881	$ 8,077

Reserves at December 31, 2016 increased by approximately $1.3 billion compared to December 31, 2015. This increase is mainly attributable to the acquisition of Actavis Generics.

Reserves as of December 31, 2017 increased by approximately $39 million compared to December 31, 2016.

Actual inventory on hand with our customers may be higher or lower due to differences between actual and projected demand. We monitor inventory levels to minimize risk of excess quantities. As is customary in the industry, we may provide additional incentives to wholesalers for the purchase of certain inventory items or in relation to wholesale trade shows.

Income Taxes

The provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws.

Accounting for uncertainty in income taxes requires that tax benefits recognized in the financial statements must be at least more likely than not of being sustained based on technical merits. The amount of benefits recorded for these positions is measured as the largest benefit more likely than not to be sustained. Significant judgment is required in making these determinations.

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Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In the determination of the appropriate valuation allowances, we have considered the most recent projections of future business results and prudent tax planning alternatives that may allow us to realize the deferred tax assets. Taxes which would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is our intention to hold these investments rather than realize them.

Deferred taxes have not been provided for tax-exempt income, as the Company intends to permanently reinvest these profits and does not currently foresee a need to distribute dividends out of these earnings. Furthermore, we do not expect our non-Israeli subsidiaries to distribute taxable dividends in the foreseeable future, as their earnings are needed to fund their growth, while we expect to have sufficient resources in the Israeli companies to fund our cash needs in Israel. In addition, the Company recently announced a suspension of dividend distribution on ordinary shares and ADSs, while dividends on mandatory convertible preferred shares will be evaluated on a quarterly basis. An assessment of the tax that would have been payable had the Company s foreign subsidiaries distributed their income to the Company is not practicable because of the multiple levels of corporate ownership and multiple tax jurisdictions involved in each hypothetical dividend distribution.

U.S. Tax Cuts and Jobs Act

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the Act), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however we have made reasonable estimates of the effects on the existing deferred tax balances and the one-time deemed repatriation tax for which provisional amounts have been recorded

The Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the 2017 Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may impact our provision for income taxes in the period in which the adjustments are made.

Contingencies

We and our subsidiaries are involved in various patent, product liability, commercial, government investigations, environmental claims and other legal proceedings that arise from time to time in the ordinary course of business. Except for income tax contingencies or contingent consideration acquired in a business combination, we record accruals for these types of contingencies to the extent that we conclude their occurrence is probable and that the related liabilities are estimable. When accruing these costs, we will recognize an accrual in the amount within a range of loss that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, we accrue for the minimum amount within the range. We record anticipated recoveries under existing insurance contracts that are probable of occurring at the gross amount that is expected to be collected.

We review the adequacy of the accruals on a periodic basis and may determine to alter our reserves at any time in the future if we believe it would be appropriate to do so. As such accruals are based on management s judgment as to the probability of losses and, where applicable, actuarially determined estimates, accruals may materially differ from actual verdicts, settlements or other agreements made with regards to such contingencies.

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Inventories

Inventories are valued at the lower of cost or market. Cost of raw and packaging materials is determined mainly on a moving average basis. Cost of purchased products is determined mainly on a standard cost basis, approximating average costs. Cost of manufactured finished products and products in process is calculated assuming normal manufacturing capacity as follows: raw and packaging materials component is determined mainly on a moving average basis, while the capitalized production costs are determined either on an average basis over the production period, or on a standard cost basis, approximating average costs.

Our inventories generally have a limited shelf life and are subject to impairment as they approach their expiration dates. We regularly evaluate the carrying value of our inventories and when, in our opinion, factors indicate that impairment has occurred, we establish a reserve against the inventories carrying value. Our determination that a valuation reserve might be required, in addition to the quantification of such reserve, requires us to utilize significant judgment. Although we make every effort to ensure the accuracy of forecasts of future product demand, any significant unanticipated decreases in demand could have a material impact on the carrying value of our inventories and reported operating results.

Our policy is to capitalize saleable product for unapproved inventory items when economic benefits are probable. We evaluate expiry, legal risk and likelihood of regulatory approval on a regular basis. If at any time approval is deemed not to be probable, the inventory is written down to its net realizable value. To date, inventory allowance adjustments in the normal course of business have not been material. However, from time to time, due to a regulatory action or lack of approval or delay in approval of a product, we may experience a more significant impact.

Long-Lived Assets

Our long-lived, non-current assets mainly consist of goodwill, identifiable intangible assets and property, plant and equipment.

We review goodwill and purchased intangible assets with indefinite lives for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The provisions of the accounting standard for goodwill and other intangibles allow us to first assess qualitative factors to determine whether it is necessary to perform the next goodwill impairment quantitative test.

Following the acquisition of Actavis Generics, Teva conducted an analysis of its business segments, which resulted in a change to Teva s segment reporting and goodwill assignment in the fourth quarter of 2016. Teva reallocated goodwill to its adjusted reporting units using a relative fair value approach.

Pursuant to the Company s policy, Teva conducted its annual impairment test during the fourth quarter of 2017, in conjunction with the preparation of its 2018 annual operating plan (AOP). The AOP was used as a base for a long range plan model, incorporating the impact of the restructuring plan that was announced on December 14, 2017. See note 18 of our consolidated financial statements.

Teva determines the fair value of its reporting units using a weighting of fair values derived from the income approach. The income approach is a forward-looking approach to estimating fair value. Within the income approach, the method that was used is the discounted cash flow method. Teva commenced with a forecast of all the expected net cash flows associated with the reporting units, which include the application of a terminal value, and then applied a discount rate to arrive at a net present value amount. Cash flow projections are based on Teva s estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions, which are reflective of

market participants. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with country-specific characteristics.

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Considering the steep decline in Teva s market capitalization in the second half of 2017 and considering additional adverse developments in its businesses during the fourth quarter of 2017, which are further described below, Teva recorded a goodwill impairment of $11.0 billion in the fourth quarter, mainly attributable to goodwill associated with its U.S. generics reporting unit, in addition to the $6.1 billion goodwill impairment that was recorded during the second quarter of 2017.

Impairment of identifiable intangible assets amounted to $3,238 million, $589 million and $265 million in the years ended December 31, 2017, 2016 and 2015, respectively, and are recorded in earnings under other asset impairments, restructuring and other items. See note 18 to our consolidated financial statements.

Generics reporting units

U.S. generics reporting unit

During the second quarter of 2017, Teva identified certain developments in the U.S. market, which negatively impacted Teva s outlook for its U.S. generics business. These developments included: (i) additional pricing pressure in the U.S. generics market as a result of customer consolidation into larger buying groups to extract further price reductions; (ii) accelerated FDA approval of additional generic versions of off-patent medicines, resulting in increased competition for these products; and (iii) delays in launches of certain of Teva s new generic products. These developments caused Teva to revisit its assumptions supporting the cash flow projections for its U.S. generics reporting unit, including: (i) the expected duration and depth of price erosion and certain revenue growth assumptions; (ii) the associated operating profit margins; and (iii) the long term growth rate.

In estimating the discounted cash flow value of Teva s U.S. generics reporting unit as of the second quarter of 2017, Teva used the following key assumptions: Teva expected revenue and operating profits to continue to decline in 2018 and 2019, as its ability to successfully launch new generic products was not expected to offset or exceed the price and volume erosion for its existing portfolio prior to 2020, following which time, in 2020 and 2021, Teva expected to return to moderate growth. Teva assumed a terminal growth rate of 2% for the coming years, in line with recent general outlook, at the time, for the U.S. generics market. The resulting cash flow amounts were discounted using a weighted average cost of capital (WACC) of 6.8%.

Based on the second quarter revised discounted cash flows analysis, Teva recorded a goodwill impairment of $6.1 billion related to its U.S. generics reporting unit.

During the third quarter of 2017, Teva adjusted the projections for its U.S. generics reporting unit to reflect a potentially beneficial event, offset by further pricing pressure in the U.S. generics market, and concluded that no additional impairment was required.

During the fourth quarter of 2017, Teva noted further deterioration in the U.S. generics market and economic environment and further limitations on Teva s ability to influence generic medicines pricing in the long term and a decrease in value from future launches:

Pricing challenges due to customer consolidation. In prior periods, it appeared to be reasonable that as price erosion in the generics market continued, other manufacturers would exit particular generic markets, resulting in opportunities to eventually reduce overall erosion with price increases for certain products with decreasing competition after the exit of other manufacturers. However, increasing consolidation among

purchasers of generic medicines, particularly Group Purchasing Organizations (GPOs), has led to three such GPOs representing approximately 80% of generics purchases in the United States. This led to a continuation and increase in the trend of lowest price tenders. Therefore, it now appears likely that there will be few, if any, opportunities to increase prices even when other generics manufacturers exit a market.

Pricing challenges due to government regulation. There is an increasing trend of enacting and proposing state-level legislation in the United States imposing penalties and/or restricting price increases, making pricing more challenging. The inconsistent rules across states add to the complexity of how to make decisions about the best economic outcome to maximize profit on a given generic product and the most restrictive law will likely restrict Teva s business practices nationwide, as

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marketing, sales and pricing are typically not administered on a state-by-state basis. Restrictive bills have passed in at least seven states, including high-population states such as California and New York, and bills are in the process of being re-submitted in ten additional states where they were previously rejected, with approximately half of them already passed and/or submitted for vote by January 2018.

Increasing generic approvals. The FDA is approving more generic formulations than they have in the past, which is affecting the value of already launched products. On January 3, 2018, the FDA commissioner announced new steps to facilitate efficient generic drug review to enhance competition, promote access and lower drug prices. The commissioner also stated that the FDA had several record-breaking months for the number of generic medicines approved, including November 2017, when it approved the highest number of generic medicines in the FDA s history.

Being the first to market a generic version of a product, and particularly as the only company authorized to sell during the 180-day period of exclusivity in the U.S. market, can substantially increase sales, profits and profitability in the period following the introduction of such a product and prior to a competitor s introduction of an equivalent product. Even after the exclusivity period ends, there is often continuing benefit from having the first generic product in the market. Pricing is generally higher during periods of limited competition. The FDA has also limited the availability of exclusive or semi-exclusive periods for new products with an increase in shared first to file awards, which reduces the economic benefit from being first-to-file for generic approvals.

In contrast to the FDA s accelerated approval of additional generic versions of off-patent medicines, the rate of FDA approval for a generic version of originator drugs without generic competition has not significantly increased. Thus, Teva s ability to launch profitable new products has not benefited from the FDA s increased focus on approving generic applications. Additionally, much of Teva s future pipeline is concentrated in complex or unique products coupled with devices, which take longer time for FDA approval.

Originator strategies to maintain market share. Originator companies increasingly engage in strategies beyond authorized generics, to maintain market share of their originator drugs, reducing the value of newly launched complex or novel generics.

Changes to traditional distribution model. The traditional model for distribution of pharmaceutical products is also undergoing disruption as a result of the entry or potential entry of new competitors and significant mergers among key industry participants, which Teva believes will limit its future growth in the U.S. generics market. For example: (i) in January 2018, several major hospital groups announced a plan to form a non-profit company that will provide U.S. hospitals with a number of generic drugs; (ii) in January 2018, Amazon Inc., Berkshire Hathaway Inc. and JPMorgan Chase & Co. announced that they plan to join forces by forming an independent health care company for their combined one million U.S. employees; and (iii) the consolidation resulting from the merger announced in December 2017 between CVS Health and Aetna, if consummated, is expected to create a vertically integrated organization with increased control over the physician and pharmacy networks and, ultimately, over which medicines are sold to patients. Each of these events has the potential to drive further price erosion and limit the growth opportunities for Teva s U.S. generics unit.

U.S. tax reform. Recently-enacted U.S. tax reform legislation is expected to limit Teva s ability to achieve targeted tax efficiencies compared to prior estimates. See note 15.

In response to these developments, Teva s recently appointed President and Chief Executive Officer, Kåre Schultz, and the management team that was reorganized under him, announced a comprehensive restructuring plan in December 2017, aimed to increase the profitability of Teva s U.S. generics business, among other things. This plan focuses on discontinuation of loss generating products and reductions of infrastructure costs, by closing facilities and executing divestments, as well as a reduction in R&D expenditures, focusing on fewer, more profitable opportunities to launch new generic medicines. In addition, Teva further evaluated its assumptions and approach to valuing its pipeline and related projections. Due to the increased risks and variables now impacting

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generics launches, Teva, with the assistance of a global consulting firm, used a Monte Carlo model to simulate the different outcomes for launch value to better predict the estimated value to be derived.

As a result of the factors discussed above, Teva adjusted certain of its assumptions used in its cash flow projections in the fourth quarter of 2017 to determine the fair value of its U.S. generics reporting unit. In comparison to previous periods, Teva expects less revenues and profitability from newly launched products as well as larger pricing declines. As a result, Teva estimates a longer period will pass before it returns to revenue and profitability growth in its U.S. generics reporting unit.

The resulting cash flow amounts were discounted using a slightly increased rate of 7.3% compared to prior quarters, reflecting market participants assumptions regarding increased uncertainties in the U.S. generics market. Teva still assumes a terminal growth rate of 2%.

Based on the new estimates incorporating all of the above factors, Teva recorded a goodwill impairment of $10.4 billion related to its U.S. generics reporting unit in the fourth quarter of 2017. The aggregate goodwill impairment related to Teva s U.S. generics reporting unit in 2017 was $16.5 billion.

If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.1% or an increase in discount rate by 0.1% would each result in an additional impairment of approximately $190 million and $230 million, respectively.

If the conditions in the U.S. generics market continue to deteriorate more than anticipated, or if Teva is unable to execute its strategies or anticipated plans, it may be necessary to record further impairment charges in the future.

Other reporting units within generics

Teva concluded that the fair value of each of its remaining reporting units within its generics medicines segment continues to be in excess of its carrying value. The remaining goodwill allocated to these reporting units was approximately $13.4 billion as of December 31, 2017. For these reporting units, the percentage excess of estimated fair value over carrying value, as of December 31, 2017, was 45.6% for Teva s Rimsa reporting unit, 4.6% for the European generics reporting unit and 4.1% for the ROW generics reporting unit.

Teva determined that the European and ROW generics reporting units are at risk of goodwill impairment in the future, due to the narrow margin between fair value and carrying value and also based on the sensitivity of the calculation of potential forecast revisions and/or changes in strategy in the business.

The resulting cash flow amounts for European generics reporting unit were discounted using a rate of 8.4% reflecting market participants assumptions regarding increased uncertainties and country-specific characteristics with a terminal growth rate of 1.8%. If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.5% or an increase in discount rate by 0.4% would each result in impairment. The goodwill allocated to this reporting unit was $8.2 billion as of December 31, 2017.

The resulting cash flow amounts for ROW generics reporting unit were discounted using a rate of 8.8% reflecting market participants assumptions regarding increased uncertainties and country-specific characteristics with a terminal growth rate of 3.5%. If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.3% or an increase in discount rate by 0.2% would each result in impairment. The goodwill allocated to this reporting unit was $4.3 billion as of December 31, 2017.

In determining the fair value of these reporting units, Teva used a discounted cash flow analysis and applied the following key assumptions: expected revenue growth and operating profit margins including an estimate for price erosion and discount rate, among others.

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If market conditions continue to deteriorate, or if Teva is unable to execute its strategies, it may be necessary to record further impairments in the future.

Specialty reporting unit

Teva adjusted its projections for its specialty reporting unit to reflect significant events that took place during 2017, mainly the FDA approval of a generic version of COPAXONE and the subsequent launch at risk of a competing product in the U.S. market, as well as the unfavorable clinical trial result for laquinimod and the favorable clinical trial results for AUSTEDO and fremanezumab. Teva reflected the expected implications of these developments in the cash flow projections and discounted the adjusted cash flow amounts by adding an additional risk premium of 2.3% to the discount rate of 7.3%, which Teva uses for most of its worldwide operations, applying a market participant view, to reflect the increased uncertainties in its specialty business.

The percentage difference between estimated fair value and estimated carrying value for the specialty reporting unit is 68.5%, following the impact of the above mentioned events.

Other reporting unit

Teva s other reporting unit consists primarily of its U.S. distribution business, Anda, which is negatively impacted by the outlook for generics, as revised in the fourth quarter of 2017. See U.S. generics reporting unit above. Accordingly, management reduced the projected growth of this business, resulting in an impairment of $600 million.

Market Capitalization

Teva analyzed the aggregate fair value of its reporting units as compared to its market capitalization in order to assess the reasonableness of the results of its cash flow projections used for its goodwill impairment analysis. The market capitalization was based on the outstanding shares and expected dilution from mandatory convertible preferred shares, multiplied by the average market share price for the 30 days following the restructuring plan announcement on December 14, 2017. Reflecting the recent adverse developments in its cash flow projections as described above, Teva assessed its fair value, net of debt, to be higher than both its equity value of $19 billion and its market capitalization of $21 billion, as of December 31, 2017. Management believes that its fair value assessment is reasonably supported by the current market capitalization.

Management will continue to monitor business conditions and will also consider future developments in its market capitalization when assessing whether additional goodwill impairment is required in future periods.

Acquisition of Actavis Generics and Anda

On August 2, 2016, we consummated the acquisition of Actavis Generics. At closing, we paid Allergan consideration of approximately $33.4 billion in cash and approximately 100.3 million Teva shares. On October 3, 2016, we consummated the acquisition of Anda for cash consideration of $500 million. The purchase is a transaction related to the Actavis Generics acquisition, and as such the purchase price accounting and related disclosures have been treated on a combined basis.

We have accounted for the acquisitions of Actavis Generics and Anda using the acquisition method of accounting, which generally requires that assets acquired and liabilities assumed be recorded at fair value as of the acquisition date. Assessing fair values involves applying a series of judgments about future events and uncertainties and is heavily reliant on estimates and assumptions. The judgments we used to determine the estimated fair value assigned to each

class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations. For instance, the determination of asset lives can impact our results of operations, as different types of assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

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Below is a summary of the methodologies and significant assumptions used in estimating the fair value of certain classes of assets and liabilities of Actavis Generics and Anda.

Contingent consideration

Contingent consideration incurred in a business combination is included as part of the consideration transferred and recorded at a probability weighted assessment of their fair value as of the acquisition date. The fair value of the contingent consideration is re-measured at each reporting period, with any adjustments in fair value recognized in earnings under impairments, restructuring and others.

Inventory

The fair value of inventory was determined taking into account, as relevant, estimated selling price, estimated costs to be incurred to complete work in process inventory, estimated costs to be incurred to sell the inventory, estimated reasonable profit allowance for manufacturing and selling effort.

As the inventory is sold, the fair value of inventory is recognized in our results of operations. Based on internal forecasts and estimates of months of inventory on hand, we expected that the acquisition date inventory will be substantially sold and recognized in cost of sales over a period of approximately six months after the acquisition date.

Some of the more significant estimates and assumptions inherent in the estimate of the fair value of inventory include stage of completion, costs to complete, and selling price. All of these judgments and estimates can materially impact our results of operations.

Assets held-for-sale

Assets held for sale are measured at fair value less costs to sell. We present newly-acquired assets as assets held-for-sale if there is a plan to dispose of the assets within a year and it is probable that we will meet held-for-sale criteria within a short period of time after the acquisition. The other criteria include: management having the authority to approve an action which commits to selling the assets; assets are available for immediate sale in their present condition; an active program is in place to locate a buyer and actions to complete the sale are initiated; assets are being actively marketed; and it is unlikely there will be significant changes to, or withdrawal from, the plan to sell the assets.

Property, plant and equipment

The fair value of property, plant and equipment was based on the replacement costs including consideration of our intended use of the assets, and will be recognized in our results of operations over the expected useful life of the individual depreciable assets.

Identifiable intangible assets

The fair value of acquired identifiable intangible assets is generally determined using an income approach. This method starts with a forecast of all of the expected future net cash flows associated with the asset and then adjusts the forecast to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams.

The more significant estimates and assumptions inherent in the estimate of the fair value of identifiable intangible assets include all assumptions associated with forecasting product profitability, including sales and cost to sell

projections, research and development expenditure for ongoing support of product rights or continued development of in process R&D, estimated useful lives and in process R&D expected launch dates. A discount rate has been applied to the projections which captures the inherent risk of the products. Additionally, for in process R&D assets the probability of success has been factored into the fair value measure.

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At December 31, 2017, acquired identifiable intangible assets mainly consisted of $12.7 billion finite lived product rights with a weighted average life of approximately 11 years, and in process R&D of approximately $4.3 billion.

Restructuring Costs

Restructuring costs have been recorded in connection with restructuring program designed to restore our financial security and stabilizing the business. As a result, our management has made estimates and judgments regarding future plans, mainly related to employee termination benefit costs, with additional charges possible following decisions on closures or divestments of manufacturing plants, R&D facilities, headquarters and other office locations. When accruing these costs, we will recognize the amount within a range of costs that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, we recognize the minimum amount within the range. In connection with these actions, management also assesses the recoverability of long-lived assets employed in the business. In certain instances, asset lives have been shortened based on changes in the expected useful lives of the affected assets. Asset-related impairments and severance and other related costs are reflected within asset impairments, restructuring and others.

Recently Issued Accounting Pronouncements

See note 1 to our consolidated financial statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The objective of our financial risk management measures is to minimize the impact of risks arising from foreign exchange and interest rate fluctuations. To reduce these risks, we take various operational measures in order to achieve a natural hedge and may enter, from time to time, into financial derivative instruments. Our derivative transactions are executed through global and local banks. We believe that due to our diversified derivative portfolio, the credit risk associated with any of these banks is minimal. No derivative instruments are entered into for trading purposes.

Exchange Rate Risk Management

We operate our business worldwide and, as such, we are subject to foreign exchange risks on our results of operations, our monetary assets and liabilities and our foreign subsidiaries net assets. For further information on currencies in which we operate see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Impact of Currency Fluctuations on Results of Operations.

We generally prefer to borrow in U.S. dollars, however from time to time we borrow funds in other currencies, such as the euro, Swiss franc, Japanese yen and new Israeli shekel in order to benefit from same currency revenues in relation to same currency costs and same currency assets in relation to same currency liabilities.

Cash Flow Exposure

Total revenues were $22.4 billion in 2017. Of these revenues, approximately 56% were in U.S. dollars, 16% in euros, 4% in Japanese yen and the rest in other currencies, none of which accounted for more than 4% of total revenues in 2017. In most currencies, we record corresponding expenses.

In certain currencies, primarily the euro, our revenues generally exceed our expenses. Conversely, in other currencies, primarily the new Israeli shekel and the Indian rupee, our expenses generally exceed our revenues.

For those currencies which do not have a sufficient natural hedge, we may choose to hedge in order to reduce the impact of foreign exchange fluctuations on our operating results.

In certain cases, we may hedge exposure arising from a specific transaction, executed in currency other than the functional currency, by entering into forward contracts and or by using plain-vanilla and exotic option strategies. We generally limit hedging transactions up to twelve months.

Balance Sheet Exposure

With respect to our monetary assets and liabilities, the exposure arises when the monetary assets and/or liabilities are denominated in currencies other than the functional currency of our subsidiaries. We strive to limit our exposure through natural hedging. Most of the remaining exposure is hedged by entering into financial derivative instruments. To the extent possible, the hedging activity is carried out on a consolidated level.

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The table below presents exposures exceeding $50 million in absolute values:

Liability/Asset	Net exposure as of December 31, 2017 (U.S. $ in millions)
CHF/EUR	437
GBP/EUR	380
EUR/USD	226
USD/JPY	189
BGN/EUR	188
INR/USD	101
PLN/EUR	97
CAD/EUR	96
CHF/USD	81
EUR/RUB	79
EUR/SEK	75
USD/ILS	65
USD/MXN	63
EUR/DKK	54

Outstanding Foreign Exchange Hedging Transactions

As of December 31, 2017, we had long and short forwards and currency option contracts with a corresponding notional amount of approximately $2.8 billion and $270 million, respectively. As of December 31, 2016, we had long and short forwards and currency option contracts with corresponding notional amounts of approximately $2.1 billion and $180 million, respectively.

The table below presents financial derivatives entered into as of December 31, 2017 in order to reduce currency exposure arising from our cash flow and balance sheet exposures. The table below presents only currency paired with hedged net notional values exceeding $50 million.

Currency (sold)	Cross Currency (bought)	Net Notional Value		Fair Value		2017 Weighted Average Cross Currency Prices or Strike Prices
		2017	2016	2017	2016	
		(U.S. $ in millions)				
Forward:						
EUR	GBP	467	57	0.5		0.89
EUR	CHF*	416	**	(1.0)		1.17
USD	EUR*	191	88	3.0	1.0	1.18
JPY	USD	106	123	1.5	4.0	111.20
NIS	USD	132	**	(1.0)		3.49
EUR	CAD*	102	66			1.52
RUB	EUR	70	66	(1.0)	(1.0)	70.30

USD	CHF	70	268	1.0	(2.5)	0.98
MXN	USD	60	170	2.5	1.5	19.02
EUR	PLN	50	**	0.5		4.22
USD	HUF	**	396		(6.0)	
USD	GBP	**	101		(1.0)	
Options:						
JPY	USD	71	57			111.85
EUR	PLN	70	**			4.23
EUR	USD	**	71			

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* Change in position compared to previous year.
** Represents amounts less than $50 million.

Foreign Subsidiaries Net Assets

Under certain market conditions, we may hedge against possible fluctuations in foreign subsidiaries net assets (net investment hedge). In these cases, we may use cross currency swaps and forward contracts. During 2017 we entered into a cross currency swap agreement, to hedge $1 billion of our subsidiaries euro denominated net assets. The fair value of this cross currency swap liability was $96 million as of December 31, 2017.

Interest Rate Risk Management

We are subject to interest rate risk on our investments and on our borrowings. We manage interest rate risk in the aggregate, while focusing on our immediate and intermediate liquidity needs.

We raise capital through various debt instruments including senior notes that bear a fixed or variable interest rate, syndicated bank loans that bear a fixed or floating interest rate, securitizations and convertible debentures that bear a fixed and floating interest rate. In some cases, as described below, we have swapped from a fixed to a floating interest rate (fair value hedge), from a floating to a fixed interest and from a fixed to a fixed interest rate with an exchange from a currency other than the functional currency (cash flow hedge), reducing overall interest expenses or hedging risks associated with interest rate fluctuations.

In certain cases, we may hedge, in whole or in part, against exposure arising from a specific transaction, such as debt issuances related to an acquisition or debt refinancing, by entering into forward and interest rate swap contracts and/or by using options.

The below table presents the aggregate outstanding notional amounts of the hedged items as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	U.S. $ in millions	
Cross currency swap cash flow hedge	$ 588	$ 588
Interest rate swap fair value hedge	$ 500	$ 500

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Our outstanding debt obligations, the corresponding interest rates, currency and repayment schedules as of December 31, 2017 are set forth in the table below in U.S. dollar equivalent terms, taking into account the above-described swap transactions:

Currency	Total Amount	Interest Rate Ranges		2018	2019	2020	2021	2022	2023 & thereafter
				(U.S. dollars in millions)					
Fixed Rate:									
USD	17,448	1.40%	7.20%	1,515	2,000	700	3,620	864	8,749
Euro	8,946	0.38%	3.85%		1,199	2,095	587		5,066
CHF	1,489	0.13%	1.50%	770				360	360
JPY	311	1.42%	1.42%		311				
USD convertible debentures*	514	0.25%	0.25%	514					
Floating Rate:									
USD	2,785	2.80%	3.05%	285	500	1,500			500
JPY	1,081	0.35%	0.55%	561				519	
Others	7	8.00%	13.00%	1					5
Total:	32,581			$ 3,646	$ 4,010	$ 4,295	$ 4,207	$ 1,743	$ 14,680
Less debt issuance costs	(106)								
Total:	$ 32,475								

Our cash is invested in bank deposits bearing interest rates which are mostly dependent on floating rates. Bank deposits are spread among several banks. We believe that the credit risk associated with these banks is minimal. During 2017 we terminated our investments in two range accrual notes with a total amortized cost basis of $100 million that pay higher than market interest as long as LIBOR remains within a certain range.

For information regarding derivative instruments and hedging activities, see note 16 to our consolidated financial statements.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Teva Pharmaceutical Industries Limited and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income (loss), of comprehensive income (loss), of changes in equity and of cash flows for each of the three years in the periods ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the COSO.

Basis for Opinions

The Company s management and board of directors are responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in *Report of Teva Management on Internal Control Over Financial Reporting* appearing under Item 9A(b). Our responsibility is to express opinions on the Company s consolidated financial statements and on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control

based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Tel-Aviv, Israel
February 12, 2018

/s/ Kesselman & Kesselman
Kesselman & Kesselman

Certified Public Accountants (Isr.)
A member of PricewaterhouseCoopers

International Limited

We have served as the Company s auditor since at least 1976, when Teva Pharmaceutical Industries Limited was established through the merger of several predecessor companies. We have not determined the specific year we began serving as the auditor of a predecessor company.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 963	$ 988
Trade receivables	7,128	7,523
Inventories	4,924	4,954
Prepaid expenses	1,100	1,629
Other current assets	701	1,293
Assets held for sale	566	841
Total current assets	15,382	17,228
Deferred income taxes	574	625
Other non-current assets	932	1,235
Property, plant and equipment, net	7,673	8,073
Identifiable intangible assets, net	17,640	21,487
Goodwill	28,414	44,409
Total assets	$ 70,615	$ 93,057
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 3,646	$ 3,276
Sales reserves and allowances	7,881	7,839
Trade payables	2,069	2,157
Employee-related obligations	549	859
Accrued expenses	3,014	3,405
Other current liabilities	724	836
Liabilities held for sale	38	116
Total current liabilities	17,921	18,488
Long-term liabilities:		
Deferred income taxes	3,277	5,413
Other taxes and long-term liabilities	1,843	1,639
Senior notes and loans	28,829	32,524
Total long-term liabilities	33,949	39,576
Commitments and contingencies, see note 13		
Total liabilities	51,870	58,064

Equity:		
Teva shareholders equity:		
Preferred shares of NIS 0.10 par value per mandatory convertible preferred share; December 31, 2017 and December 31, 2016: authorized 5.0 million shares; issued 3.7 million shares	3,631	3,620
Ordinary shares of NIS 0.10 par value per share; December 31, 2017 and December 31, 2016: authorized 2,495 million shares; issued 1,124 million shares and 1,123 million shares, respectively	54	54
Additional paid-in capital	23,479	23,409
Retained earnings (accumulated deficit)	(3,803)	13,607
Accumulated other comprehensive loss	(1,853)	(3,159)
Treasury shares as of December 31, 2017 and December 31, 2016 107 million ordinary shares and 108 million ordinary shares, respectively	(4,149)	(4,194)
	17,359	33,337
Non-controlling interests	1,386	1,656
Total equity	18,745	34,993
Total liabilities and equity	$ 70,615	$ 93,057

The accompanying notes are an integral part of the financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(U.S. dollars in millions, except share and per share data)

	Year ended December 31,		
	2017	**2016**	**2015**
Net revenues	$ 22,385	$ 21,903	$ 19,652
Cost of sales	11,560	10,044	8,296
Gross profit	10,825	11,859	11,356
Research and development expenses	1,848	2,111	1,525
Selling and marketing expenses	3,656	3,860	3,478
General and administrative expenses	1,330	1,285	1,360
Goodwill impairment	17,100	900	
Other asset impairments, restructuring and other items	5,074	1,419	1,176
Legal settlements and loss contingencies	500	899	631
Other income	(1,199)	(769)	(166)
Operating (loss) income	(17,484)	2,154	3,352
Financial expenses net	895	1,330	1,000
Income (loss) before income taxes	(18,379)	824	2,352
Income taxes (benefit)	(1,933)	521	634
Share in (profits) losses of associated companies net	3	(8)	121
Net income (loss)	(16,449)	311	1,597
Net income (loss) attributable to non-controlling interests	(184)	(18)	9
Net income (loss) attributable to Teva	(16,265)	329	1,588
Accrued dividends on preferred shares	260	261	15
Net income (loss) attributable to ordinary shareholders	$ (16,525)	$ 68	$ 1,573
Earnings (loss) per share attributable to ordinary shareholders:			
Basic	$ (16.26)	$ 0.07	$ 1.84
Diluted	$ (16.26)	$ 0.07	$ 1.82
Weighted average number of shares (in millions):			
Basic	1,016	955	855
Diluted	1,016	961	864

The accompanying notes are an integral part of the financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in millions)

	Year ended December 31,		
	2017	**2016**	**2015**
Net income (loss)	$ (16,449)	$ 311	$ 1,597
Other comprehensive income (loss), net of tax:			
Currency translation adjustment*	1,516	(445)	(1,102)
Unrealized gain (loss) on derivative financial instruments, net	(140)	(477)	135
Unrealized gain (loss) on available-for-sale securities, net	3	(319)	319
Unrealized gain (loss) on defined benefit plans, net	(10)	(23)	35
Total other comprehensive income (loss)	1,369	(1,264)	(613)
Total comprehensive income (loss)	(15,080)	(953)	984
Comprehensive income (loss) attributable to non-controlling interests	(121)	(78)	8
Comprehensive income (loss) attributable to Teva	$ (14,959)	$ (875)	$ 976

* Include amount that was released from accumulated other comprehensive loss as part of the deconsolidation of the Venezuelan subsidiaries and is included in Venezuela deconsolidation charge under other asset impairment, restructuring and other items.

The accompanying notes are an integral part of the financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Teva shareholders equity									
	Ordinary shares									
	Number of shares (in millions)	Stated value	MCPS **	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other compre-hensive (loss)	Treasury shares	Total Teva share-holders equity	Non-controlling interests	Total equity
					(U.S. dollars in millions)					
Balance at January 1, 2015	957	$ 50	$	$ 14,121	$ 14,436	$ (1,343)	$ (3,951)	$ 23,313	$ 42	$ 23,355
Changes during 2015:										
Comprehensive income (loss)					1,588	(612)		976	8	984
Ordinary shares issuance***	54	2		3,289				3,291		3,291
MCPS issuance***			3,291					3,291		3,291
Exercise of options by employees and vested RSUs	5	*		225			163	388		388
Stock-based compensation expense				117				117		117
Dividends to ordinary shareholders					(1,155)			(1,155)		(1,155)
Accrued dividends to preferred shareholders					(15)			(15)		(15)
Purchase of treasury shares							(439)	(439)		(439)
Acquisition of non-controlling interests									103	103
Other				5	(3)			2	5	7
	1,016	52	3,291	17,757	14,851	(1,955)	(4,227)	29,769	158	29,927

Balance at December 31, 2015										
Changes during 2016:										
Comprehensive income (loss)					329	(1,204)		(875)	(78)	(953)
Ordinary shares issuance***	106	2		5,389				5,391		5,391
MCPS issuance***			329					329		329
Exercise of options by employees and vested RSUs	1	*		2			33	35		35
Stock-based compensation expense				159				159		159
Dividends to ordinary shareholders					(1,303)			(1,303)		(1,303)
Dividends to preferred shareholders					(261)			(261)		(261)
Transactions with non-controlling interests				111				111	1,573	1,684
Other		.		(9)	(9)			(18)	3	(15)
Balance at December 31, 2016	1,123	54	3,620	23,409	13,607	(3,159)	(4,194)	33,337	1,656	34,993
Changes during 2017:										
Comprehensive income (loss)					(16,265)	1,306		(14,959)	(121)	(15,080)
Exercise of options by employees and vested RSUs	1	*		(45)			45	*		*
Stock-based compensation expense				133				133		133
Dividends to ordinary shareholders					(901)			(901)		(901)
Dividends to preferred shareholders			11	(11)	(249)			(249)		(249)
									(111)	(111)

Transactions with non-controlling interests										
Other				(7)	5			(2)	(38)	(40)
Balance at December 31, 2017	1,124	$ 54	$ 3,631	$ 23,479	$ (3,803)	$ (1,853)	$ (4,149)	$ 17,359	$ 1,386	$ 18,745

* Represents an amount less than 0.5 million.
** Mandatory convertible preferred shares.
*** Net of issuance costs.

The accompanying notes are an integral part of the financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES

LIMITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

	Year ended December 31,		
	2017	**2016**	**2015**
Operating activities:			
Net income (loss)	$ (16,449)	$ 311	$ 1,597
Adjustments to reconcile net income (loss) to net cash provided by operations:			
Impairment of long-lived assets	20,882	1,645	361
Deferred income taxes net and uncertain tax positions	(2,331)	15	237
Depreciation and amortization	2,112	1,524	1,308
Net (gain) loss from sale of long-lived assets and investments	(1,090)	(764)	(86)
Venezuela deconsolidation loss	383		
Net change in operating assets and liabilities	(363)	1,219	967
Research and development in process	175	422	35
Stock-based compensation	133	124	117
Venezuela impairment of net monetary assets	42	603	
Other items	13	(14)	146
Other-than-temporary impairment		140	736
Impairment of equity investment net			124
Net cash provided by operating activities	3,507	5,225	5,542
Investing activities:			
Proceeds from sales of long-lived assets and investments	3,477	2,002	524
Purchases of property, plant and equipment	(874)	(901)	(772)
Other investing activities	(282)	(212)	(5)
Purchases of investments and other assets	(200)	(481)	(2,003)
Acquisitions of businesses, net of cash acquired	43	(36,148)	(3,309)
Net cash provided by (used in) investing activities	2,164	(35,740)	(5,565)
Financing activities:			
Repayment of long-term loans and other long-term liabilities	(3,300)	(999)	(2,521)
Net change in short-term debt	(1,683)	1,998	29
Dividends paid on ordinary shares	(901)	(1,303)	(1,155)
Proceeds from long-term loans and other long-term liabilities, net of issuance costs	506	25,252	2,099
Dividends paid on preferred shares	(260)	(255)	
Other financing activities	(74)	(169)	(178)
Dividends paid to non-controlling interests	(38)		
Proceeds from issuance of ordinary shares, net of issuance costs		329	3,291

Proceeds from issuance of mandatory convertible preferred shares, net of issuance costs		329	3,291
Proceeds from exercise of options by employees	*	35	388
Purchases of treasury shares			(439)
Net cash provided by (used in) financing activities	(5,750)	25,217	4,805
Translation adjustment on cash and cash equivalents	54	(660)	(62)
Net change in cash and cash equivalents	(25)	(5,958)	4,720
Balance of cash and cash equivalents at beginning of year	988	6,946	2,226
Balance of cash and cash equivalents at end of year	$ 963	$ 988	$ 6,946

* Represent an amount less than 0.5 million

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TEVA PHARMACEUTICAL INDUSTRIES

LIMITED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(U.S. dollars in millions)

	Year ended December 31,		
	2017	**2016**	**2015**
Supplemental cash flow information:			
Non-cash financing and investing activities:			
Share issuance to Allergan plc for the Actavis Generics acquisition	$	$ 5,065	$
Shares transferred to Takeda as part of the establishment of Teva Takeda		1,825	
Actavis Generics contingent consideration		302	
Cash paid during the year for:			
Interest	$ 795	$ 290	$ 243
Income taxes, net of refunds	$ 106	$ 341	$ 802
Net change in operating assets and liabilities:			

	Year ended December 31,		
	2017	**2016**	**2015**
Other current assets	$ 658	$ (517)	$ 87
Trade payables, accrued expenses, employee-related obligations and other current liabilities	(1,801)	640	(12)
Inventory step-up	67	381	
Inventories	199	372	129
Trade receivables net of sales reserves and allowances	514	343	763
	$ (363)	$ 1,219	$ 967

The accompanying notes are an integral part of the financial statements.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES:

a. General:

Operations

Teva Pharmaceutical Industries Limited (the Parent Company), headquartered in Israel, together with its subsidiaries and associated companies (the Company, Teva or the Group), is engaged in the development, manufacturing, marketing and distribution of generic, specialty, and other pharmaceutical products. The majority of the Group s revenues are in the United States and Europe.

Basis of presentation and use of estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

In preparing the Company s consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates.

As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to purchase price allocation on acquisitions including determination of useful lives and contingent consideration; assessing compliance with debt covenants; determining the valuation and recoverability of intangible assets and goodwill; and assessing sales reserves and allowances, uncertain tax positions, valuation allowances, contingencies, inventory valuation and restructuring.

Accounting for Venezuelan Operations

Until November 30, 2017, the financial position and results of operations of Teva s Venezuelan business, conducted through a number of wholly-owned subsidiaries, were included in Teva s consolidated financial statements and reported under highly-inflationary accounting principles, with the functional currency of the U.S. dollar.

Hyper-Inflation

Venezuela has experienced hyper-inflation in recent years. The government of Venezuela currently has two official exchange rates: the DIPRO rate of 10 bolivars per U.S. dollar (which replaced the CENCOEX rate of 6.3 in March 2016) and the DICOM rate, which fluctuates and was 3,345 bolivars per U.S. dollar as of December 31, 2017.

Following the announcement of the Venezuelan Central Bank and the Ministry for Banking and Finance of FX Regulation 35, effective March 10, 2016, the DIPRO rate was used to settle transactions involving the importation, manufacture and distribution of pharmaceutical products. Teva used the CENCOEX rate until March 2016 and then replaced it with the DIPRO rate to report its Venezuelan financial position, results of operations and cash flows, since

it believed that the nature of its business operations in Venezuela, which include the importation, manufacture and distribution of pharmaceutical products, qualified for the most preferential rate permitted by law.

In November 2016, the unofficial exchange rate continued to increase at an accelerated rate, indicating further economic distress. This, together with a decrease in scope of transactions involving the importation,

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

manufacture and distribution of pharmaceutical products that were settled using the DIPRO rate of 10 bolivars per dollar, led Teva to replace the official DIPRO rate it had used to report its Venezuelan financial position, results of operations and cash flows with a blended exchange rate of 273 bolivar per U.S. dollar. Teva began using this blended exchange rate as of December 1, 2016, which was determined based on a weighted average of the DIPRO and DICOM exchange rates affecting Teva s transactions. The blended rate was reviewed and updated on a quarterly basis.

As a result of the developments described above, Teva impaired its monetary balance sheet items related to Venezuela twice in 2016, with a devaluation charge of $246 million in the first quarter of 2016, following introduction of the DIPRO rate, and an additional devaluation charge of $500 million in the fourth quarter of 2016, following Teva s decision to adopt a blended rate. In addition, Teva recorded $133 million in cost of sales, to adjust its inventory balance in Venezuela to reflect the U.S dollar net realizable value of the inventory.

During February 2017 and again in May 2017, Teva updated its blended exchange rate to 380 and 640 bolivar per dollar, respectively. In the third quarter of 2017, Teva started to use the DICOM rate of 3,345 bolivar per dollar, which was not materially different from the blended rate that would have been used instead of the DICOM rate.

Control

The evolving economic and political conditions in Venezuela, including increasingly restrictive currency exchange control regulations and reduced access to U.S. dollars through official currency exchange markets, resulted in an other-than-temporary lack of exchangeability between the Venezuelan bolivar and the U.S. dollar, which significantly impacted Teva s ability to effectively manage its Venezuelan businesses, including restrictions on the ability of the Venezuelan businesses to import certain raw materials to maintain normal production and to settle U.S. dollar-denominated obligations. The currency exchange restrictions, combined with other regulations that have limited Teva s ability to import certain raw materials, also increasingly constrained Teva s ability to make and execute operational decisions regarding its businesses in Venezuela. In addition, the inability of the Venezuelan businesses to pay dividends, which remain subject to Venezuelan government approvals, restricted the ability to realize the earnings generated out of the Venezuelan businesses. Teva expects these conditions to continue for the foreseeable future.

Furthermore, the fourth quarter of 2017 was the longest duration of time that Teva experienced without receiving any approvals, through regular conversion or auctions, from the government for new imports or payments for existing import liabilities. These approvals had been key to allowing management to continue the business at a level consistent with its plans. Without such approvals, the Venezuelan business is unable to import materials at the price and quantity needed to continue its operations.

In addition, since April 2017, the opposition party in Venezuela has organized protests on a daily basis and many of the marches and demonstrations have resulted in rioting and violence. This is a significant change from the sporadic protests previously and has impacted the ability of employees to arrive safely at their assigned work location and complete their tasks. The result is a significant decline in the units produced and available for sale. Teva attempted to identify alternative currency exchange mechanisms that would allow access to U.S. dollars, however, during the fourth quarter of 2017 the Company determined that the alternative was inconsistent and non-compliant with its business standards.

Deconsolidation and impairment

As a result of these factors, Teva concluded that as of November 30, 2017, it did not meet the accounting criteria for control over its wholly-owned Venezuelan subsidiaries and that it no longer has significant influence

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

over such subsidiaries. In its conclusion, Teva considered the FASB guidance in accordance with ASC Topic 830 Foreign Currency Matters and ASC Topic 810 Consolidation regarding the propriety of implementing consolidation, for both the variable interest entity (VIE) and voting model, or equity method accounting when other than temporary lack of exchangeability exists.

The VIE model requires the primary beneficiary to demonstrate both the power to direct activities of the VIE that most significantly impact the VIE s economic performance, and the obligation to absorb losses from or right to receive benefits of the VIE that could potentially be significant to the VIE. Based on the analysis above, Teva believes it holds neither power nor benefit over its Venezuelan subsidiaries. Furthermore, Teva has no material financial commitment to its Venezuela subsidiaries, such as liquidity arrangements, guarantees or other commitments or any other exposure to loss from its Venezuelan subsidiaries. Any potential material financial commitment in the future will be disclosed pursuant to the accounting requirements.

Therefore, effective November 30, 2017, Teva deconsolidated its Venezuelan subsidiaries and began accounting for its investments using the cost method of accounting. As of November 30, 2017, Teva s net monetary balance sheet items in Venezuela included approximately $13 million in cash. Accordingly, the Company recorded a deconsolidation charge of $396 million under other asset impairments, restructuring and other items in connection with its subsidiaries in Venezuela, of which $326 million resulted from reclassification of currency translation adjustments from accumulated other comprehensive income to the statement of income, relating mainly to Teva s generics medicines segment. The estimated fair value of the investments was immaterial based on expected future cash flow, considering ongoing hyper-inflation, economic and political uncertainty in Venezuela. The assigned values are considered Level 3 measurements within the fair value hierarchy.

In future periods, Teva s financial results will include sales of finished goods to the Venezuelan subsidiaries to the extent cash payments will be received from these subsidiaries, while cost of sales will be recorded when goods are imported to Venezuela. The Venezuelan subsidiaries results were immaterial in terms of assets, liabilities, operating results and cash flows for the eleven months ended November 30, 2017.

Teva will continue to monitor the conditions in Venezuela and their impact on its prospective accounting treatment and related disclosures.

Functional currency

A major part of the Group s operations is carried out by the Company in the United States, Israel and certain other countries. The functional currency of these entities is the U.S. dollar (dollar or $).

The functional currency of certain subsidiaries and associated companies is their local currency. The financial statements of those companies are included in the consolidated financial statements, translated into U.S. dollars. Assets and liabilities are translated at year-end exchange rates, while revenues and expenses are translated at monthly average exchange rates during the year. Differences resulting from translation are presented as other comprehensive income (loss) in the consolidated statements of comprehensive income (loss).

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and VIE for which the Company is considered the primary beneficiary. For those consolidated subsidiaries where Teva owns less than 100%, the outside shareholders interests are shown as non-controlling interests in equity. Investments in affiliates over which the Company has significant influence but not a controlling interest, are carried on the equity basis.

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Notes to Consolidated Financial Statements (Continued)

For VIEs, the Company performs an analysis to determine whether the variable interests give a controlling financial interest in a VIE. The Company periodically reassesses whether it controls its VIEs.

Intercompany transactions and balances are eliminated on consolidation; profits from intercompany sales, not yet realized outside the Group, are also eliminated.

b. New accounting pronouncements

Recently adopted accounting pronouncements

In January 2017, the Financial Accounting Standards Board (FASB) issued guidance on goodwill impairment testing. The new guidance reduces the complexity of goodwill impairment tests by no longer requiring entities to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Teva adopted the provisions of this update in the first quarter of 2017. Once impairment is recorded under the new guidance, additional impairment may occur if the fair value of the reporting unit continues to decline. The amount of goodwill impairment charges recorded in 2017 was determined in accordance with this new guidance.

In January 2017, the FASB issued guidance on the differentiation between acquisitions of assets and businesses. The new guidance dictates that, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, it should be treated as an acquisition or disposal of an asset. The new guidance also requires that to be considered a business, a set of integrated activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, without regard as to whether a market participant could replace missing elements. In addition, the new guidance narrows the definition of the term output to make it consistent with how outputs are described in the updated revenue recognition guidance. The guidance is effective for the fiscal year beginning on January 1, 2018, including interim periods within that year (early adoption is permitted). Teva adopted the provisions of this update in the first quarter of 2017 with no impact on its consolidated financial statements.

In November 2016, the FASB issued guidance on the treatment of restricted cash in the statements of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for the fiscal year beginning on January 1, 2018, including interim periods within that year (early adoption is permitted). Teva adopted the provisions of this update in the first quarter of 2017. The application of the guidance did not have a material impact on Teva s consolidated financial statements.

In October 2016, the FASB issued guidance on accounting for consolidation of interests held through related parties that are under common control. The amended guidance designates the primary beneficiary of a VIE as the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. Teva adopted the provisions of this update in the first quarter of 2017. The application of the guidance did not have a

material impact on Teva s consolidated financial statements.

In October 2016, the FASB issued guidance on income taxes on intra-entity transfers. The guidance eliminates the exception to the recognition requirements under the standard for intra-entity transfers of an asset other than inventory. As a result, an entity should recognize the income tax consequences when the transfer of

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

assets other than inventory occurs. Teva adopted the provisions of this update in the first quarter of 2017. The application of the guidance increased the deferred tax liabilities in the consolidated balance sheet by $31 million in the first quarter of 2017. Additionally, certain balance sheet items have been reclassified as of December 31, 2016 to conform to the current year presentation. Prepaid expenses and deferred income tax liabilities increased by $267 million and $198 million, respectively. Deferred income tax assets and other current liabilities decreased by $100 million and $31 million, respectively. The consolidated statement of income was not affected.

Recently issued accounting pronouncements, not yet adopted

In August 2017, the FASB issued guidance for derivatives and hedging, which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (early adoption is permitted for any interim and annual financial statements that have not yet been issued). Teva is currently evaluating the potential effect of the guidance on its consolidated financial assets.

In May 2017, the FASB issued guidance on changes to terms and conditions of share-based payment awards. The amendment provides guidance about which changes to terms or conditions of a share-based payment award require an entity to apply modification accounting. The guidance is effective for the fiscal year beginning on January 1, 2018, including interim periods within that year. Teva does not anticipate that adoption of this guidance will have a material impact on its consolidated financial statements.

In February 2017, the FASB issued guidance on de-recognition of nonfinancial assets. The amendments address the recognition of gains and losses on the transfer (i.e., sale) of nonfinancial assets to counterparties other than customers. The guidance conforms de-recognition on nonfinancial assets with the model for transactions in the new revenue standard. The amendments are effective at the same time as the new revenue standard. The amendments are effective at the same time as the new revenue standard which means for public entities annual periods beginning after December 15, 2017 and interim periods therein with earlier adoption permitted. Teva does not anticipate that such guidance will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued guidance on statements of cash flows. The guidance addresses eight specific issues: debt prepayment or debt extinguishment costs; settlement of certain debt instruments; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interest in securitization transactions; and separately identifiable cash flows and application of predominance principle. The guidance is effective for the fiscal year beginning on January 1, 2018, including interim periods within that year. The amendments should be applied retrospectively. In connection with the Company s securitization program see note 16d regarding the likely impact of the adoption on Teva s consolidated financial statements.

In June 2016, the FASB issued guidance on financial instruments. The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance will be

effective for the fiscal year beginning on January 1, 2020, including interim periods within that year. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In February 2016, the FASB issued guidance on leases. The guidance requires entities to record lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. In September 2017, the FASB issued additional amendments providing clarification and implementation guidance. The guidance will become effective for interim and annual periods beginning on January 1, 2019 (early adoption is

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

permitted) and is required to be adopted at the earliest period presented using a modified retrospective approach. In January 2018, the FASB issued an update that permits an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity s adoption of the new standard and that were not previously accounted for as leases. Although the Company has not finalized its process of evaluating the impact of adoption of the ASU on its consolidated financial statements, the Company expects there will be a material increase to assets and liabilities related to the recognition of new right-of-use assets and lease liabilities on the Company s balance sheet for leases currently classified as operating leases.

In January 2016, the FASB issued guidance which updates certain aspects of recognition, measurement, presentation and disclosure of equity investments. The guidance requires entities to recognize changes in fair value in net income rather than in accumulated other comprehensive income. The guidance is effective for interim and annual periods beginning on January 1, 2018. Teva does not anticipate that such guidance will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. Under the new standard, a good or service is transferred to the customer when (or as) the customer obtains control of the good or service, which differs from the risk and rewards approach under current guidance. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. In March, April and May 2016, the FASB issued three additional updates regarding identifying performance obligations and licensing, certain principal versus agent considerations and various narrow scope improvements based on practical questions raised by users. In September 2017, the FASB issued additional amendments providing clarification and implementation guidance. The guidance may be adopted through either retrospective application to all periods presented in the financial statements (full retrospective approach) or through a cumulative effect adjustment to retained earnings at the effective date (modified retrospective approach). The guidance is effective for the fiscal periods beginning on January 1, 2018.

Teva does not anticipate a material impact on its revenue recognition practices nor accumulated impact, following the adoption of the new guidance. Teva will adopt the new standard using the modified retrospective approach.

c. Acquisitions:

Teva s consolidated financial statements include the operations of an acquired business from the date of the acquisition s consummation. Acquired businesses are accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date and that the fair value of acquired in process research and development (IPR&D) be recorded on the balance sheet. Transaction costs are expensed as incurred. Any excess of the consideration transferred over the assigned values of the net assets acquired is recorded as goodwill. When Teva acquires net assets that do not

constitute a business, as defined under U.S. GAAP, no goodwill is recognized and acquired IPR&D is expensed.

Contingent consideration incurred in a business combination is included as part of the acquisition price and recorded at a probability weighted assessment of their fair value as of the acquisition date. The fair value of the contingent consideration is re-measured at each reporting period, with any adjustments in fair value recognized in earnings under impairments, restructuring and others.

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d. Collaborative arrangements:

Collaborative agreements are contractual arrangements in which the parties are active participants to the arrangement and are exposed to the significant risks and rewards that are dependent on the ultimate commercial success of the endeavor.

The Company recognizes revenue generated and costs incurred on sales to third parties as it relates to collaborative agreements as gross or net. If the Company is the principal participant in a transaction, revenues and costs are recorded on a gross basis; otherwise, revenues are recorded on a net basis.

e. Investee companies:

Investments in entities in which the Company has a significant influence are accounted for using the equity method and included within other non-current assets. Under the equity method, the Company generally recognizes its proportionate share of comprehensive income or loss of the entity. Other non-marketable equity investments are carried at cost. The Company also reviews these investments for impairment whenever events indicate the carrying amount may not be recoverable. Impairments on investee companies are recorded in the income statement under share in profits or losses of associated companies net.

f. Fair value measurement:

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

g. Investment in securities:

Investment in securities consists mainly of debt and equity securities classified as available-for-sale and recorded at fair value. The fair value of quoted securities is based on current market value. When debt securities do not have an active market, fair value is determined using a valuation model. This model is based on reference to other instruments with similar characteristics, or a discounted cash flow analysis, or other pricing models making use of market inputs and relying as little as possible on entity-specific inputs.

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Unrealized gains of available for sale securities, net of taxes, are reflected in other comprehensive income. Unrealized losses considered to be temporary are reflected in other comprehensive income; unrealized losses that are considered to be other-than-temporary are charged to income as an impairment charge. Realized gains and losses for both debt and equity securities are included in financial expense, net.

The Company considers available evidence in evaluating potential impairments of its investments, including the duration and extent to which fair value is less than cost, and for equity securities, the Company s ability and intent to hold the investment for the length of time necessary to allow for the recovery of the market value. For debt securities, an other-than-temporary impairment has occurred if the Company does not expect to recover the entire amortized cost basis of the debt security. If the Company does not intend to sell the impaired debt security, and it is not more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis, the amount of the other-than-temporary impairment recognized in earnings, recorded in financial expense, net, is limited to the portion attributed to credit loss. The remaining portion of the other-than-temporary impairment related to other factors is recognized in other comprehensive income.

h. Cash and cash equivalents:

All highly liquid investments, which include short-term bank deposits and money market instruments, that are not restricted as to withdrawal or use, and investment in short-term debentures, the period to maturity of which did not exceed three months at the time of investment, are considered to be cash equivalents.

i. Trade receivables:

Trade receivables are stated at their net realizable value. The allowance against gross trade receivable reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information. As of December 31, 2017, and December 31, 2016, an allowance for doubtful debts of $232 million and $191 million, respectively, is reflected in net trade receivables. Trade receivables are written off after all reasonable means to collect the full amount have been exhausted.

j. Concentration of credit risks:

Most of Teva s cash and cash equivalents (which, along with investment in securities, totaled $1.1 billion at December 31, 2017) were deposited with financially sound European, U.S. and Israeli banks and financial institutions and were comprised mainly of cash deposits.

The pharmaceutical industry, particularly in the United States., has been significantly affected by consolidation among managed care providers, large pharmacy chains, wholesaling organizations and other buyer groups. The U.S. market constituted approximately 53% of Teva s consolidated revenues in 2017. The exposure of credit risks relating to other

trade receivables is limited, due to the relatively large number of group customers and their wide geographic distribution. Teva performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts and generally does not require collateral. An appropriate allowance for doubtful accounts is included in the accounts and netted against trade receivables.

k. Inventories:

Inventories are valued at the lower of cost or net realizable value. Cost of raw and packaging materials, purchased products, manufactured finished products, products in process and capitalized production costs are

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Notes to Consolidated Financial Statements (Continued)

determined predominantly on a standard cost basis, approximating average costs. Other methods which are utilized for determining the value of inventories are moving average, cost basis and the first in first out method.Teva regularly reviews its inventories for impairment and reserves are established when necessary.

Inventories acquired in a business combination are stepped-up to their estimated fair value and amortized to cost of sales as that inventory is sold.

l. Long-lived assets:

Teva s long-lived, non-current assets are comprised mainly of goodwill, identifiable intangible assets and property, plant and equipment. All long-lived assets are monitored for impairment indicators throughout the year. Impairment testing for goodwill and all identifiable intangible assets is performed at least annually. When necessary, charges for impairments of long-lived assets are recorded for the amount by which the fair value is less than the carrying value of these assets.

Goodwill

Goodwill reflects the excess of the consideration transferred, including the fair value of any contingent consideration and any non-controlling interest in the acquiree, over the assigned fair values of the identifiable net assets acquired. Goodwill is not amortized, and is assigned to reporting units and tested for impairment at least on an annual basis, in the fourth quarter of the fiscal year.

The goodwill impairment test is performed according to the following principles:

1. An initial qualitative assessment may be performed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

2. If the Company concludes it is more likely than not that the fair value of the reporting unit is less than its carrying mount, a quantitative fair value test is performed. An impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value is recognized.

An interim goodwill impairment test may be required in advance of the annual impairment test if events occur that indicate impairment might be present. For example, a substantial decline in the Company s market capitalization, unexpected adverse business conditions, economic factors and unanticipated competitive activities may indicate that an interim impairment test is required. In the event that the Company s market capitalization declines below its book value, the Company considers the length and severity of the decline and the reason for the decline when assessing whether potential goodwill impairment exists.

Identifiable intangible assets

Identifiable intangible assets are comprised of definite life intangible assets and indefinite life intangible assets.

Definite life intangible assets consist mainly of acquired product rights and other rights relating to products for which marketing approval was received from the U.S. Food and Drug Administration (FDA) or the equivalent agencies in other countries. These assets are amortized using mainly the straight-line method over their estimated period of useful life, or based on economic benefit models, if more appropriate, which is determined by identifying the period and manner in which substantially all of the cash flows are expected to be generated. Amortization of acquired developed products is recorded under cost of sales. Amortization of marketing and distribution rights is recorded under selling and marketing expenses when separable.

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Whenever impairment indicators are identified for definite life intangible assets, Teva reconsiders the asset s estimated life, calculates the undiscounted value of the asset s or asset group s cash flows and compares such value against the asset s or asset group s carrying amount. If the carrying amount is greater, Teva records an impairment loss for the excess of book value over fair value based on the discounted cash flows.

Indefinite life intangible assets are mainly comprised of research and development in-process assets. Teva monitors these assets for items such as research and development milestones and progress to identify any triggering events. Annually or when triggering events are present, Teva determines the fair value of the asset based on discounted cash flows and records an impairment loss if book value exceeds fair value.

IPR&D acquired in a business combination is capitalized as an indefinite life intangible asset until the related research and development efforts are either completed or abandoned. In the reporting period where they are treated as indefinite life intangible assets, they are not amortized but rather are monitored triggering events and tested for impairment. Upon completion of the related research and development efforts, management determines the useful life of the intangible assets and amortizes them accordingly. In case of abandonment, the related research and development assets are impaired.

Property, plant and equipment

Property, plant and equipment are stated at cost, after deduction of the related investment grants, and depreciated using the straight-line method over the estimated useful life of the assets: buildings, mainly 40 years; machinery and equipment, mainly between 15 to 20 years; and other assets, between 5 to 10 years.

For property, plant and equipment, whenever impairment indicators are identified, Teva reconsiders the asset s estimated life, calculates the undiscounted value of the asset s cash flows and compares such value against the asset s carrying amount. If the carrying amount is greater, Teva records an impairment loss for the excess of book value over fair value.

m. Contingencies:

The Company is involved in various patent, product liability, commercial, government investigations, environmental claims and other legal proceedings that arise from time to time in the ordinary course of business. Except for income tax contingencies, contingent consideration, other contingent liabilities incurred or acquired in a business combination, Teva records accruals for these types of contingencies to the extent that Teva concludes their occurrence is probable and that the related liabilities are estimable. When accruing these costs, the Company will recognize an accrual in the amount within a range of loss that is the best estimate within the range. When no amount within the range is a better estimate than any other amount, the Company accrues for the minimum amount within the range. Teva records anticipated recoveries under existing insurance contracts that are probable of occurring at the gross amount that is expected to be collected. Legal costs are expensed as incurred.

n. Treasury shares:

Treasury shares are held by Teva s subsidiaries and presented as a reduction of Teva shareholders equity and carried at their cost to Teva, under treasury shares.

o. Stock-based compensation:

Teva recognizes the estimated fair value of share-based awards, restricted share units (RSUs) and performance share units (PSUs) under stock-based compensation costs. The compensation expense for PSUs is recognized only if it is probable that the performance condition will be achieved.

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Teva measures compensation expense for share-based awards based on estimated fair values on the date of grant using the Black-Scholes option-pricing model. This option pricing model requires estimates as to the option s expected term and the price volatility of the underlying stock.

Teva measures compensation expense for the RSUs and PSUs based on the market value of the underlying stock at the date of grant, less an estimate of dividends that will not accrue to the RSU and PSU holders prior to vesting.

p. Deferred income taxes:

Deferred income taxes are determined utilizing the asset and liability method based on the estimated future tax effects of temporary differences between the financial accounting and tax basis of assets and liabilities under the applicable tax laws, and on tax rates anticipated to be in effect when the deferred income taxes are expected to be paid or realized. A valuation allowance is provided if, based upon the weight of available evidence, it is more likely than not that a portion of the deferred income tax assets will not be realized. In determining whether a valuation allowance is needed, Teva considers all available evidence, including historical information, long range forecast of future taxable income and evaluation of tax planning strategies. Amounts recorded for valuation allowance can result from a complex series of judgments about future events and can rely on estimates and assumptions. Deferred income tax liabilities and assets are classified as non-current.

Deferred tax has not been provided on the following items:

1. Taxes that would apply in the event of disposal of investments in subsidiaries, as it is generally the Company s intention to hold these investments, not to realize them. The determination of the amount of related unrecognized deferred tax liability is not practicable.

2. Amounts of tax-exempt income generated from the Company s current Approved Enterprises and unremitted earnings from foreign subsidiaries retained for reinvestment in the Group. See note 15f.

q. Uncertain tax positions:

Teva recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized. Teva regularly re-evaluates its tax positions based on developments in its tax audits, statute of limitations expirations, changes in tax laws and new information that can affect the technical merits and change the assessment of Teva s ability to sustain the tax benefit. In addition, the Company classifies interest and penalties recognized in the financial statements relating to uncertain tax position under the income taxes line item.

Provisions for uncertain tax positions, whereas Teva has net operating losses to offset additional income taxes that would result from the settlement of the tax position, are presented as a reduction of the deferred tax assets for such net operating loss.

r. Derivatives and hedging:

The Group carries out transactions involving derivative financial instruments (mainly forward exchange contracts, currency options, cross-currency swap contracts, interest rate swap contracts and treasury locks). The transactions are designed to hedge the Company s currency and interest rate exposures. The Company does not enter into derivative transactions for trading purposes.

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Derivative instruments are recognized on the balance sheet at their fair value.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in financial expenses net in the statements of income in the period that the changes in fair value occur.

For derivative instruments that are designated and qualify as a cash-flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the anticipated transaction in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument (i.e., the ineffective portion), if any, is recognized in the statement of income during the current period.

For derivative instruments that are designated as net-investment hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income. The effective portion was determined by looking into changes in spot exchange rate. The change in fair value attributable to changes other than those due to fluctuations in the spot exchange rate are excluded from the assessment of hedge effectiveness and are recognized in the statement of income under financial expenses-net.

For derivative instruments that qualify for hedge accounting, the cash flows associated with these derivatives are reported in the consolidated statements of cash flows consistently with the classification of the cash flows from the underlying hedged items that these derivatives are hedging.

Derivative instruments that do not qualify for hedge accounting are recognized on the balance sheet at their fair value, with changes in the fair value recognized as a component of financial expenses net in the statements of income. The cash flows associated with these derivatives are reflected as cash flows from operating activities in the consolidated statements of cash flows.

s. Revenue recognition:

The Company recognizes revenues from product sales, including sales to distributors when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. This generally occurs when products are shipped and title and risk and rewards for the products are transferred to the customer.

Revenues from product sales are recorded net of provisions for estimated chargebacks, rebates, returns, prompt pay discounts and other deductions, such as shelf stock adjustments, which can be reasonably estimated. When sales provisions are not considered reasonably estimable by Teva, the revenue is deferred to a future period when more information is available to evaluate the impact.

Provisions for chargebacks, rebates including Medicaid and other governmental program discounts and other promotional items, such as shelf stock adjustments, are included in sales reserves and allowances (SR&A). These

provisions are recognized concurrently with the sales of products. Prompt payment discounts are netted against trade receivables.

Calculations for these deductions from sales are based on historical experience and the specific terms in the individual agreements. Chargebacks and rebates are the largest components of sales reserves and allowances. Provisions for chargebacks are determined using historical chargeback experience and expected chargeback

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levels and wholesaler sales information for products, which are compared to externally obtained distribution channel reports for reasonableness. Rebates are recognized based on contractual obligations in place at the time of sales with consideration given to relevant factors that may affect the payment as well as historical experience for estimated market activity. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following decreases in the invoice or contract price of the related product and are estimated based on expected market performance. Teva records a reserve for estimated sales returns by applying historical experience of customer returns to the amounts invoiced and the amount of returned products to be destroyed versus products that can be placed back in inventory for resale.

Revenue resulting from the achievement of milestone events stipulated in agreements is recognized when the milestone is achieved. Milestones are based on the occurrence of substantive element specified in the contract or as a measure of substantive progress toward completion under the contract.

Revenues from licensees, sales of licensed products and technology are recorded in accordance with the contract terms, when third-party sales can be reliably measured and collection of the funds is reasonably assured.

Royalty revenue is recognized as a component of net revenues in accordance with the terms of their respective contractual agreements when collectability is reasonably assured and when revenue can be reasonably measured.

Revenues included royalty income and income from services of $394 million, $343 million and $140 million in the years ended December 31, 2016, 2015 and 2014, respectively.

t. Research and development:

Research and development expenses are charged to income as incurred. Participations and grants in respect of research and development expenses are recognized as a reduction of research and development expenses as the related costs are incurred, or as the related milestone is met. Upfront fees received in connection with cooperation agreements are deferred and recognized over the period of the applicable agreements as a reduction of research and development expenses.

Advance payments for goods or services that will be used or rendered for future research and development activities are deferred. Such amounts are recognized as an expense as the related goods are delivered or the services are performed.

Research and development in-process acquired as part of an asset purchase, which has not reached technological feasibility and has no alternative future use, is expensed as incurred.

u. Shipping and handling costs:

Shipping and handling costs, which are included in selling and marketing expenses, were $164 million, $134 million and $127 million for the years ended December 31, 2017, 2016 and 2015, respectively.

v. Advertising costs:

Advertising costs are expensed as incurred. Advertising costs for the years ended December 31, 2017, 2016 and 2015 were $318 million, $312 million and $297 million, respectively.

w. Restructuring:

Restructuring provisions are recognized for the direct expenditures arising from restructuring initiatives, where the plans are sufficiently detailed and where appropriate communication to those affected has been made.

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Costs for one-time termination benefits in which the employee is required to render service until termination in order to receive the benefits are recognized ratably over the future service period.

Contractual termination benefits are provided to employees when employment is terminated due to an event specified in the provisions of an existing plan or agreement. A liability is recorded and the expense is recognized when it is probable that employees will be entitled to the benefits and the amount is reasonably estimable.

Special termination benefits arise when the Company offers, for a short period of time, to provide certain additional benefits to employees electing voluntary termination. A liability is recorded and the expense is recognized in the period the employees irrevocably accept the offer and the amount of the termination liability is reasonably estimable.

x. Segment reporting:

The Company s business includes two reporting segments: generic and specialty medicines. The generics segment develops, manufactures, sells and distributes generic or branded generic medicines as well as active pharmaceutical ingredients (API) and over-the-counter medicines. The specialty segment engages in the development, manufacture, sale and distribution of branded specialty medicines such as those for central nervous system and respiratory indications, as well as those marketed in the women s health, oncology and other specialty businesses.

During the fourth quarter of 2017 the Company announced a new organizational structure and leadership changes. The Company is evaluating the resulting changes to its internal financial reporting and segment reporting starting in 2018 to align its reporting with how the Company will manage its business going forward. See note 20.

y. Earnings (loss) per share:

Basic earnings (loss) per share are computed by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares (including fully vested RSUs and PSUs) outstanding during the year, net of treasury shares.

In computing diluted earnings (loss) per share, basic earnings (loss) per share are adjusted to take into account the potential dilution that could occur upon: (i) the exercise of options and non-vested RSUs and PSUs granted under employee stock compensation plans and one series of convertible senior debentures, using the treasury stock method; (ii) the conversion of the remaining convertible senior debentures using the if-converted method, by adding to net income interest expense on the debentures and amortization of issuance costs, net of tax benefits, and by adding the weighted average number of shares issuable upon assumed conversion of the debentures; and (iii) the conversion of the mandatory convertible preferred shares using the if-converted method by adding to net income attributable to ordinary shareholders the dividends on the preferred shares and by adding the weighted average number of shares issuable upon assumed conversion of the mandatory convertible preferred shares.

z. Securitization

Teva accounts for transfers of certain of its trade receivable as sales when it has surrendered control over the related assets. Whether control has been relinquished requires, among other things, an evaluation of relevant legal considerations and an assessment of the nature and extent of the Company s continuing involvement with the assets transferred. Assets obtained and liabilities incurred in connection with transfers reported as sales are initially recognized in the balance sheet at fair value. Refer to note 16d.

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aa. Divestitures:
The Company nets the proceeds on the divestitures of products with the carrying amount of the related assets and records gain or loss on sale within other income. Any contingent payments that are potentially due to the Company as a result of these divestitures are recorded when realizable. For divestures of businesses, including divestitures of products that qualify as a business, the Company reflects the relative fair value of goodwill associated with the businesses in the determination of gain or loss on sale.

bb. Reclassifications:
Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 2 CERTAIN TRANSACTIONS:

a. Business transactions:
Actavis Generics and Anda acquisitions:

On August 2, 2016, Teva consummated its acquisition of Allergan plc s (Allergan) worldwide generic pharmaceuticals business (Actavis Generics). At closing, Teva transferred to Allergan consideration of approximately $33.4 billion in cash and approximately 100.3 million Teva shares. The acquisition significantly expanded Teva s generics product portfolio and pipeline, R&D capabilities and global operations network.

On October 3, 2016, Teva consummated the acquisition of Anda Inc. (Anda), the fourth largest distributor of generic pharmaceuticals in the United States, from Allergan, for cash consideration of $500 million. The purchase is a transaction related to the Actavis Generics acquisition, and as such the purchase price accounting and related disclosures were treated on a combined basis.

In July 2016, Teva completed debt issuances for an aggregate principal amount of $20.4 billion, or $20.3 billion in net proceeds, consisting of senior notes with aggregate principal amounts of $15 billion, 4 billion and CHF 1 billion and maturities between two to 30 years. The effective average interest rate of these notes is 2.32% per annum.

At the closing of the Actavis Generics acquisition, Teva borrowed $5 billion under its term loan facility with a syndicate of banks. The term facility is split into two tranches of $2.5 billion each, with the first tranche maturing in 2018 and the second tranche maturing in 2020 with payment installments each year. In addition, Teva terminated its $22 billion bridge loan credit agreement. See note 11.

Teva financed the cash consideration with the amounts mentioned above, in addition to approximately $8.1 billion from cash on hand, including from its December 2015 equity offerings and borrowings under its syndicated revolving line of credit.

Debt issuance and term loan facilities related costs of approximately $0.1 billion were incurred as part of the financing arrangements, and were capitalized under senior notes and loans in the consolidated balance sheets in 2016. Total equity issuance costs of approximately $0.2 billion related to the transaction were offset against the proceeds received from the issuances.

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The following table summarizes the fair value of consideration transferred to acquire Actavis Generics and Anda:

	U.S. $ in millions
Cash [1]	$ 33,878
Ordinary shares [2]	5,065
Contingent consideration [3]	302
Equity based compensation	25
Total fair value of consideration transferred	$ 39,270

(1) As a result of a working capital true up adjustment related to the Anda acquisition, a $42 million reduction in the fair value of the consideration transferred to acquire the businesses was reflected in the first quarter of 2017. The adjustment was settled during the second quarter of 2017 and impacted the statements of cash flows accordingly.

(2) Represents approximately 100.3 million shares at a price per share of $50.50 at August 1, 2016, which has been adjusted for a lack of marketability discount factor of 5.8%. The shares issued to Allergan were subject to transfer restrictions that generally expired as of August 2, 2017.

(3) The contingent consideration relates to sharing of profits of one specific product currently in development. Its fair value is based on the estimated future cash outflows, utilizing the same probability assessment that was applied on the related in-process research and development (IPR&D).

The table below summarizes the fair value estimates of the assets acquired, liabilities assumed and resulting goodwill. As the measurement period is now closed, the amounts were finalized during the second quarter of 2017:

	Preliminary values at December 31, 2016	Measurement period adjustments	Values at June 30, 2017
	(U.S. $ in millions)		
Cash and cash equivalents	$ 84	$	$ 84
Trade receivables [1]	3,211	(1)	3,210
Inventories	1,670	(6)	1,664
Other current assets [2]	2,050	(24)	2,026
Property, plant and equipment	1,370	(105)	1,265
Other non-current assets	24		24
Identifiable intangible assets: [3]			
Product rights [4]	8,640	(486)	8,154

Trade names	417	12	429
In-process research and development	5,006	611	5,617
Goodwill	24,192	961	25,153
Total assets acquired	46,664	962	47,626
Sales reserves and allowances	1,988	48	2,036
Trade payables	441	(3)	438
Employee related obligations	134	13	147
Accrued expenses [5]	920	124	1,044
Other current liabilities [6]	376	315	691

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	Preliminary values at December 31, 2016	Measurement period adjustments	Values at June 30, 2017
		(U.S. $ in millions)	
Deferred income taxes and other non-current liabilities [7]	3,493	507	4,000
Total liabilities assumed	7,352	1,004	8,356
Net assets acquired [8]	$ 39,312	$ (42)	$ 39,270

(1) As of the acquisition date, the fair value of trade receivables approximated the book value acquired. The gross contractual amount receivable was $3,319 million, of which approximately $109 million was not expected to be collected.
(2) Other current net assets related to divestitures were approximately $1,611 million.
(3) The fair value adjustment estimate of identifiable intangible assets is determined using the income approach, which is a valuation technique that estimates the fair value of an asset based on market participants expectations of the cash flows an asset would generate over its remaining useful life.
(4) The estimated weighted average amortization period of the acquired product rights is 11 years.
(5) In the ordinary course of business, Actavis Generics incurred contingent and other liabilities. Except as specifically excluded by the relevant accounting standard, contingencies are required to be measured at fair value as of the acquisition date. A liability of $607 million for litigation matters was assumed by Teva in connection with the acquisition. See note 13.
(6) Changes in other current liabilities are mainly due to reassessment related to utilization of carryforward losses of $327 million.
(7) Changes in deferred income taxes are mainly due to reassessment related to uncertain tax positions of approximately $297 million and changes related to re-allocation of intangibles assets to higher tax jurisdictions.
(8) The reduction in the estimated fair value of the net assets acquired is a result of a working capital true up adjustment related to the Anda business.

Goodwill is largely attributable to expected synergies following the acquisitions, as well as future economic benefits arising from other assets acquired that could not be separately recognized at this time. Goodwill is not deductible for tax purposes and was allocated to the generic medicines segment and other activities. See note 7.

Purchase price allocated to intangibles primarily represents developed products already marketed and IPR&D. Approximately $8.2 billion was allocated from the purchase price to developed products and $5.6 billion to IPR&D.

For both developed products and IPR&D, net cash flows were discounted to present values, using a range of discount rates from 6% to 13%. Other assumptions reflect stage of development, nature and timing of efforts for completion

and other risks and uncertainties. Identifiable intangible assets were valued using a variation of the income approach known as the Multi-Period Excess Earnings Approach. This uses a forecast of expected cash flows, cash outflows and contributory charges for economic returns on tangible and intangible assets employed.

IPR&D represents development in process which as of the closing date, had substance, where process to date is more than insignificant but had not yet reached completeness. As it relates to this acquisition, Teva considered all products that had at least begun processing the testing to demonstrate bioequivalence but had not yet received final approval from the Food and Drug Administration (FDA) to be part of IPR&D. There are approximately 250 products and/or product groups included in this allocation. A probability of success factor was used to reflect inherent technological and regulatory risks.

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The measurement period adjustments related to the identifiable intangible assets acquired represent the impact of updated cash flow projections on the fair value of the assets. The updated projections incorporated additional information obtained subsequent to the closing of the transaction, which included updated product and market based assumptions. The resulting reduction of amortization of product rights from the date of the acquisition s consummation is not material to the consolidated financial statements.

The final cash consideration for the Actavis Generics acquisition was subject to certain net working capital adjustments. Following the terms of the agreement, Teva submitted an adjustment for $1.4 billion with regards to a working capital true up as well as potential recoveries of purchase price related to certain tax items. On January 31, 2018, Teva and Allergan entered into a settlement agreement and mutual releases, providing that Allergan will make a one-time payment of $700 million to Teva, which is expected to be paid during the first quarter of 2018. The Agreement also provides that Teva and Allergan will jointly dismiss the working capital dispute arbitration, as well as actual or potential claims under the Master Purchase Agreement, dated July 26, 2015, by and between Teva and Allergan, for breach of any representation, warranty or covenant (other than any breach of a post-closing covenant not known as of the date of the settlement agreement). As the measurement period is now closed, this amount will be recorded as a gain in net income.

In order to complete the Actavis Generics acquisition, Teva was required by the U.S. Federal Trade Commission (FTC) to divest certain Actavis Generics and Teva products. The sale of the Teva legacy products resulted in a net gain of $720 million which was recognized on other income in the consolidated statements of income in the third quarter of 2016. A portion of the divestiture was considered a sale of a business, for which the respective gain includes the disposal of the estimated fair value of goodwill associated with the business, which was $99 million. Proceeds from the sale of the Actavis Generics and Teva assets were approximately $527 million and $1,218 million, respectively.

Pro forma information has not been included since Teva believes that this information is not indicative of future results.

b. Other transactions:

In August 2017, Teva purchased an FDA priority review voucher from a third party for $150 million, which allowed Teva to accelerate the review period for fremanezumab, one of its key specialty assets, for the treatment of migraine. This amount was recorded in Teva s consolidated statements of income as research and development expenses and reflected in cash flow used in investing activities.

During the year ended December 31, 2016, Teva entered into other transactions for aggregate cash consideration of $2.3 billion and non-cash consideration with a fair value of $1.8 billion. Goodwill recognized for these transactions is not deductible for tax purposes.

Pro forma financial information for the following transactions was not significant, individually or collectively, when compared with Teva s financial results.

Japanese business venture

On April 1, 2016, Teva and Takeda Pharmaceutical Company Limited (Takeda) established Teva Takeda Yakuhin Ltd. (Teva Takeda), a new business venture in Japan. The business venture combined Teva s Japanese generics business with Takeda s portfolio of off-patent products, leveraging Takeda s leading brand reputation and strong distribution presence in Japan with Teva s expertise in supply chain, operational network, infrastructure and R&D, to meet the wide-ranging needs of patients and growing importance of generics in Japan through the provision of off-patent medicines.

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Teva assigned 49% in the business venture to Takeda in consideration of the contribution of its off-patented products business in Japan. The business venture was consolidated in Teva s financial statements commencing April 1, 2016. Takeda s interest in the business venture is accounted for under net income (loss) attributable to non-controlling interests.

The table below summarizes the fair value of the assets acquired, liabilities assumed and resulting goodwill, as finalized in the first quarter of 2017. Teva recorded net assets acquired of $1.8 billion and non-controlling interests of $1.6 billion, with the difference recorded under Teva shareholders equity.

		U.S. $ in millions
Inventories	$	134
Identifiable intangible assets:		
Product and marketing rights [1]		1,491
Goodwill		698
Total assets acquired	$	2,323
Deferred income taxes		498
Total liabilities assumed		498
Net assets acquired	$	1,825

(1) The weighted average amortization period of the acquired product and marketing rights is approximately 15 years.

In the second quarter of 2017, Teva Takeda purchased an additional portfolio of off-patent products from Takeda for approximately $255 million. This additional transaction was accounted as an asset acquisition and no goodwill was assigned to it.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized. Specifically, goodwill recorded as part of the Teva Takeda business venture is attributable to expected specific synergies and market benefits that could not be individually identified and separately recognized and was allocated to the generics segment.

Rimsa

On March 3, 2016, Teva completed the acquisition of Representaciones e Investigaciones Médicas, S.A. de C.V. (Rimsa), a pharmaceutical manufacturing and distribution company in Mexico, for $2.3 billion, in a cash free, debt

free set of transactions. Teva financed the transaction using cash on hand.

Following the closing of the acquisition, Teva identified issues concerning Rimsa s pre-acquisition quality, manufacturing and other practices, at which point the Company began an assessment of the extent and cost of remediation required to return its products to the market. In September 2016, two lawsuits were filed: a pre-emptive suit by the Rimsa sellers against Teva, and Teva s lawsuit alleging fraud and breach of contract against the Rimsa sellers. The Rimsa sellers subsequently dismissed their lawsuit, and the dismissal was approved by court order on December 20, 2016. Teva s breach of contract claim against the Rimsa sellers remains outstanding.

During the fourth quarter of 2016, Teva completed its assessment of the implications of the identified issues on the intended synergies and integration of the acquisition, resulting in a comprehensive remediation plan and an impairment test over the goodwill acquired.

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As a result of the alleged fraud, and given the required level of senior management s attention to execute the remediation plan, Teva concluded that the rarity of the circumstances warranted the evaluation of Rimsa as a separate reporting unit. Accordingly, in 2016 goodwill resulting from the Rimsa acquisition was tested for impairment at this level, and an impairment of $900 million on goodwill was recorded.

Teva continues to monitor the execution of the remediation plan and related milestones. Critical to the plan are the timing and costs to remediate the facility and its product files. As all files required revalidation efforts in order to commence sales, all were classified as IPR&D. In the second quarter and the fourth quarter of 2017, Teva recorded $43 million and $110 million impairment, respectively, for IPR&D related to Rimsa. If it is determined that remediation will not be completed within the expected timeframe, Teva may conclude that additional impairment is necessary.

The table below summarizes the fair value of the assets acquired and liabilities assumed and resulting goodwill, prior to any goodwill impairments. The amounts were finalized in the first quarter of 2017.

	U.S. $ in millions
Current assets [1]	$ 97
Other non-current assets	144
Identifiable intangible assets:	
In-process research and development [2]	338
Goodwill	1,933
Total assets acquired	$ 2,512
Current liabilities	123
Deferred taxes and other non-current liabilities	68
Total liabilities assumed	191
Net assets acquired	$ 2,321

(1) As of the acquisition date, the fair value of trade receivables approximated the book value acquired. The gross contractual amount receivable was $47 million, of which $3 million was not expected to be collected.

(2) The value of research and development in-process was calculated using cash flow projections discounted for the inherent risk in the projects.

Goodwill attributable to the acquisition following the updated valuations represents the expected benefits from Teva s increased presence in the Mexican market and was allocated to the generics operating segment.

c. Assets and Liabilities Held For Sale:

Generics Assets in U.K. and Ireland

In order to complete the Actavis Generics acquisition, Teva was required by the U.S. Federal Trade Commission (FTC) and the European Commission to divest certain Actavis Generics and Teva products. On October 5, 2016, Teva entered into an agreement to sell certain assets and operations of Actavis Generics in the United Kingdom and Ireland. The transaction closed on January 9, 2017. Net proceeds from the sale of the assets amounted to $677 million. As a result of the devaluation of the British pound, the transactional currency, against the U.S. dollar, a capital loss of $52 million was recognized during the period in G&A expenses. The currency translation impact was reclassified to the statements of income out of accumulated other comprehensive income. See note 14e.

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Global Women s Health and Other Products

During September 2017, Teva entered into several agreements to sell certain non-core specialty products.

PARAGARD®, PLAN B ONE-STEP® and Other Women s Health Products

On November 1, 2017, Teva completed the sale of *PARAGARD®* a copper releasing intrauterine contraceptive manufactured and sold in the United States, to CooperSurgical for $1.1 billion in cash. Additionally, on November 2, 2017, Teva completed the sale of Plan B One-Step® and Teva s value brands of emergency contraception to Foundation Consumer Healthcare for $675 million in cash.

As a result of these transactions, the Company recognized a net gain on sale of approximately $1.1 billion in the fourth quarter of 2017 within other income in the consolidated statement of (loss) income. The costs to sell for these divestitures of approximately $15 million were recognized concurrently and included as a reduction to the net gain on sale.

Certain Women s Health and Other Specialty Products

On September 17, 2017, Teva entered into a definitive agreement under which CVC Capital Partners Fund VI will acquire a portfolio of products for $703 million in cash. The portfolio of products, which is marketed and sold outside of the United States, includes the women s health products OVALEAP®, ZOELY®, SEASONIQUE®, COLPOTROPHINE® and other specialty products such as ACTONEL®. On January 31, 2018, Teva completed the sale of the portfolio of products to CVC Capital Partners Fund VI.

As of December 31, 2017, the Company accounted for this transaction as assets and liabilities held for sale and determined that the fair value less cost to sell exceeded the carrying value of the business. The Company included as part of the held for sale assets $275 million of goodwill, which is the estimated fair value of goodwill associated with the divested business.

The Company determined that the sale of its global women s health businesses in connection with both pending and completed transactions did not constitute a strategic shift and that it did not and will not have a major effect on its operations and financial results. Accordingly, the operations associated with the transactions are not reported as discontinued operations.

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The table below summarizes the major classes of assets and liabilities included as held for sale as of December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
	(U.S. $ in millions)	
Trade receivables	$	$ 59
Inventories	39	63
Other current assets		1
Deferred income taxes		7
Property, plant and equipment, net	16	36
Identifiable intangible assets, net	236	675
Goodwill	275	
Total assets of the disposal group classified as held for sale in the consolidated balance sheets	$ 566	$ 841
Trade payables and accrued expenses	$	$ 83
Other current liabilities		10
Other taxes and long-term liabilities	38	23
Total liabilities of the disposal group classified as held for sale in the consolidated balance sheets	$ 38	$ 116

d. Other significant agreements:

The Company has entered into alliances and other arrangements with third parties to acquire rights to products it does not have, to access markets it does not operate in and to otherwise share development costs or business risks. The Company s most significant agreements of this nature are summarized below.

Alder BioPharmaceuticals®

On January 8, 2018, Teva signed a global license agreement with Alder BioPharmaceuticals (Alder). The agreement validates Teva s intellectual property and resolves Alder s opposition to Teva s European patent, with respect to anti-calcitonin gene-related peptide (CGRP) antibodies including the withdrawal of Alder s appeal before the European Patent Office. Under the terms of the agreement, Alder will receive a non-exclusive license to Teva s anti-CGRP antibodies patent portfolio to develop, manufacture and commercialize eptinezumab in the U.S. and worldwide, excluding Japan and Korea. Teva will receive a $25 million upfront payment. The agreement stipulates additional milestone payments to Teva of up to $175 million, as well as future royalties.

AUSTEDO®

On September, 19, 2017, Teva entered into a partnership agreement with Nuvelution Pharma, Inc. (Nuvelution) for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. Nuvelution will fund and manage clinical development, driving all operational aspects of the phase 3 program, and Teva will lead the regulatory process and be responsible for commercialization. Upon FDA approval of AUSTEDO for the treatment of Tourette syndrome, Teva will pay Nuvelution a pre-agreed amount as compensation for their contribution to the partnership.

Otsuka

On May 12, 2017, Teva entered into a license and collaboration agreement with Otsuka Pharmaceutical Co. Ltd. (Otsuka), providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for

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fremanezumab in Japan and, if approved, to commercialize the product in Japan. Otsuka paid Teva an upfront payment of $50 million in consideration for the transaction. Teva may receive additional milestone payments upon filing with Japanese regulatory authorities, receipt of regulatory approval and achievement of certain revenue targets. Otsuka will also pay Teva royalties on fremanezumab sales in Japan.

Attenukine™

In December 2016, Teva entered into a license agreement for research, development, manufacture and commercializing of Attenukine™ with a subsidiary of Takeda. Teva received a $30 million upfront payment. The agreement stipulates additional milestone payments to Teva of up to $280 million, as well as future royalties.

Ninlaro®

In November 2016, Teva entered into an agreement to sell its royalties and other rights in Ninlaro® (ixazomib) to a subsidiary of Takeda, for a $150 million upfront payment to Teva and an additional $150 million payment based on sales during 2017. Teva was entitled to these royalties pursuant to an agreement from 2014 assigning the Ninlaro® patents to an affiliate of Takeda in consideration of milestone payments and sales royalties. In the first six months of 2017, Teva received payments in the amount of $150 million, which were recognized as revenue for the period.

Celltrion

In October 2016, Teva and Celltrion, Inc. (Celltrion) entered into a collaborative agreement to commercialize two of Celltrion s biosimilar products in development for the U.S. and Canadian markets. Teva paid Celltrion $160 million, of which up to $60 million is refundable or creditable under certain circumstances. Teva and Celltrion will share the profit from the commercialization of these products.

Regeneron

In September 2016, Teva and Regeneron Pharmaceuticals, Inc. (Regeneron) entered into a collaborative agreement to develop and commercialize Regeneron s pain medication product, fasinumab. Teva and Regeneron share equally in the global commercial rights to this product, as well as ongoing associated research and development costs of approximately $1 billion. Teva made an upfront payment of $250 million to Regeneron as part of the agreement and additional milestone payments of $25 million and $35 million in the second quarter of 2017 and January 2018, respectively.

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NOTE 3 FAIR VALUE MEASUREMENT:

Financial items carried at fair value as of December 31, 2017 and 2016 are classified in the tables below in one of the three categories described in note 1f:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			
Cash and cash equivalents:				
Money markets	$ 5	$	$	$ 5
Cash, deposits and other	958			958
Investment in securities:				
Equity securities	65			65
Structured investment vehicles				
Other, mainly debt securities	14		18	32
Derivatives:				
Asset derivatives options and forward contracts		17		17
Asset derivatives cross-currency swaps		25		25
Liabilities derivatives options and forward contracts		(15)		(15)
Liabilities derivatives interest rate and cross-currency swaps		(98)		(98)
Contingent consideration*			(735)	(735)
Total	$ 1,042	$ (71)	$ (717)	$ 254

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			
Cash and cash equivalents:				
Money markets	$ 24	$	$	$ 24
Cash, deposits and other	964			964
Investment in securities:				
Equity securities	842			842
Structured investment vehicles		89		89
Other, mainly debt securities	14		17	31
Derivatives:				
Asset derivatives options and forward contracts		10		10
Asset derivatives cross-currency swaps		88		88

Liability derivatives	options and forward contracts		(17)	(17)
Liability derivatives	interest rate swaps		(2)	(2)
Contingent consideration*				(828)	(828)
Total		$ 1,844	$ 168	$ (811)	$ 1,201

* Contingent consideration represents liabilities recorded at fair value in connection with acquisitions.
Teva determined the fair value of contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration is based on several factors, such as: the cash flows projected from the success of unapproved product candidates; the probability of success for product candidates including risks associated with uncertainty regarding achievement and payment of milestone events; the time and resources needed to complete the development and

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approval of product candidates; the life of the potential commercialized products and associated risks of obtaining regulatory approvals in the U.S. and Europe and the discount rate for fair value measurement.

The contingent consideration is evaluated quarterly or more frequently if circumstances dictate. Changes in the fair value of contingent consideration are recorded in earnings under other asset impairments, restructuring and other items.

Significant changes in unobservable inputs, mainly the probability of success and cash flows projected, could result in material changes to the contingent consideration liability.

The following table summarizes the activity for those financial assets and liabilities where fair value measurements are estimated utilizing Level 3 inputs.

	December 31, 2017	December 31, 2016
	U.S. $ in millions	
Fair value at the beginning of the period	$ (811)	$ (811)
Investment in debt securities		16
Translation differences	(17)	18
Additional contingent consideration resulting from:		
Actavis Generics acquisition		(302)
Adjustments to provisions for contingent consideration:		
Actavis Generics transaction	(35)	
Labrys acquisition	(40)	(6)
Eagle transaction	(178)	(179)
MicroDose acquisition	89	(8)
Cephalon acquisition	10	(12)
NuPathe transaction		122
Settlement of contingent consideration:		
Labrys acquisition	100	25
Eagle transaction	165	115
Cephalon acquisition		205
Gecko acquisition		6
Fair value at the end of the period	$ (717)	$ (811)

Teva s financial instruments consist mainly of cash and cash equivalents, investments in securities, current and non-current receivables, short-term credit, accounts payable and accruals, loans and senior notes, convertible senior

debentures and derivatives.

The fair value of the financial instruments included in working capital and non-current receivables approximates their carrying value. The fair value of long-term bank loans mostly approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

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Financial instruments not measured at fair value

Financial instruments measured on a basis other than fair value are mostly comprised of senior notes and convertible senior debentures (see note 11), and are presented in the below table in terms of fair value:

	Estimated fair value* December 31,	
	2017	2016
	(U.S. $ in millions)	
Senior notes included under long-term liabilities	$ 23,459	$ 26,456
Senior notes and convertible senior debentures included under short-term liabilities	2,713	569
Fair value at the end of the period	$ 26,172	$ 27,025

* The fair value was estimated based on quoted market prices, where available.

NOTE 4 INVESTMENT IN SECURITIES:

a. Available-for-sale securities:

Available-for-sale securities are comprised mainly of debt securities and equity securities.

Investments in securities are classified based on the initial maturity as well as the intended time of realization.

At December 31, 2017 and 2016, the fair value, amortized cost and gross unrealized holding gains and losses of such securities were as follows:

	Fair value	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses
		(U.S. $ in millions)		
December 31, 2017	$ 102	$ 103	$ 19	$ 20
December 31, 2016	$ 986	$ 985	$ 44	$ 43

In the second quarter of 2016, Teva recorded an impairment of $99 million on its investment in Mesoblast.

During the third and fourth quarter of 2016, Teva sold and settled approximately five million of its Mylan shares, for an average price of $39.3 per share, for an aggregate cash consideration of approximately $202 million. Consequently, Teva recorded a $5 million net loss under financial expenses-net.

As of December 31, 2016, following the decision to treat the investment as held for sale, the decline in fair value of the remaining Mylan shares was considered to be other-than-temporary and recorded as an expense in the consolidated statements of income. Consequently, Teva recorded an additional $37 million loss under financial expenses-net, reflecting the difference between the book value and fair value of the shares as of December 31, 2016.

In the first quarter of 2017, Teva settled the remaining balance of approximately twelve million Mylan shares for an average price of $40.2 per share for an aggregate cash consideration of approximately $702 million. Consequently Teva recorded a $36 million net gain under financial expenses-net. See note 17.

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Investments in securities are presented in the balance sheet as follows:

	December 31,	
	2017	2016
	(U.S. $ in millions)	
Other current assets	$ 14	$ 679
Other non-current assets	83	283
Cash and cash equivalents, mainly money market funds	5	24
	$ 102	$ 986

b. Contractual maturities:

The contractual maturities of debt securities are as follows:

	December 31, 2017
	(U.S. $ in millions)
2018	$ 19
2021 and thereafter	18
	$ 37

NOTE 5 INVENTORIES:

Inventories, net of reserves, consisted of the following:

	December 31,	
	2017	2016
	(U.S. $ in millions)	
Finished products	$ 2,689	$ 2,832
Raw and packaging materials	1,454	1,385
Products in process	597	538
Materials in transit and payments on account	184	199

	$ 4,924	$ 4,954

NOTE 6 PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, net, consisted of the following:

	December 31,	
	2017	2016
	(U.S. $ in millions)	
Machinery and equipment	$ 5,809	$ 5,748
Buildings	3,329	3,331
Computer equipment and other assets	2,016	1,774
Payments on account	634	634
Land*	390	439
	12,178	11,926
Less accumulated depreciation	4,505	3,853
	$ 7,673	$ 8,073

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Notes to Consolidated Financial Statements (Continued)

* Land includes long-term leasehold rights in various locations, with useful lives of between 30 and 99 years. Depreciation expenses were $632 million, $501 million and $449 million in the years ended December 31, 2017, 2016 and 2015, respectively. During the years ended December 31, 2017, 2016 and 2015, Teva had impairments of property, plant and equipment in the amount of $544 million, $149 million and $96 million, respectively. Refer to note 18.

NOTE 7 GOODWILL:

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2017 and 2016 were as follows:

	Generics	Specialty	Other	Total
		(U.S. $ in millions)		
Balance as of January 1, 2016	$ 8,465	$ 9,420	$ 1,140	$ 19,025
Changes during year:				
Goodwill acquired and adjustments [1]	25,767	(29)	1,091	26,829
Goodwill disposed [2]	(99)			(99)
Goodwill impairment [3]	(900)			(900)
Translation differences	(370)	(68)	(8)	(446)
Balance as of December 31, 2016	$ 32,863	$ 9,323	$ 2,223	$ 44,409
Changes during year:				
Goodwill adjustments [1]	1,480		(560)	920
Goodwill disposed [2]	(7)	(690)		(697)
Goodwill impairment [4]	(16,500)		(600)	(17,100)
Goodwill reclassified as assets held for sale [5]		(275)		(275)
Translation differences	1,028	106	23	1,157
Balance as of December 31, 2017	$ 18,864	$ 8,464	$ 1,086	$ 28,414

(1) Goodwill recognized as part of the Actavis Generics, Anda, Takeda and Rimsa transactions in 2016. Goodwill adjustments in the current period represent measurement period adjustments on goodwill acquired in 2016.
(2) Goodwill on divestiture of Teva Generic products as part of Actavis Generics acquisition and the U.S. Women s Health divestiture.
(3) Represents Rimsa goodwill impairment. See note 2 for additional information.
(4) Goodwill impairment is mainly attributable to the U.S. generics reporting unit.

(5) Represent amounts related to the anticipated divestitures of the non U.S. women s health products. See note 2 for additional information.

Following the acquisition of Actavis Generics, Teva conducted an analysis of its business segments, which resulted in a change to Teva s segment reporting and goodwill assignment in the fourth quarter of 2016. Teva reallocated goodwill to its adjusted reporting units using a relative fair value approach.

Pursuant to the Company s policy, Teva conducted its annual impairment test during the fourth quarter of 2017, in conjunction with the preparation of its 2018 annual operating plan (AOP). The AOP was used as a base for a long range plan model, incorporating the impact of the restructuring plan that was announced on December 14, 2017. See note 18.

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Teva determines the fair value of its reporting units using a weighting of fair values derived from the income approach. The income approach is a forward-looking approach to estimating fair value. Within the income approach, the method that was used is the discounted cash flow method. Teva commenced with a forecast of all the expected net cash flows associated with the reporting units, which include the application of a terminal value, and then applied a discount rate to arrive at a net present value amount. Cash flow projections are based on Teva s estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions, which are reflective of market participants. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with country-specific characteristics.

Considering the steep decline in Teva s market capitalization in the second half of 2017 and considering additional adverse developments in its businesses during the fourth quarter of 2017, which are further described below, Teva recorded a goodwill impairment of $11.0 billion in the fourth quarter, mainly attributable to goodwill associated with its U.S. generics reporting unit, in addition to the $6.1 billion goodwill impairment that was recorded during the second quarter of 2017.

Generics reporting units

U.S. generics reporting unit

During the second quarter of 2017, Teva identified certain developments in the U.S. market, which negatively impacted Teva s outlook for its U.S. generics business. These developments included: (i) additional pricing pressure in the U.S. generics market as a result of customer consolidation into larger buying groups to extract further price reductions; (ii) accelerated FDA approval of additional generic versions of off-patent medicines, resulting in increased competition for these products; and (iii) delays in launches of certain of Teva new generic products. These developments caused Teva to revisit its assumptions supporting the cash flow projections for its U.S. generics reporting unit, including: (i) the expected duration and depth of price erosion and certain revenue growth assumptions; (ii) the associated operating profit margins; and (iii) the long term growth rate.

In estimating the discounted cash flow value of Teva s U.S. generics reporting unit as of the second quarter of 2017, Teva used the following key assumptions: Teva expected revenue and operating profits to continue to decline in 2018 and 2019, as its ability to successfully launch new generic products was not expected to offset or exceed the price and volume erosion for its existing portfolio prior to 2020, following which time, in 2020 and 2021, Teva expected to return to moderate growth. Teva assumed a terminal growth rate of 2% for the coming years, in line with recent general outlook, at the time, for the U.S. generics market. The resulting cash flow amounts were discounted using a weighted average cost of capital (WACC) of 6.8%.

Based on the second quarter revised discounted cash flows analysis, Teva recorded a goodwill impairment of $6.1 billion related to its U.S. generics reporting unit.

During the third quarter of 2017, Teva adjusted the projections for its U.S. generics reporting unit to reflect a potentially beneficial event, offset by further pricing pressure in the U.S. generics market, and concluded that no additional impairment was required.

During the fourth quarter of 2017, Teva noted further deterioration in the U.S. generics market and economic environment and further limitations on Teva s ability to influence generic medicines pricing in the long term and a decrease in value from future launches:

Pricing challenges due to customer consolidation. In prior periods, it appeared to be reasonable that as price erosion in the generics market continued, other manufacturers would exit particular generic markets, resulting in opportunities to eventually reduce overall erosion with price increases for certain products with decreasing competition after the exit of other manufacturers. However, increasing

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consolidation among purchasers of generic medicines, particularly Group Purchasing Organizations (GPOs), has led to three such GPOs representing approximately 80% of generics purchases in the United States. This led to a continuation and increase in the trend of lowest price tenders. Therefore, it now appears likely that there will be few, if any, opportunities to increase prices even when other generics manufacturers exit a market.

Pricing challenges due to government regulation. There is an increasing trend of enacting and proposing state-level legislation in the United States imposing penalties and/or restricting price increases, making pricing more challenging. The inconsistent rules across states add to the complexity of how to make decisions about the best economic outcome to maximize profit on a given generic product and the most restrictive law will likely restrict Teva s business practices nationwide, as marketing, sales and pricing are typically not administered on a state-by-state basis. Restrictive bills have passed in at least seven states, including high-population states such as California and New York, and bills are in the process of being re-submitted in ten additional states where they were previously rejected, with approximately half of them already passed and/or submitted for vote by January 2018.

Increasing generic approvals. The FDA is approving more generic formulations than they have in the past, which is affecting the value of already launched products. On January 3, 2018, the FDA commissioner announced new steps to facilitate efficient generic drug review to enhance competition, promote access and lower drug prices. The commissioner also stated that the FDA had several record-breaking months for the number of generic medicines approved, including November 2017, when it approved the highest number of generic medicines in the FDA s history.

Being the first to market a generic version of a product, and particularly as the only company authorized to sell during the 180-day period of exclusivity in the U.S. market, can substantially increase sales, profits and profitability in the period following the introduction of such a product and prior to a competitor s introduction of an equivalent product. Even after the exclusivity period ends, there is often continuing benefit from having the first generic product in the market. Pricing is generally higher during periods of limited competition. The FDA has also limited the availability of exclusive or semi-exclusive periods for new products with an increase in shared first to file awards, which reduces the economic benefit from being first-to-file for generic approvals.

In contrast to the FDA s accelerated approval of additional generic versions of off-patent medicines, the rate of FDA approval for a generic version of originator drugs without generic competition has not significantly increased. Thus, Teva s ability to launch profitable new products has not benefited from the FDA s increased focus on approving generic applications. Additionally, much of Teva s future pipeline is concentrated in complex or unique products coupled with devices, which take longer time for FDA approval.

Originator strategies to maintain market share. Originator companies increasingly engage in strategies beyond authorized generics, to maintain market share of their originator drugs, reducing the value of newly

launched complex or novel generics.

Changes to traditional distribution model. The traditional model for distribution of pharmaceutical products is also undergoing disruption as a result of the entry or potential entry of new competitors and significant mergers among key industry participants, which Teva believes will limit its future growth in the U.S. generics market. For example: (i) in January 2018, several major hospital groups announced a plan to form a non- profit company that will provide U.S. hospitals with a number of generic drugs; (ii) in January 2018, Amazon Inc., Berkshire Hathaway Inc. and JPMorgan Chase & Co. announced that they plan to join forces by forming an independent health care company for their combined one million U.S. employees; and (iii) the consolidation resulting from the merger announced in December 2017 between CVS Health and Aetna, if consummated, is expected to create a vertically integrated

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organization with increased control over the physician and pharmacy networks and, ultimately, over which medicines are sold to patients. Each of these events has the potential to drive further price erosion and limit the growth opportunities for Teva s U.S. generics unit.

U.S. tax reform. Recently-enacted U.S. tax reform legislation is expected to limit Teva s ability to achieve targeted tax efficiencies compared to prior estimates. See note 15.

In response to these developments, Teva s recently appointed President and Chief Executive Officer, Kåre Schultz, and the management team that was reorganized under him, announced a comprehensive restructuring plan in December 2017, aimed to increase the profitability of Teva s U.S. generics business, among other things. This plan focuses on discontinuation of loss generating products and reductions of infrastructure costs, by closing facilities and executing divestments, as well as a reduction in R&D expenditures, focusing on fewer, more profitable opportunities to launch new generic medicines. In addition, Teva further evaluated its assumptions and approach to valuing its pipeline and related projections. Due to the increased risks and variables now impacting generics launches, Teva, with the assistance of a global consulting firm, used a Monte Carlo model to simulate the different outcomes for launch value to better predict the estimated value to be derived.

As a result of the factors discussed above, Teva adjusted certain of its assumptions used in its cash flow projections in the fourth quarter of 2017 to determine the fair value of its U.S. generics reporting unit. In comparison to previous periods, Teva expects less revenues and profitability from newly launched products as well as larger pricing declines. As a result, Teva estimates a longer period will pass before it returns to revenue and profitability growth in its U.S. generics reporting unit.

The resulting cash flow amounts were discounted using a slightly increased rate of 7.3% compared to prior quarters, reflecting market participants assumptions regarding increased uncertainties in the U.S. generics market. Teva still assumes a terminal growth rate of 2%.

Based on the new estimates incorporating all of the above factors, Teva recorded a goodwill impairment of $10.4 billion related to its U.S. generics reporting unit in the fourth quarter of 2017. The aggregate goodwill impairment related to Teva s U.S. generics reporting unit in 2017 was $16.5 billion.

If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.1% or an increase in discount rate by 0.1% would each result in an additional impairment of approximately $190 million and $230 million, respectively.

If the conditions in the U.S. generics market continue to deteriorate more than anticipated, or if Teva is unable to execute its strategies or anticipated plans, it may be necessary to record further impairment charges in the future.

Other reporting units within generics

Teva concluded that the fair value of each of its remaining reporting units within its generics medicines segment continues to be in excess of its carrying value. The remaining goodwill allocated to these reporting units was

approximately $13.4 billion as of December 31, 2017. For these reporting units, the percentage excess of estimated fair value over carrying value, as of December 31, 2017, was 45.6% for Teva s Rimsa reporting unit, 4.6% for the European generics reporting unit and 4.1% for the ROW generics reporting unit.

Teva determined that the European and ROW generics reporting units are at risk of goodwill impairment in the future, due to the narrow margin between fair value and carrying value and also based on the sensitivity of the calculation of potential forecast revisions and/or changes in strategy in the business.

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The resulting cash flow amounts for European generics reporting unit were discounted using a rate of 8.4% reflecting market participants assumptions regarding increased uncertainties and country-specific characteristics with a terminal growth rate of 1.8%. If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.5% or an increase in discount rate by 0.4% would each result in impairment. The goodwill allocated to this reporting unit was $8.2 billion as of December 31, 2017.

The resulting cash flow amounts for ROW generics reporting unit were discounted using a rate of 8.8% reflecting market participants assumptions regarding increased uncertainties and country-specific characteristics with a terminal growth rate of 3.5%. If Teva holds all other assumptions constant, a reduction in the terminal value growth rate by 0.3% or an increase in discount rate by 0.2% would each result in impairment. The goodwill allocated to this reporting unit was $4.3 billion as of December 31, 2017.

In determining the fair value of these reporting units, Teva used a discounted cash flow analysis and applied the following key assumptions: expected revenue growth and operating profit margins including an estimate for price erosion and discount rate, among others.

If market conditions continue to deteriorate, or if Teva is unable to execute its strategies, it may be necessary to record further impairments in the future.

Specialty reporting unit

Teva adjusted its projections for its specialty reporting unit to reflect significant events that took place during 2017, mainly the FDA approval of a generic version of COPAXONE and the subsequent launch at risk of a competing product in the U.S. market, as well as the unfavorable clinical trial result for laquinimod and the favorable clinical trial results for AUSTEDO and fremanezumab. Teva reflected the expected implications of these developments in the cash flow projections and discounted the adjusted cash flow amounts by adding an additional risk premium of 2.3% to the discount rate of 7.3%, which Teva uses for most of its worldwide operations, applying a market participant view, to reflect the increased uncertainties in its specialty business.

The percentage difference between estimated fair value and estimated carrying value for the specialty reporting unit is 68.5%, following the impact of the above mentioned events.

Other reporting unit

Teva s other reporting unit consists primarily of its U.S. distribution business, Anda, which is negatively impacted by the outlook for generics, as revised in the fourth quarter of 2017. See U.S. generics reporting unit above. Accordingly, management reduced the projected growth of this business, resulting in an impairment of $600 million.

Market Capitalization

Teva analyzed the aggregate fair value of its reporting units as compared to its market capitalization in order to assess the reasonableness of the results of its cash flow projections used for its goodwill impairment analysis. The market

capitalization was based on the outstanding shares and expected dilution from mandatory convertible preferred shares, multiplied by the average market share price for the 30 days following the restructuring plan announcement on December 14, 2017. Reflecting the recent adverse developments in its cash flow projections as described above, Teva assessed its fair value, net of debt, to be higher than both its equity value of $19 billion and its market capitalization of $21 billion, as of December 31, 2017. Management believes that its fair value assessment is reasonably supported by the current market capitalization.

Management will continue to monitor business conditions and will also consider future developments in its market capitalization when assessing whether additional goodwill impairment is required in future periods.

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NOTE 8 IDENTIFIABLE INTANGIBLE ASSETS:

Identifiable intangible assets consisted of the following:

	Gross carrying amount net of impairment		Accumulated amortization December 31,		Net carrying amount	
	2017	2016	2017	2016	2017	2016
	(U.S. $ in millions)					
Product rights	$ 21,011	$ 18,180	$ 8,276	$ 6,460	$ 12,735	$ 11,720
Trade names	617	625	55	41	562	584
In-process research and development	4,343	9,183			4,343	9,183
Total	$ 25,971	$ 27,988	$ 8,331	$ 6,501	$ 17,640	$ 21,487

Whenever impairment indicators are identified for definite life intangible assets, Teva reconsiders the asset s estimated life, calculates the undiscounted value of the assets or asset group s cash flows and compares such value against the asset s or asset group s carrying amount. If the carrying amount is greater, Teva records an impairment loss for the excess of book value over fair value based on the discounted cash flows by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams.

The more significant estimates and assumptions inherent in the estimate of the fair value of identifiable intangible assets include all assumptions associated with forecasting product profitability, including sales and cost to sell projections, research and development expenditure for ongoing support of product rights or continued development of IPR&D, estimated useful lives and IPR&D expected launch dates. Additionally, for IPR&D assets the risk of failure has been factored into the fair value measure.

Impairment of identifiable intangible assets amounted to $3,238 million, $589 million and $265 million in the years ended December 31, 2017, 2016 and 2015, respectively, and are recorded in earnings under other asset impairments, restructuring and other items. See note 18.

Product rights and trade names

Product rights and trade names are assets presented at amortized cost. These assets represent a portfolio of pharmaceutical products from various categories with a weighted average life of approximately 11 years. Amortization of intangible assets amounted to $1,444 million, $993 million and $838 million in the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, the estimated aggregate amortization of intangible assets for the years 2018 to 2022 is as follows: 2018 $1,309 million; 2019 $1,246 million; 2020 $1,218 million; 2021 $1,071 million and 2022 $1,109 million.

These estimates do not include the impact of IPR&D that is expected to be successfully completed and reclassified to product rights.

IPR&D

Teva s IPR&D are assets that have not yet been approved in major markets. Teva s IPR&D is comprised mainly of the following acquisitions and related assets: various generic products (Actavis Generics) $3,535 million; LBR-101 (Labrys) $444 million; various generic products (Rimsa) $153 million and SD 809 multiple indications and SDJ60 idiopathic pulmonary fibrosis (Austedo) $211 million. IPR&D carry intrinsic risks that the asset might not succeed in advanced phases and may be impaired in future periods.

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Additional changes to research and development intangibles relate to reclassification to product rights following regulatory approvals, mainly AUSTEDO in 2017, and impairments of assets due to adverse development events, changes in projected launch date or changes in commercial projections related to products under development. An amount of $1.3 billion was reclassified from IPR&D to product rights in connection with AUSTEDO, upon receipt of regulatory approval in the second quarter of 2017. In the third quarter of 2017, an additional amount of $1.7 billion was reclassified from IPR&D to product rights in connection with the regulatory approval of AUSTEDO for a second indication.

NOTE 9 SALES RESERVES AND ALLOWANCES:

Sales reserves and allowances consisted of the following:

	December 31,	
	2017	2016
	(U.S. $ in millions)	
Rebates	$ 3,077	$ 3,482
Medicaid and other governmental allowances	1,908	1,729
Chargebacks	1,849	1,584
Returns	780	844
Other	267	200
	$ 7,881	$ 7,839

NOTE 10 LONG-TERM EMPLOYEE-RELATED OBLIGATIONS:

a. Long-term employee-related obligations consisted of the following:

	December 31,	
	2017	2016
	(U.S. $ in millions)	
Accrued severance obligations	$ 91	$ 120
Defined benefit plans	182	197
Total	$ 273	$ 317

As of December 31, 2017 and 2016, the Group had $149 million and $152 million, respectively, deposited in funds managed by financial institutions that are earmarked by management to cover severance pay liability mainly in respect

of Israeli employees. Such deposits are not considered to be plan assets and are therefore included in long-term investments and receivables.

Most of the change resulted from actuarial updates, as well as from exiting from several defined benefit plans in several countries.

The Company expects to expense an approximate contribution of $156 million in 2018 to the pension funds and insurance companies in respect of its severance and pension pay obligations.

The main terms of the different arrangements with employees are described in below.

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b. Terms of arrangements:

Israel

Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The Parent Company and its Israeli subsidiaries make ongoing deposits into employee pension plans to fund their severance liabilities. According to the general collective pension agreement in Israel, Company deposits with respect to employees who were employed by the Company after the agreement took effect are made in lieu of the Company s severance liability; therefore no obligation is provided for in the financial statements. Severance pay liabilities with respect to employees who were employed by the Parent Company and its Israeli subsidiaries prior to the collective pension agreement effective date, as well as employees who have special contractual arrangements, are provided for in the financial statements based upon the number of years of service and the latest monthly salary.

Europe

Many of the employees in the Company s European subsidiaries are entitled to a retirement grant when they leave the Company. In the consolidated financial statements, the liability of the European subsidiaries is accrued, based on the length of service and remuneration of each employee at the balance sheet date. Other employees in Europe are entitled to a pension according to a defined benefit scheme providing benefits based on final or average pensionable pay or according to a hybrid pension scheme that provides retirement benefits on a defined benefit and a defined contribution basis. Independent certified actuaries value these schemes and determine the rates of contribution payable. Pension costs for the defined benefit section of the scheme are accounted for on the basis of charging the expected cost of providing pensions over the period during which the subsidiaries benefit from the employees services. The Company uses December 31 as the measurement date for defined benefit plans.

North America

The Company s North American subsidiaries mainly provide various defined contribution plans for the benefit of their employees. Under these plans, contributions are based on specified percentages of pay. Additionally, a multi-employer plan is maintained in accordance with various union agreements.

Latin America

The majority of the employees in Latin America are entitled to severance under local law. The severance payments are calculated based on service term and employee remuneration, and accruals are maintained to reflect these amounts. In some Latin American countries it is Teva s practice to offer retirement health benefits to qualifying employees. Based on the specific plan requirements, benefits accruals are maintained to reflect the estimated amounts or adjusted if future plans are modified.

The Company expects to pay the following future minimum benefits to its employees: $7 million in 2018; $7 million in 2019; $8 million in 2020; $9 million in 2021; $10 million in 2022 and $53 million between 2023 to 2027. These amounts do not include amounts that may be paid to employees who cease working with the Company before their

normal retirement age.

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NOTE 11 DEBT OBLIGATIONS:

a. Short-term debt:

	Weighted average interest rate as of December 31, 2017	Maturity	December 31, 2017	December 31, 2016
			(U.S. $ in millions)	
Term loan JPY 28.3 billion	JPY LIBOR+0.25%	2018	$ 251	
Bank and financial institutions	11.67%	2018	1	15
Revolving credit facility	LIBOR+1.1375%	2017	$	$ 1,240
Term loan GBP 510 million	GBP LIBOR + 0.7%	2017		629
Term loan JPY 8.0 billion	JPY LIBOR+0.223%	2017		68
Convertible debentures	0.25%	2026	514	514
Current maturities of long-term liabilities			2,880	810
Total short term debt			$ 3,646	$ 3,276

Line of credit:

In November 2015, the Company entered into a $3 billion five-year unsecured syndicated credit facility (which was increased to $4.5 billion upon closing of the Actavis Generics acquisition, see note 2). In February 2018 the facility was decreased to $3 billion. This revolving line of credit was not utilized as of December 31, 2017.

Convertible senior debentures

Teva 0.25% convertible senior debentures, due 2026, principal amount as of December 31, 2017 and 2016 were $514 million. These convertible senior debentures include a net share settlement feature according to which the principal amount will be paid in cash and in case of conversion, only the residual conversion value above the principal amount will be paid in Teva shares. Due to the net share settlement feature, exercisable at any time, these convertible senior debentures are classified in the balance sheet under short-term debt. Holders of the convertible debentures will be able to cause Teva to redeem the debentures on February 1, 2021.

b. Long-term debt includes the following:

	Weighted average interest rate as of December 31, 2017 %	Maturity	December 31, 2017	December 31, 2016
			(U.S. $ in millions)	
Senior notes EUR 1,750 million [1]	0.38%	2020	$ 2,095	$ 1,834
Senior notes EUR 1,500 million [1]	1.13%	2024	1,788	1,566
Senior notes EUR 1,300 million	1.25%	2023	1,550	1,357
Senior notes EUR 1,000 million	2.88%	2019	1,199	1,050
Senior notes EUR 750 million [1]	1.63%	2028	891	780
Senior notes EUR 700 million	1.88%	2027	837	733
Senior notes USD 3,500 million [2]	3.15%	2026	3,492	3,491
Senior notes USD 3,000 million [2]	2.20%	2021	2,996	2,995
Senior notes USD 3,000 million [2], [3]	2.80%	2023	2,992	2,991
Senior notes USD 2,000 million [2]	1.70%	2019	2,000	2,000
Senior notes USD 2,000 million [2]	4.10%	2046	1,984	1,984

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	Weighted average interest rate as of December 31, 2017 %	Maturity	December 31, 2017	December 31, 2016
			(U.S. $ in millions)	
Senior notes USD 1,500 million [2]	1.40%	2018	1,500	1,498
Senior notes USD 844 million [4]	2.95%	2022	864	868
Senior notes USD 789 million	6.15%	2036	781	781
Senior notes USD 700 million	2.25%	2020	700	700
Senior notes USD 613 million [4]	3.65%	2021	624	626
Senior notes USD 588 million	3.65%	2021	587	587
Senior notes CHF 450 million	1.50%	2018	461	442
Senior notes CHF 350 million [5]	0.50%	2022	360	344
Senior notes CHF 350 million [5]	1.00%	2025	360	345
Senior notes CHF 300 million [5]	0.13%	2018	308	295
Fair value hedge accounting adjustments			(2)	(2)
Total senior notes			28,367	27,265
Term loan USD 2.5 billion [6]	LIBOR +1.1375%	2018	285	2,500
Term loan USD 2.5 billion [6]	LIBOR +1.50%	2017-2020	2,000	2,500
Term loan JPY 58.5 billion [7]	JPY LIBOR +0.55%	2022	519	
Term loan JPY 65 billion [8]	0.99%	2017		560
Term loan JPY 35 billion	1.42%	2019	311	299
Term loan JPY 35 billion	JPY LIBOR +0.3%	2018	311	299
Total loans			3,426	6,158
Debentures USD 15 million	7.20%	2018	15	15
Other	7.46%	2026	5	9
Total debentures and others			20	24
Less current maturities			(2,880)	(810)
Derivative instruments			2	2
Less debt issuance costs			(106)	(115)
Total long-term debt			$ 28,829	$ 32,524

Certain of Teva s loan agreements include restrictive covenants, including the requirement to maintain compliance with a net debt to EBITDA ratio, which becomes more restrictive over time. Approximately $3.7 billion of Teva s debt is subject to such covenants and, under specified circumstances, including non-compliance with such covenants and the unavailability of any waiver, amendment or other modification thereto and the expiration of any applicable grace period thereto, substantially all other debt could be negatively impacted by non-compliance with such covenants.

As of December 31, 2017, Teva was in compliance with all applicable financial ratios. Teva continues to take steps to reduce its debt levels and improve profitability to ensure continual compliance with the financial maintenance covenants. Based on its current forecast for the next twelve months from the date of issuance of these financial statements, Teva expects to remain in compliance with these financial covenants after taking into consideration the effect of implementation of certain cost-efficiency initiatives, such as rationalization of its plants, selling and marketing, general and administrative and research and development spend, which would allow Teva to continue to comply with the financial covenants. Teva has amended such covenants in the past, including the net debt to EBITDA ratio covenant to permit a higher ratio, most recently on February 1, 2018. Although Teva has successfully negotiated amendments to its loan agreements in the past, Teva cannot guarantee that it will be able to amend such agreements on terms satisfactory to it, or at all, if required to maintain

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compliance in the future. If Teva experiences lower than required earnings and cash flows to continue to maintain compliance and efforts could not be successfully completed on commercially acceptable terms, Teva may curtail additional planned spending, may divest additional assets in order to generate enough cash to meet its debt requirements and all other financial obligations.

(1) In July 2016, in connection with the anticipated closing of the Actavis Generics acquisition, Teva Pharmaceutical Finance Netherlands II B.V., a Teva finance subsidiary, issued senior notes in an aggregate principal amount of 4.0 billion.

(2) In July 2016, in connection with the anticipated closing of the Actavis Generics acquisition, Teva Pharmaceutical Finance Netherlands III B.V., a Teva finance subsidiary, issued senior notes in an aggregate principal amount of $15.0 billion.

(3) In the fourth quarter of 2016, Teva entered into interest rate swap agreements designated as fair value hedge relating to its 2.8% senior notes due 2023 with respect to $500 million notional amount of outstanding debt.

(4) In the third quarter of 2016, Teva terminated interest rate swap agreements designated as fair value hedge relating to its 2.95% senior notes due 2022 with respect to $844 million notional amount and its 3.65% senior notes due 2021 with respect to $450 million notional amount.

(5) In July 2016, in connection with the anticipated closing of the Actavis Generics acquisition, Teva Pharmaceutical Finance Netherlands IV B.V., a Teva finance subsidiary, issued senior notes in an aggregate principal amount of CHF 1.0 billion.

(6) In August 2016, upon closing of the Actavis Generics acquisition, Teva borrowed $5 billion under its term loan facilities with a syndicate of banks. The term facilities consists of two tranches of $2.5 billion each, with the first tranche maturing in full in 2018 and the second tranche maturing in 2020 with payment installments each year (10% to be repaid in each of 2017 and 2018, 20% to be repaid in 2019 and the remaining 60% to be repaid in 2020).

In November 2017 Teva prepaid $2.2 billion principle amount of its first tranche term loan maturing in 2018. In August 2017 Teva repaid at maturity $250 million principle amount of its second tranche term loan 2017 payment instalment.

In September and November 2017 Teva prepaid $170 million and $80 million respectively, principle amount of its second tranche term loan 2018 payment instalment.

(7) In March 2017 Teva entered into a JPY 86.8 billion term loan agreement with a syndicate of banks, consisting of two tranches, JPY 58.5 billion with five years maturity and JPY 28.3 billion with one year maturity with an optional six month extension recorded under short-term debt.

(8) In April 2017 Teva repaid at maturity JPY 65.5 billion principle amount of its 0.99% term loan.

Long term debt was issued by several indirect wholly-owned subsidiaries of the Company and is fully and unconditionally guaranteed by the Company as to payment of all principal, interest, discount and additional amounts (as defined), if any.

Long term debt as of December 31, 2017 is effectively denominated (taking into consideration cross currency swap agreements) in the following currencies: U.S. dollar 64%, euro 31%, Japanese yen 3% and Swiss franc 2%. Certain loan agreements and debentures contain restrictive covenants, mainly the requirement to maintain certain financial ratios. As of December 31, 2017, the Company met all financial covenants.

The Company and certain subsidiaries entered into negative pledge agreements with certain banks and institutional investors. Under the agreements, the Company and such subsidiaries have undertaken not to register

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floating charges on assets in favor of any third parties without the prior consent of the banks, to maintain certain financial ratios and to fulfill other restrictions, as stipulated by the agreements.

The required annual principal payments of long-term debt, excluding debt issuance cost as of December 31, 2017, starting with the year 2019, are as follows:

	December 31, 2017 (U.S. $ in millions)
2019	$ 4,010
2020	4,295
2021	4,207
2022	1,743
2023 and thereafter	14,680
	$ 28,935

NOTE 12 OTHER INCOME:

	Year ended December, 31		
	2017	2016	2015
	(U.S. $ in millions)		
Gains on divestitures [1]	$ 1,083	$ 720	$ 45
Gains on litigation settlements [2]	83	20	25
Gains on sale of assets	11	10	44
Other, net	22	19	52
Total other income	$ 1,199	$ 769	$ 166

(1) Gain related to the divestment of women s health products in 2017 and certain Actavis Generics and Teva products in 2016, in order to comply with FTC and European Commission requirements following Actavis Generics acquisition. See Note 2.
(2) Mainly due to income related to a legal recovery in Canada.

NOTE 13 COMMITMENTS AND CONTINGENCIES:

a. Commitments:

Preferred dividends:

As to dividends in respect of mandatory convertible preferred shares, see note 14b.

Operating leases:

As of December 31, 2017, minimum future rentals under operating leases of buildings, machinery and equipment for periods in excess of one year were as follows: 2018 $160 million; 2019 $132 million; 2020 $100 million; 2021 $73 million; 2022 $51 million; 2023 and thereafter $75 million.

The lease fees expensed in each of the years ended December 31, 2017, 2016 and 2015 were $200 million, $164 million and $122 million, respectively.

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Royalty commitments:

The Company is committed to pay royalties to owners of know-how, partners in alliances and other certain arrangements and to parties that financed research and development, at a wide range of rates as a percentage of sales or of the gross margin of certain products, as defined in the underlying agreements.

Royalty expenses are reported in cost of goods sold if related to the acquisition of a product, and if not are included in sales and marketing expenses. The royalty expense in each of the years ended December 31, 2017, 2016 and 2015 were $956 million, $814 million and $911 million, respectively.

Milestone commitments:

The Company is committed to paying milestone payments which are contingent upon the achievement of certain regulatory milestones and sales targets. As of December 31, 2017, were all milestones and targets, for compounds in Phase II and more advanced stages of development, to be achieved, the total contingent payments could reach an aggregate of up to approximately $407 million.

b. Contingencies:

General

From time to time, Teva and/or its subsidiaries are subject to claims for damages and/or equitable relief arising in the ordinary course of business. In addition, as described below, in large part as a result of the nature of its business, Teva is frequently subject to litigation. Teva generally believes that it has meritorious defenses to the actions brought against it and vigorously pursues the defense or settlement of each such action. Except as described below, Teva does not currently have a reasonable basis to estimate the loss, or range of loss, that is reasonably possible with respect to matters disclosed in this note.

Teva records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Based upon the status of the cases described below, management s assessments of the likelihood of damages, and the advice of counsel, no provisions have been made regarding the matters disclosed in this note, except as noted below. Litigation outcomes and contingencies are unpredictable, and excessive verdicts can occur. Accordingly, management s assessments involve complex judgments about future events and often rely heavily on estimates and assumptions.

If one or more of such proceedings described below were to result in final judgments against Teva, such judgments could be material to its results of operations and cash flows in a given period. In addition, Teva incurs significant legal fees and related expenses in the course of defending its positions even if the facts and circumstances of a particular litigation do not give rise to a provision in the financial statements.

In connection with third-party agreements, Teva may under certain circumstances be required to indemnify, and may be indemnified by, in unspecified amounts, the parties to such agreements against third-party claims. Among other things, Teva s agreements with third parties may require Teva to indemnify them, or require them to indemnify Teva, for the costs and damages incurred in connection with product liability claims, in specified or unspecified amounts.

Except as otherwise noted, all of the litigation matters disclosed below involve claims arising in the United States. Except as otherwise noted, all third party sales figures given below are based on IQVIA (formerly IMS Health Inc.) data.

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Intellectual Property Litigation

From time to time, Teva seeks to develop generic versions of patent-protected pharmaceuticals for sale prior to patent expiration in various markets. In the United States, to obtain approval for most generics prior to the expiration of the originator s patents, Teva must challenge the patents under the procedures set forth in the Hatch-Waxman Act of 1984, as amended. To the extent that Teva seeks to utilize such patent challenge procedures, Teva is and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator s patents. Teva may also be involved in patent litigation involving the extent to which its product or manufacturing process techniques may infringe other originator or third-party patents.

Additionally, depending upon a complex analysis of a variety of legal and commercial factors, Teva may, in certain circumstances, elect to market a generic version even though litigation is still pending. To the extent Teva elects to proceed in this manner, it could face substantial liability for patent infringement if the final court decision is adverse to Teva, which could be material to its results of operations and cash flows in a given period.

The general rule for damages in patent infringement cases in the United States is that the patentee should be compensated by no less than a reasonable royalty, and it may also be able in certain circumstances to be compensated for its lost profits. The amount of a reasonable royalty award would generally be calculated based on the sales of Teva s product. The amount of lost profits would generally be based on the lost sales of the patentee s product. In addition, the patentee may seek consequential damages as well as enhanced damages of up to three times the profits lost by the patent holder for willful infringement, although courts have typically awarded much lower multiples.

Teva is also involved in litigation regarding patents in other countries where it does business, particularly in Europe, where Teva has in recent years increased the number of launches of its generic versions of branded pharmaceuticals prior to the expiration of the innovator s patents. The laws concerning generic pharmaceuticals and patents differ from country to country. Damages for patent infringement in Europe may include lost profits or a reasonable royalty, but enhanced damages for willful infringement are generally not available.

In December 2012, Endo International (Endo) sued Actavis Inc. and Actavis South Atlantic LLC (collectively Actavis), subsidiaries of Teva, in New York federal court for infringement of patents expiring in 2023 (the Endo Patents). The lawsuit followed the launch by Actavis of its 7.5 mg and 15 mg oxymorphone extended-release tablets, which were the AB-rated generic versions of the original formulation of Endo s Opana® ER. According to Endo s annual report, Opana® ER had net sales of approximately $299 million for the twelve months ended December 31, 2012. In September 2013, Actavis launched additional strengths of its product. In August 2015, the court found two of the Endo Patents valid and infringed, and on April 29, 2016, enjoined Actavis from selling its oxymorphone ER products. Actavis has appealed these rulings. In addition, in November 2014, Endo and Mallinckrodt sued Actavis in Delaware federal court, alleging that sales of the Actavis oxymorphone ER products infringe another patent that expires in 2029, which Endo had licensed from Mallinckrodt (the Mallinckrodt Patent). Trial in that case took place in February 2017, and in August 2017, the Delaware court issued a decision finding the Mallinckrodt Patent valid and infringed. Actavis is appealing this ruling as well. On August 17, 2017, Actavis, Endo, and Mallinckrodt entered into a partial settlement agreement, which resolved any damages claim arising from Actavis past sales. However, Actavis appeals of the findings of validity and infringement of the Endo Patents and the Mallinckrodt Patent remain pending.

A provision has been included in the financial statements for this matter.

In July 2014, GlaxoSmithKline (GSK) sued Teva in Delaware federal court for infringement of a patent expiring in June 2015 directed to using carvedilol in a specified manner to decrease the risk of mortality in patients with congestive heart failure. Teva and eight other generic producers began selling their carvedilol

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tablets (the generic version of GSK s Coreg®) in September 2007. Teva vigorously disputed GSK s claims on the merits and also disputed the amount and nature of GSK s alleged damages. A seven-day jury trial began on June 12, 2017. On June 20, 2017, the jury returned a verdict in GSK s favor finding Teva liable for induced infringement, including willful infringement, and assessing damages of $235.5 million, not including pre- or post-judgment interest. Teva has filed post-trial motions for judgment as a matter of law asking the court to overturn the jury verdict on inducement, invalidity, and the award of lost profits damages, and GSK has filed post-trial motions asking the court to increase the damages amount in light of the willful infringement finding and to set the interest rate(s) to be applied to the total damages amount. A hearing on post-trial motions was held on October 26, 2017, and the parties await the court s ruling on the motions. At a later date, a separate bench trial will be held by the court to address Teva s legal and equitable defenses, which could either bar or limit GSK s claims and damages. Depending on the outcome of such trial, Teva may decide to appeal. Even if Teva is found liable for infringement, Teva would be permitted to continue selling its carvedilol products as the patent-in-suit has expired. A provision has been included in the financial statements for this matter.

In 2014, Teva Canada succeeded in its challenge of the bortezomib (the generic equivalent of Velcade®) product and mannitol ester patents under the Patented Medicines (Notice Of Compliance) Regulations (PM(NOC)). Teva commenced sales in the first quarter of 2015. At the time of Teva s launch, annual sales of Velcade were approximately 94 million Canadian dollars. Teva commenced an action under Section 8 of PM(NOC) to recover damages for being kept off of the market during the PM(NOC) proceedings. Janssen and Millennium filed a counter claim for infringement of the same two patents as well as a patent covering a process to prepare bortezomib. The product patent expired in October 2015; the other patents expire in January 2022 and March 2025. On December 20, 2017, Teva entered into an agreement with Janssen and Millenium which limits the damages payable by either party depending on the outcome of the infringement/impeachment action. As a result, the most Janssen and Millenium could recover is 200 million Canadian dollars (approximately $159 million) plus post-judgment interest. The trial, which is limited to the issue of patent validity and infringement, began on January 29, 2018 and is ongoing. In addition to the potential damages that could be awarded, if Janssen and Millenium ultimately were successful in their allegations of patent infringement, Teva could be enjoined from further sales of its bortezomib product.

Product Liability Litigation

Teva s business inherently exposes it to potential product liability claims. Teva maintains a program of insurance, which may include commercial insurance, self-insurance (including direct risk retention), or a combination of both approaches, in amounts and on terms that it believes are reasonable and prudent in light of its business and related risks. However, Teva sells, and will continue to sell, pharmaceuticals that are not covered by its product liability insurance; in addition, it may be subject to claims for which insurance coverage is denied as well as claims that exceed its policy limits. Product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, Teva may not be able to obtain the type and amount of commercial insurance it desires, or any commercial insurance on reasonable terms, in all of its markets.

Teva and/or its subsidiaries, including Watson Laboratories, Inc. (Watson) and Actavis Elizabeth LLC (Actavis Elizabeth), have been named as defendants in approximately 4,000 product liability lawsuits brought against them and other manufacturers by approximately 4,400 plaintiffs claiming injuries (including allegations of neurological

disorders, such as tardive dyskinesia) from the long-term use of metoclopramide (the generic form of Reglan®). In the beginning of 2018, plaintiffs reached the agreed upon participation threshold percentage and settlement was paid in January 2018. For over 20 years, the FDA-approved label for metoclopramide has contained warning language about the risk of tardive dyskinesia, and that the risk of developing the disorder increases with duration of treatment and total cumulative dose. In February 2009, the FDA announced that

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manufacturers of metoclopramide would be required to revise the label, including the addition of a black box warning about the risk of tardive dyskinesia resulting from long-term usage. In October 2015, Actavis Elizabeth reached an agreement in principle to resolve the vast majority of the cases pending against it. In January 2017, Teva and/or its other subsidiaries involved in the litigation also reached an agreement to resolve the vast majority of the cases pending against them, subject to participation by a certain percentage of plaintiffs. At the beginning of 2018, plaintiffs met the participation threshold, and over 99% of the cases will be dismissed with prejudice. A provision has been included in the financial statements for these matters.

Competition Matters

As part of its generic pharmaceuticals business, Teva has challenged a number of patents covering branded pharmaceuticals, some of which are among the most widely-prescribed and well-known drugs on the market. Many of Teva s patent challenges have resulted in litigation relating to Teva s attempts to market generic versions of such pharmaceuticals under the federal Hatch-Waxman Act. Some of this litigation has been resolved through settlement agreements in which Teva obtained a license to market a generic version of the drug, often years before the patents expire.

Teva and its subsidiaries have increasingly been named as defendants in cases that allege antitrust violations arising from such settlement agreements. The plaintiffs in these cases, which are usually direct and indirect purchasers of pharmaceutical products, and often assert claims on behalf of classes of all direct and indirect purchasers, typically allege that (1) Teva received something of value from the innovator in exchange for an agreement to delay generic entry, and (2) significant savings could have been realized if there had been no settlement agreement and generic competition had commenced earlier. These class action cases seek various forms of injunctive and monetary relief, including damages based on the difference between the brand price and what the generic price allegedly would have been and disgorgement of profits, which are automatically trebled under the relevant statutes, plus attorneys fees and costs. The alleged damages generally depend on the size of the branded market and the length of the alleged delay, and can be substantial potentially measured in multiples of the annual brand sales particularly where the alleged delays are lengthy or branded drugs with annual sales in the billions of dollars are involved.

Teva believes that its settlement agreements are lawful and serve to increase competition, and has defended them vigorously. In Teva s experience to date, these cases have typically settled for a fraction of the high end of the damages sought, although there can be no assurance that such outcomes will continue.

In June 2013, the United States Supreme Court held, in Federal Trade Commission v. Actavis, Inc. (the AndroGel case), that a rule of reason test should be applied in analyzing whether such settlements potentially violate the federal antitrust laws. The Supreme Court held that a trial court must analyze each agreement in its entirety in order to determine whether it violates the antitrust laws. This new test has resulted in increased scrutiny of Teva s patent settlements, additional action by the FTC and state and local authorities, and an increased risk of liability in Teva s currently pending antitrust litigations.

In April 2006, certain subsidiaries of Teva were named in a class action lawsuit filed in the U.S. District Court for the Eastern District of Pennsylvania. The case alleges that the settlement agreements entered into between Cephalon, Inc.,

now a Teva subsidiary (Cephalon), and various generic pharmaceutical companies in late 2005 and early 2006 to resolve patent litigation involving certain finished modafinil products (marketed as PROVIGIL®) were unlawful because they had the effect of excluding generic competition. The case also alleges that Cephalon improperly asserted its PROVIGIL patent against the generic pharmaceutical companies. The first lawsuit was brought by King Drug Company of Florence, Inc. on behalf of itself and as a proposed class action on behalf of any other person or entity that purchased PROVIGIL directly from Cephalon (the Direct Purchaser

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Class). Similar allegations were made in other complaints, including those filed on behalf of a proposed class of end payers of PROVIGIL (the End Payer Class), by certain individual end payers, by certain retail chain pharmacies and by Apotex, Inc. (collectively, these cases are referred to as the Philadelphia Modafinil Action). Separately, Apotex challenged Cephalon s PROVIGIL patent, and in October 2011, the Court found the patent to be invalid and unenforceable based on inequitable conduct. This decision was affirmed on appeal in April 2013. Teva has either settled or reached agreements in principle to settle with all of the plaintiffs in the Philadelphia Modafinil Action. However, one of the end payers, United Healthcare Services, took the position that it is not bound by the settlement that was agreed to on its behalf and brought a separate action in Minnesota federal court, which has been transferred to the U.S. District Court for the Eastern District of Pennsylvania, where Teva has also filed suit to enforce the settlement. The suit to enforce the settlement has been scheduled for trial beginning on April 23, 2018.

Additionally, Cephalon and Teva have reached a settlement with 48 state attorneys general, which was approved by the court on November 7, 2016. Certain other claimants, including the State of California, have given notices of potential claims related to these settlement agreements. Teva has produced documents in response to two subpoenas issued by the California Attorney General s office as part of its ongoing investigation of generic competition to PROVIGIL.

In May 2015, Cephalon entered into a consent decree with the FTC under which the FTC dismissed its claims against Cephalon in the FTC Modafinil Action in exchange for payment of $1.2 billion (less set-offs for prior settlements) by Cephalon and Teva into a settlement fund. Under the consent decree, Teva also agreed to certain injunctive relief with respect to the types of settlement agreements Teva may enter into to resolve patent litigation in the United States for a period of ten years. The settlement fund does not cover any judgments or settlements outside the United States.

Following an investigation initiated by the European Commission in April 2011 regarding a modafinil patent settlement in Europe, the Commission issued a Statement of Objections in July 2017 against both Cephalon and Teva alleging that the 2005 settlement agreement between the parties had the object and effect of hindering the entry of generic modafinil. Teva submitted its defense in writing and will also have the right to request an oral hearing before the Commission makes its final decision. The sales of modafinil in the European Economic Area during the last full year of the alleged infringement amounted to EUR 46.5 million.

In January 2009, the FTC and the State of California filed a complaint for injunctive relief in California federal court alleging that a September 2006 patent lawsuit settlement between Watson and Solvay Pharmaceuticals, Inc. (Solvay) relating to AndroGel® 1% (testosterone gel) violated the antitrust laws. Additional lawsuits alleging similar claims were later filed by private plaintiffs (including plaintiffs purporting to represent classes of similarly situated claimants as well as direct purchaser plaintiffs filing separately), and the various actions were consolidated in a multidistrict litigation in Georgia federal court. Discovery in these actions is now closed; the defendants filed various summary judgment motions on September 29, 2017, which plaintiffs opposed on December 12, 2017. Annual sales of AndroGel® 1% at the time of the settlement were approximately $350 million, and annual sales of the AndroGel franchise (AndroGel® 1% and AndroGel® 1.62%) were approximately $140 million and $1.05 billion, respectively, at the time Actavis launched its generic version of AndroGel® 1% in November 2015.

Teva subsidiaries Barr Laboratories, Inc. (Barr) and The Rugby Group (Rugby) were sued in actions in California, Kansas and Florida state courts by plaintiffs alleging that a January 1997 patent litigation settlement agreement between Barr, Rugby (then a subsidiary of Sanofi Aventis) and Bayer Corporation concerning the antibiotic ciprofloxacin was anticompetitive and violated state antitrust and consumer protection laws. In addition, Rugby is also named as a defendant in a Tennessee action. All of the litigation relating to such patent

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litigation settlement agreement have either settled or are inactive. In the California case, the trial court granted defendants summary judgment motions, and in May 2015, the California Supreme Court reversed and remanded the case to the trial court for a rule of reason inquiry. On January 18, 2017, Barr agreed to settle with plaintiffs for $225 million and a provision has been included in the financial statements. On April 21, 2017, the court granted final approval of the settlement. Two class members who have objected to the settlement have filed an appeal of the court s ruling granting final approval.

In December 2011, three groups of plaintiffs sued Wyeth and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving extended release venlafaxine (generic Effexor® XR) entered into in November 2005. The cases were filed by a purported class of direct purchasers, by a purported class of indirect purchasers and by certain chain pharmacies in the United States District Court for the District of New Jersey. The plaintiffs claim that the settlement agreement between Wyeth and Teva unlawfully delayed generic entry. In October 2014, the court granted Teva s motion to dismiss in the direct purchaser cases, after which the parties agreed that the court s reasoning applied equally to the indirect purchaser cases. Plaintiffs appealed, and on August 21, 2017, the Third Circuit reversed the district court s decision and remanded for further proceedings. On November 20, 2017, Teva and Wyeth filed a petition for a writ of certiorari in the United States Supreme Court, which remains pending, and litigation has resumed before the district court. Annual sales of Effexor® XR were approximately $2.6 billion at the time of settlement and at the time generic versions were launched in July 2010.

In February 2012, two purported classes of direct-purchaser plaintiffs sued GSK and Teva in New Jersey federal court for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving lamotrigine (generic Lamictal®) entered into in February 2005. The plaintiffs claim that the settlement agreement unlawfully delayed generic entry and seek unspecified damages. In December 2012, the court dismissed the case. In January 2014, the court denied the direct purchaser plaintiffs motion for reconsideration and affirmed its original dismissal. In June 2015, the Third Circuit reversed and remanded for further proceedings. On February 19, 2016, Teva and GSK filed a petition for a writ of certiorari in the United States Supreme Court, which was denied on November 7, 2016. In the meantime, litigation resumed before the district court. Annual sales of Lamictal® were approximately $950 million at the time of the settlement, and approximately $2.3 billion at the time generic competition commenced in July 2008.

In April 2013, purported classes of direct purchasers of, and end payers for, Niaspan® (extended release niacin) sued Teva and Abbott for violating the antitrust laws by entering into a settlement agreement in April 2005 to resolve patent litigation over the product. A multidistrict litigation has been established in the U.S. District Court for the Eastern District of Pennsylvania. Throughout 2015 and in January 2016, several individual direct purchaser opt-out plaintiffs filed complaints with allegations nearly identical to those of the direct purchaser class. In October 2016, the District Attorney for Orange County, California, filed a similar complaint, which has since been amended, in California state court alleging violations of state law. Further proceedings in the California action have been stayed pending resolution of Defendants petition for writ of mandate or prohibition filed with the Court of Appeal, Fourth Appellate District, which seeks an order vacating the Superior Court s denial of Defendants motion to strike all claims for restitution and civil penalties to the extent they are not limited to alleged activity in Orange County. Annual sales of Niaspan® were approximately $416 million at the time of the settlement and approximately $1.1 billion at the time generic competition commenced in September 2013.

In November 2013, a putative class action was filed in Pennsylvania federal court against Actavis, Inc. and certain of its affiliates, alleging that Watson s 2012 patent lawsuit settlement with Endo Pharmaceuticals Inc. relating to Lidoderm® (lidocaine transdermal patches) violated the antitrust laws. Additional lawsuits containing similar allegations followed on behalf of other classes of putative direct purchaser and end-payer plaintiffs, and

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the cases have been consolidated as a multidistrict litigation in federal court in California. Defendants moved to dismiss, and in November 2014, the court granted the motions in part but denied them with respect to the claims under Section 1 of the Sherman Act. Plaintiffs then filed amended consolidated complaints in December 2014, and additional complaints have followed from retailers acting in their individual capacities. On February 21, 2017, the court granted both the indirect purchaser plaintiffs and the direct purchaser plaintiffs motions for class certification. Discovery in these cases is now closed. In January 2018, we reached agreements in principle with the various plaintiff groups to settle the multidistrict litigation. The FTC has also filed suit to challenge the Lidoderm® settlement, initially bringing antitrust claims against Watson, Endo, and Allergan in Pennsylvania federal court in March 2016. The FTC voluntarily dismissed those claims in October 2016, but in January 2017, it re-filed the claims, along with a stipulated order for permanent injunction, to settle its claims against Endo, in the same California federal court in which the private multidistrict litigation referenced above, is pending. On February 3, 2017, the State of California filed a complaint against Allergan and Watson, and that complaint has also been assigned to the California court presiding over the multidistrict litigation. After the FTC dismissed its claims in Pennsylvania, but before it re-filed them in California, Watson and Allergan filed suit against the FTC in the same Pennsylvania federal court where the agency had initially brought its lawsuit, seeking a declaratory judgment that the FTC s claims are not authorized by statute, or, in the alternative, that the FTC does not have statutory authority to pursue a disgorgement remedy. That declaratory judgment action remains pending, and on March 28, 2017, the court in California stayed the FTC s claims against Allergan and Watson pending there, and on October 27, 2017, entered a stipulation staying the State of California s claims against Allergan and Watson, pending the outcome of the declaratory judgment action in Pennsylvania. Annual sales of Lidoderm® at the time of the settlement were approximately $1.2 billion, and were approximately $1.4 billion at the time Actavis launched its generic version in September 2013.

Since November 2013, numerous lawsuits have been filed in various federal courts by purported classes of end payers for, and direct purchasers of, Aggrenox® (dipyridamole/aspirin tablets) against Boehringer Ingelheim (BI), the innovator, and several Teva subsidiaries. The lawsuits allege, among other things, that the settlement agreement between BI and Barr entered into in August 2008 violated the antitrust laws. A multidistrict litigation has been established in the U.S. District Court for the District of Connecticut. Teva and BI s motion to dismiss was denied in March 2015. On April 11, 2017, the Orange County District Attorney filed a complaint for violations of California s Unfair Competition Law based on the Aggrenox® patent litigation settlement. Annual sales of Aggrenox® were approximately $340 million at the time of the settlement and approximately $455 million at the time generic competition began in July 2015. Teva has settled with the putative class of direct purchasers. The settlement was approved by the Court on December 18, 2017. Teva has also settled with the opt out direct purchaser plaintiffs. On January 8, 2018, Teva reached an agreement to settle with the end payer class plaintiffs. That settlement has been filed for preliminary approval. A provision has been included in the financial statements for this matter.

Since January 2014, numerous lawsuits have been filed in the U.S. District Court for the Southern District of New York by purported classes of end payers for and direct purchasers of Actos® and Acto plus Met® (pioglitazone and pioglitazone plus metformin) against Takeda, the innovator, and several generic manufacturers, including Teva, Actavis and Watson. The lawsuits allege, among other things, that the settlement agreements between Takeda and the generic manufacturers (including Takeda s December 2010 settlement agreement with Teva) violated the antitrust laws. The Court dismissed the end payer lawsuits against all defendants in September 2015. In October 2015, the end payers appealed that ruling, and on March 22, 2016, a stipulation was filed dismissing Teva and the other generic

defendants from the appeal. On February 8, 2017, the Court of Appeals for the Second Circuit affirmed the dismissal in part and vacated and remanded the dismissal in part with respect to the claims against Takeda. The direct purchasers case had been stayed pending resolution of the appeal in the end payer matter, and the direct purchasers amended their complaint for a second time after the Second Circuit s decision. Defendants had moved to dismiss the direct purchasers original complaint and supplemental briefing

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on that motion based on the new allegations in the amended complaint was completed on June 29, 2017. At the time of the settlement, annual sales of Actos® were approximately $3.7 billion and annual sales of ACTO plus Met® were approximately $500 million. At the time generic competition commenced in August 2012, annual sales of Actos® were approximately $2.8 billion and annual sales of ACTO plus Met® were approximately $430 million.

In June 2014, two groups of end payers sued AstraZeneca and Teva, as well as Ranbaxy and Dr. Reddy s, in the Philadelphia Court of Common Pleas for violating the antitrust laws by entering into settlement agreements to resolve the esomeprazole (generic Nexium®) patent litigation (the Philadelphia Esomeprazole Actions). These end payers had opted out of a class action that was filed in the Massachusetts federal court in September 2012 and resulted in a jury verdict in December 2014 in favor of AstraZeneca and Ranbaxy (the Massachusetts Action). Prior to the jury verdict, Teva settled with all plaintiffs in the Massachusetts Action for $24 million. The allegations in the Philadelphia Esomeprazole Actions are nearly identical to those in the Massachusetts Action. The Philadelphia Esomeprazole Actions were stayed pending resolution of the Massachusetts Action, which was on appeal to the First Circuit with respect to the claims against the non-settling defendants AstraZeneca and Ranbaxy. On November 21, 2016, the First Circuit affirmed the district court s judgment in favor of AstraZeneca and Ranbaxy, and the plaintiffs petitions for rehearing and rehearing en banc were denied on January 10, 2017.

In September 2014, the FTC sued AbbVie Inc. and certain of its affiliates (AbbVie) and Teva in the U.S. District Court for the Eastern District of Pennsylvania alleging that they violated the antitrust laws when they entered into a settlement agreement to resolve the AndroGel® patent litigation and a supply agreement under which AbbVie would supply authorized generic product for TriCor® to Teva. The FTC alleges that Teva agreed to delay the entry of its generic testosterone gel product in exchange for entering into the TriCor supply agreement. In May 2015, the court granted Teva s motion to dismiss the FTC s claim as to Teva. The FTC s motions for reconsideration and for entry of partial final judgment to permit an immediate appeal were denied, so the FTC cannot appeal the dismissal until its claims against AbbVie are resolved. The Court granted the FTC s summary judgment motion that AbbVie s patent infringement lawsuit against Teva in the AndroGel patent litigation was objectively baseless. The trial for the FTC s case against AbbVie is scheduled to commence on February 7, 2018.

Since May 2015, two lawsuits have been filed in the U.S. District Court for the Southern District of New York by a purported class of direct purchasers of, and a purported class of end payers for, Namenda IR® (memantine hydrochloride) against Forest Laboratories, LLC (Forest) and Actavis PLC, the innovator, and several generic manufacturers, including Teva. Teva is only a defendant in the end payer case and defendants moved to dismiss the claims made by the end payers. The lawsuits allege, among other things, that the settlement agreements between Forest and the generic manufacturers (including Forest s November 2009 settlement agreement with Teva) violated the antitrust laws. On September 13, 2016, the court denied defendants motions to dismiss, but stayed the cases with respect to the claims brought under state law, which are the only claims asserted against Teva. Annual sales of Namenda IR® at the time of the settlement were approximately $1.1 billion, and are currently approximately $1.4 billion.

On March 8, 2016 and April 11, 2016, certain Actavis subsidiaries in the United Kingdom, including Auden Mckenzie Holdings Limited, received notices from the U.K. Competition and Markets Authority (CMA) that it had launched formal investigations under Section 25 of the Competition Act of 1998 (Competition Act) into suspected breaches of

competition law in connection with the supply of 10mg and 20mg hydrocortisone tablets. On December 16, 2016, the CMA issued a statement of objections (a provisional finding of infringement of the Competition Act) in respect of certain allegations against Actavis UK and Allergan, which was later reissued to include certain Auden Mckenzie entities. A response was submitted and an oral hearing was held. On

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December 18, 2017, the CMA issued a Statement of Draft Penalty Calculation, although no final decision regarding infringement has yet been taken by the CMA. On March 3, 2017, the CMA issued a second statement of objection in respect of certain additional allegations (relating to the same products and covering part of the same time period as for the first statement of objections) against Actavis UK, Allergan, and a number of other companies, which was later reissued to include certain Auden Mckenzie entities. A response was submitted and an oral hearing was held. On January 9, 2017, Teva completed the sale of Actavis UK to Accord Healthcare Limited, pursuant to which Teva will indemnify Accord for fines imposed by the CMA and/or damages awarded by a court on Actavis UK as a result of the investigations in respect of conduct prior to the closing date of the sale. In the event of any such fines or damages, Teva expects to assert claims, including claims for breach of warranty, against the sellers of Auden Mckenzie. The terms of the purchase agreement may preclude a full recovery by Teva. A liability for this matter has been recorded in purchase accounting related to the acquisition of Actavis Generics. A liability for this matter has been recorded in purchase accounting related to the acquisition of Actavis Generics. Further to our Master Purchase Agreement with Allergan whereby Teva agreed to indemnify Allergan for liabilities related to acquired assets, Teva agreed with Allergan to settle and release Teva s indemnity claim and Allergan s potential losses arising from the CMA in connection with this matter, pursuant to the agreement the parties entered into on January 31, 2018. See note 3.

In November 2016, three putative indirect purchaser class actions were filed in federal courts in Wisconsin, Massachusetts and Florida against Shire U.S., Inc. and Shire LLC (collectively, Shire) and Actavis, alleging that Shire s 2013 patent litigation settlement with Actavis related to the ADHD drug Intuniv® (guanfacine) violated various state consumer protection and antitrust laws. On December 30, 2016 and January 11, 2017, two additional similar actions were filed, also in Massachusetts federal court, against Shire and Actavis or Teva (as successor to Actavis) by putative classes of direct purchaser plaintiffs. All five cases are now in Massachusetts federal court, and on March 10, 2017, both the indirect purchaser plaintiffs and the direct purchaser plaintiffs filed consolidated amended complaints. Annual sales of Intuniv® were approximately $335 million at the time of the settlement, and approximately $327 million at the time generic competition began in 2014.

Government Investigations and Litigation Relating to Pricing and Marketing

Teva is involved in government investigations and litigation arising from the marketing and promotion of its specialty pharmaceutical products in the United States. Many of these investigations originate through what are known as *qui tam* complaints, in which the government reviews a complaint filed under seal by a whistleblower (a relator) that alleges violations of the federal False Claims Act. The government considers whether to investigate the allegations and will, in many cases, issue subpoenas requesting documents and other information, including conducting witness interviews. The government must decide whether to intervene and pursue the claims as the plaintiff. Once a decision is made by the government, the complaint is unsealed. If the government decides not to intervene, then the relator may decide to pursue the lawsuit on his own without the active participation of the government.

A number of state attorneys general have filed various actions against Teva and/or certain of its subsidiaries, including certain Actavis subsidiaries, relating to reimbursements or drug price reporting under Medicaid or other programs. Such price reporting is alleged to have caused governments and others to pay inflated reimbursements for covered drugs. Teva and its subsidiaries have reached settlements in most of these cases, and remain parties to active litigation in Illinois. The Actavis subsidiaries remain parties to active litigation in Illinois and Utah. A provision for the cases

has been included in the financial statements. Trial in the Illinois case against Teva concluded in the fourth quarter of 2013, and post-trial briefing was submitted. On June 28, 2017, after several years, the court issued a Memorandum Order After Trial finding liability against Teva, but reserved its decision on damages. The court is expected to order additional process on the issue of damages. The State of Illinois is seeking approximately $100 million in compensatory damages. Any such damages ultimately awarded by the court are subject to automatic trebling. In addition, the state is seeking unspecified statutory penalties that

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could range, depending on the method used for calculation, from a de minimis amount to well over $100 million. Teva denies any liability and sought reconsideration of the court s June 28, 2017 order, which was denied. Teva will continue to argue that any damages and penalties should be significantly less than the amount sought by the state. In August 2013, in the Mississippi case against Watson, the court ruled in favor of the state, awarding $12.4 million in compensatory damages and civil penalties. In March 2014, the court awarded the state an additional $17.9 million in punitive damages. A provision for these amounts has been included in the financial statements. Watson appealed both the original and the punitive damage awards. On January 11, 2018, the Mississippi Supreme Court affirmed the judgment in favor of the State of Mississippi and against Watson in all respects. In Utah, claims against Watson that were dismissed in their entirety by the trial court are now on appeal.

Several *qui tam* complaints have been unsealed in recent years as a result of government decisions not to participate in the cases. The following is a summary of certain government investigations, qui tam actions and related matters.

In December 2009, the U.S. District Court for the District of Massachusetts unsealed a complaint alleging that numerous drug manufacturers, including certain Teva subsidiaries (including Actavis), violated the federal False Claims Act in connection with Medicaid reimbursement for certain vitamins, dietary supplements and DESI (Drug Efficacy Study Implementation) products that were allegedly ineligible for reimbursement. The U.S. Department of Justice (DOJ) declined to join in the matter. The defendants, including Teva, filed a motion to dismiss, which was granted in February 2013. The plaintiffs deadline to appeal the dismissal has not yet expired.

In March 2013, a federal False Claims Act complaint filed against Cephalon in the U.S. District Court for the Southern District of New York was unsealed. The case was transferred to the Eastern District of Pennsylvania. The complaint alleges off-label promotion of TREANDA® and FENTORA®. The court granted Cephalon s motion to dismiss the FENTORA claims and denied Cephalon s motion to dismiss the TREANDA claims. In January 2014, a separate federal False Claims Act complaint that had been filed in the U.S. District Court for the Eastern District of Pennsylvania was served on Cephalon. The complaint alleges off-label promotion of FENTORA, NUVIGIL® and PROVIGIL. The court dismissed the FENTORA claims and denied Cephalon s motion to dismiss the PROVIGIL and NUVIGIL claims. In August 2015, Cephalon submitted a motion to modify the court s order denying its motion to dismiss the relators PROVIGIL claims. In February 2016, the court granted Cephalon s motion for judgment on the pleadings as to PROVIGIL claims that allegedly occurred prior to February 28, 2008. The relators motion for reconsideration was denied without prejudice. Teva has settled both of these matters and a provision has been included in the financial statements in 2017.

In September 2013, the State of Louisiana filed a petition seeking penalties and unspecified damages against 54 pharmaceutical companies, including Teva and Actavis. The complaint alleges that the defendants defrauded the state by falsely representing that their products were FDA-approved drugs, which allegedly caused Louisiana s state Medicaid program to pay millions of dollars in reimbursement claims for products that it would not otherwise have covered. The case was dismissed without prejudice in September 2015, with the court finding that the state was not a proper plaintiff. The state appealed, and on October 21, 2016 the state court of appeals affirmed the trial court s ruling in part and reversed in part. The state and the defendants appealed to the Louisiana Supreme Court, which denied all parties appeals on March 13, 2017, and remanded the case to the trial court. On March 31, 2017 the trial court ordered all defendants to respond to the first amended petition on or before May 11, 2017. The defendants filed motions

challenging the remaining claims and, on August 9, 2017, the trial court entered a judgment sustaining, in part, the defendants challenge. On October 3, 2017, in response to the state s request for reconsideration, the court affirmed its decision and further limited the state s sole remaining claim. The defendants filed a writ of certiorari with the state court of appeals on October 24, 2017, seeking reversal of the aspect of the trial court s August 9, 2017 decision that did not dismiss all of the state s remaining claims, which writ application remains pending.

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In January 2014, Teva received a civil investigative demand from the U.S. Attorney for the Southern District of New York seeking documents and information from January 1, 2006 related to sales, marketing and promotion of COPAXONE and AZILECT, focusing on educational and speaker programs. The demand states that the government is investigating possible civil violations of the federal False Claims Act. In March 2015, the docket in this matter and a False Claims Act civil qui tam complaint concerning this matter were unsealed by the court, which revealed that the U.S. Attorney had notified the court in November 2014 that it had declined to intervene in and proceed with the lawsuit. The qui tam relators, however, are moving forward with the lawsuit. In June 2015, Teva filed motions to dismiss the complaint. In February 2016, the court stayed its decision on the relators claims based on state and local laws, denied Teva s motions to dismiss the False Claims Act claims, and instructed the relators to amend their complaint with additional information. In March 2016, the relators filed an amended complaint, which Teva answered in April 2016. The parties are currently engaged in discovery. Beginning in May 2014 various complaints have been filed with respect to opioid sales and distribution against various Teva affiliates, along with several other pharmaceutical companies, by a number of cities, counties and states across the country. Actions currently pending against Teva and its affiliates have been brought by the states of Ohio, Mississippi, New Mexico and Oklahoma. Additional actions brought by various subdivisions and state agencies are pending in both State and Federal Court in the following jurisdictions: Alabama, Arkansas, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Mississippi, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Puerto Rico, South Dakota, Tennessee, Texas, Washington, Wisconsin and West Virginia. The Federal cases have been consolidated into an MDL in the Northern District of Ohio. In addition to the complaints filed by states, state agencies, and other political subdivisions, private class action lawsuits have been filed in Arkansas, Massachusetts, Ohio and Pennsylvania. Four counties in West Virginia and one county in Florida have commenced an action against Anda, Inc. (and other distributor and manufacturer defendants) alleging that Anda, Inc. failed to develop and implement systems sufficient to identify suspicious orders of opioid products and prevent the diversion of such products to individuals who used them for other than legitimate medical purposes. The complaints, asserting claims under similar provisions of different state law, generally contend that the defendants allegedly engaged in improper marketing of opioids, including ACTIQ® and FENTORA and seek a variety of remedies, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys fees and injunctive relief. None of the complaints specifies the exact amount of damages at issue. Teva and its affiliates that are defendants in the various lawsuits deny all allegations asserted in these complaints and have filed or will be filing motions to dismiss where possible. In addition, a number of State Attorneys General, including a coordinated multistate effort, have initiated investigations into sales and marketing practices of Teva and its affiliates with respect to opioids. Teva is cooperating with these investigations, which are ongoing, and cannot predict at this time the outcome.

On June 21, 2016, Teva USA received a subpoena from the Antitrust Division of the DOJ seeking documents and other information relating to the marketing and pricing of certain of Teva USA s generic products and communications with competitors about such products. Actavis received a similar subpoena in June 2015. On July 12, 2016, Teva USA received a subpoena from the Connecticut Attorney General seeking documents and other information relating to potential state antitrust law violations. Actavis has also received a similar subpoena from the Connecticut Attorney General. Teva and Actavis are cooperating fully with these subpoenas.

On December 15, 2016, a civil action was brought by the attorneys general of twenty states against Teva USA and several other companies asserting claims under federal antitrust law (specifically, section 1 of the Sherman Act) alleging price fixing of generic products in United States. An amended complaint was filed on March 1, 2017 adding twenty additional states to the named plaintiffs and adding supplemental state law claims. The states seek a finding that the defendants actions violated federal antitrust law, and state antitrust and consumer protection laws, as well as injunctive relief, disgorgement, damages on behalf of various state and

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governmental entities and consumers, civil penalties and costs. On August 3, 2017, the Judicial Panel on Multidistrict Litigation (JPML) transferred this action to the generic drug multidistrict litigation pending in federal court in Pennsylvania, which is discussed in greater detail below. On July 17, 2017, a new complaint was filed in the District Court of Connecticut on behalf of four additional states Arkansas, Missouri, New Mexico and West Virginia, as well as the District of Columbia. These plaintiffs were not previously party to the State Attorney General action that commenced in December 2016. This complaint, which the JPML has also transferred to the generic drug multidistrict litigation discussed below, makes the same factual allegations and claims that are at issue in the earlier State Attorneys General complaint. On October 31, 2017 the attorneys general of 45 states plus Puerto Rico and the District of Columbia filed a motion for leave to file an amended complaint in this action. The proposed amended complaint names Actavis as a defendant as well as Teva, and adds new allegations and claims to those appearing in the prior complaints. Defendants have opposed the motion.

Beginning on March 2, 2016, numerous complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of generic drug products, as well as several individual direct purchaser opt-out plaintiffs, including: doxycycline, pravastatin, clobetasol, desonide, fluocinonide, propranolol, glyburide, ursodial and baclofen. These complaints, which allege that the defendants engaged in conspiracies to fix, increase, maintain and/or stabilize the prices of the generic drug products named, have been brought against various defendants including, among others, Teva USA, Actavis Holdco U.S., Inc., Actavis Elizabeth and Pliva, Inc. The plaintiffs generally seek injunctive relief and damages under federal antitrust law, and damages under various state laws. On April 6, 2017, the JPML entered an order transferring cases brought by classes of direct or indirect purchasers and alleging claims of generic price-fixing for coordination or consolidation with the multidistrict litigation currently pending in the Eastern District of Pennsylvania; the panel subsequently transferred further cases to that court, and the plaintiffs filed consolidated amended complaints on August 15, 2017. Defendants moved to dismiss certain of those consolidated amended complaints on October 6, 2017. Teva denies having engaged in any conduct that would give rise to liability with respect to the above-mentioned subpoenas and civil suits.

On March 21, 2017, Teva received a subpoena from the U.S. Attorney s office in Boston, Massachusetts requesting documents related to Teva s donations to patient assistance programs. Teva is cooperating fully in responding to the subpoena.

For several years, Teva had conducted a voluntary worldwide investigation into business practices that may have implications under the U.S. Foreign Corrupt Practices Act (FCPA), following the receipt, beginning in 2012, of subpoenas and informal document requests from the SEC and the DOJ with respect to compliance with the FCPA in certain countries. In December 2016, Teva reached a resolution with the SEC and DOJ to fully resolve these FCPA matters. The resolution, which relates to conduct in Russia, Mexico and Ukraine from 2007 to 2013, provides for penalties of approximately $519 million (reserved in the financial statements in the third quarter of 2016), which includes a fine, disgorgement and prejudgment interest; a three-year deferred prosecution agreement for Teva; a guilty plea by Teva s Russian subsidiary to criminal charges of violations of the anti-bribery provisions of the FCPA; consent to entry of a final judgment against Teva settling civil claims of violations of the anti-bribery, internal controls and books and records provisions of the FCPA; and the retention of an independent compliance monitor for a period of three years. The SEC civil consent and DOJ deferred prosecution agreement have each obtained court approval.

Following the resolution, Teva has had requests for documents and information from various Russian government entities. In December 2016, Teva was informed by Israeli authorities that they had initiated an investigation into the conduct that was the subject of the FCPA investigation and which resulted in the above-mentioned resolution with the SEC and DOJ. On January 14, 2018, Teva and the Government of Israel entered into an arrangement for the Contingent Cessation of Proceedings pursuant to the Israeli Securities Law that ends

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the investigation into such conduct against the Company and provides for a payment of 75 million New Israeli Shekels (approximately $22 million).

Shareholder Litigation

On November 6, 2016 and December 27, 2016, two putative securities class actions were filed in the U.S. District Court for the Central District of California against Teva and certain of its current and former officers. After those two lawsuits were consolidated and transferred to the U.S. District Court for the District of Connecticut, the court appointed the Ontario Teachers Pension Plan Board as lead plaintiff. The lead plaintiff then filed a consolidated amended complaint purportedly on behalf of purchasers of Teva s securities between February 6, 2014 and August 3, 2017. The consolidated complaint seeks unspecified damages, legal fees, interest, and costs, and it asserts that Teva and certain of its current and former officers and directors violated the federal securities laws and Israeli securities laws in connection with Teva s alleged failure to disclose Teva s participation in an alleged anticompetitive scheme to fix prices and allocate markets for generic drugs in the United States. On December 1, 2017, Teva and the current and former officer and director defendants filed motions to dismiss the consolidated amended complaint, with prejudice. Those motions are currently pending before the Court.

On July 17, 2017, a lawsuit was filed in the U.S. District Court for the Southern District of Ohio derivatively on behalf of the Teva Employee Stock Purchase Plan, and alternatively as a putative class action lawsuit on behalf of individuals who purchased Teva stock through that plan. That lawsuit seeks unspecified damages, legal fees, interest and costs. The complaint alleges that Teva failed to maintain adequate financial controls based on the facts underpinning Teva s FCPA deferred prosecution agreement, and also based on allegations substantially similar to those in the putative class action securities lawsuit pending in U.S. District Court for the District of Connecticut, discussed above. On November 29, 2017, the Court granted Teva s motion to transfer the litigation to the U.S. District Court for the District of Connecticut where the putative class action securities lawsuit is pending. On December 29, 2017, the parties jointly moved to stay the case pending resolution of the motions to dismiss filed in the consolidated putative securities class action described above.

On August 3, 2017, a securities lawsuit was filed in the U.S. District Court for the District of Connecticut by OZ ELS Master Fund, Ltd., OZ Special Funding, L.P, OZ Enhanced Master Fund, Ltd., Gordel Capital Limited, OZ Global Equity Opportunities Master Fund, Ltd., OZ Master Fund, Ltd., and OZ Global Special Investments Master Fund L.P. The complaint asserts that Teva and certain of its current and former officers violated the federal securities laws in connection with Teva s alleged failure to disclose Teva s participation in an alleged anticompetitive scheme to fix prices and allocate markets for generic drugs in the United States. On August 30, 2017, the court entered an order deferring all deadlines pending the resolution of the motions to dismiss filed in the consolidated putative securities class action described above.

On August 21, 2017, a putative class action securities lawsuit was filed by Elliot Grodko in the U.S. District Court for the Eastern District of Pennsylvania on behalf of purchasers of Teva s securities between November 15, 2016 and August 2, 2017 seeking unspecified damages, legal fees, interest, and costs. The complaint alleged that Teva and certain of its current and former officers violated the federal securities laws and Israeli securities laws by making false and misleading statements in connection with Teva s acquisition and integration of Actavis Generics. Teva s motion to

transfer the action to the District of Connecticut is currently pending before the Court.

On August 30, 2017, a putative securities class action was filed by Barry Baker in the U.S. District Court for the Eastern District of Pennsylvania on behalf of purchasers of Teva s securities between November 15, 2016 and August 2, 2017 seeking unspecified damages, legal fees, interest, and costs. The complaint alleges that Teva

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and certain officers violated the federal securities laws by making false and misleading statements in connection with Teva s acquisition and integration of Actavis Generics. On November 1, 2017, the Court consolidated the Baker case with the Grodko case, discussed above. Teva s motion to transfer the consolidated action to the District of Connecticut is currently pending before the Court.

Motions to approve derivative actions against certain past and present directors and officers have been filed in Israel with respect to alleged negligence and recklessness with respect to the acquisition of the Rimsa business and the acquisition of Actavis Generics. Motions to approve securities class actions against Teva and certain of its current and former directors and officers were filed in Israel with allegations regarding proper disclosure of the above-mentioned pricing investigation as well as lack of disclosure of negative developments in the generic sector and erosion of the prices of Teva s products as were presented in the second quarter financial reporting of Teva. Other motions were filed in Israel to approve a derivative action, discovery and a class action related to alleged claims regarding Teva s above-mentioned FCPA resolution with the SEC and DOJ.

Environmental Matters

Teva or its subsidiaries are party to a number of environmental proceedings, or have received claims, including under the federal Superfund law or other federal, provincial or state and local laws imposing liability for alleged noncompliance, or for the investigation and remediation of releases of hazardous substances and for natural resource damages. Many of these proceedings and claims seek to require the generators of hazardous wastes disposed of at a third party-owned site, or the party responsible for a release of hazardous substances that impacted a site, to investigate and cleanup the site or to pay or reimburse others for such activities, including for oversight by governmental authorities and any related damages to natural resources. Teva or its subsidiaries have received claims, or been made a party to these proceedings, along with others, as an alleged generator of wastes that were disposed of or treated at third-party waste disposal sites, or as a result of an alleged release from one of Teva s facilities or former facilities.

Although liability among the responsible parties, under certain circumstances, may be joint and several, these proceedings are frequently resolved so that the allocation of cleanup and other costs among the parties reflects the relative contributions of the parties to the site conditions and takes into account other pertinent factors. Teva s potential liability varies greatly at each of the sites; for some sites the costs of the investigation, cleanup and natural resource damages have not yet been determined, and for others Teva s allocable share of liability has not been determined. At other sites, Teva has taken an active role in identifying those costs, to the extent they are identifiable and estimable, which do not include reductions for potential recoveries of cleanup costs from insurers, indemnitors, former site owners or operators or other potentially responsible parties. In addition, enforcement proceedings relating to alleged violations of federal, state, commonwealth or local requirements at some of Teva s facilities may result, in the imposition of significant penalties (in amounts not expected to materially adversely affect Teva s results of operations) and the recovery of certain costs and natural resource damages, and may require that corrective actions and enhanced compliance measures be implemented.

Other Matters

On February 1, 2018, former shareholders of Ception Therapeutics, Inc. a company that was acquired by and merged into Cephalon in 2010, prior to Cephalon s acquisition by Teva, filed breach of contract and other related claims against the Company, Teva USA and Cephalon in the Delaware Court of Chancery. Among other things, the plaintiffs allege that Cephalon breached the terms of the 2010 Ception-Cephalon merger agreement by failing to exercise commercially reasonable efforts to develop and commercialize CINQAIR® (reslizumab) for the treatment of eosinophilic esophagitis (EE). The plaintiffs claim damages of at least $200 million, an amount

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they allege is equivalent to the milestones payable to the former shareholders of Ception in the event Cephalon were to obtain regulatory approval for EE in the United States ($150 million) and Europe ($50 million).

NOTE 14 EQUITY:

a. Ordinary shares and ADSs

As of December 31, 2017, Teva had approximately 1.1 billion ordinary shares issued (same as December 31, 2016). Teva ordinary shares are traded on the Tel-Aviv Stock Exchange and on the New York Stock Exchange, in the form of American Depositary Shares (ADSs), each of which represents one ordinary share.

On December 8, 2015, the Company completed an offering of 54 million ADSs at $62.50 per share. The net proceeds from the offering of $3.3 billion, together with the net proceeds of $3.3 billion from the mandatory convertible preferred shares offering referred to below, were used to finance a portion of the cash consideration payable in connection with the Actavis Generics acquisition and related fees and expenses, to finance the Rimsa acquisition and for other general corporate purposes.

On January 6, 2016, Teva sold an additional 5.4 million ADSs, pursuant to the underwriters exercise in full of their overallotment option. As a result, Teva received an additional $329 million in net proceeds, for an aggregate of approximately $3.62 billion including the initial closing.

On August 2, 2016, Teva issued approximately 100.3 million Teva shares to Allergan in connection with the closing of the Actavis Generics acquisition.

b. Mandatory convertible preferred shares

On December 8, 2015, Teva completed an offering of 3,375,000 of its 7% mandatory convertible preferred shares. The mandatory convertible preferred shares have no voting rights and rank senior to Teva s ordinary shares with respect to dividends and distributions upon liquidation, winding-up or dissolution. Dividends on the mandatory convertible preferred shares are payable on a cumulative basis when, as and if declared by Teva s board of directors at an annual rate of 7% on the liquidation preference of $1,000.00 per mandatory convertible preferred share. Declared dividends will be paid in cash on March 15, June 15, September 15 and December 15 of each year, through and including December 15, 2018.

Dividends accumulate from the most recent date as to which dividends have been paid or, if no dividends have been paid, from the first original issue date and, to the extent legally permitted and declared by the board of directors, such dividend will be paid in cash on each dividend payment date; provided that any undeclared or unpaid dividends will continue to accumulate. So long as any mandatory convertible preferred share remains outstanding, no dividend or distribution shall be declared or paid on Teva s ordinary shares, ADSs or any other class or series of junior shares, and none of Teva s ordinary shares, ADSs or any other class or series of junior shares shall be purchased, redeemed or

otherwise acquired for consideration by Teva or any of Teva s subsidiaries unless all accumulated and unpaid dividends for all preceding dividend periods have been declared and paid upon, or a sufficient sum of cash has been set apart for the payment of such dividends to all outstanding mandatory convertible preferred shares.

Each mandatory convertible preferred share will automatically convert on December 15, 2018 (the mandatory conversion date) into between 13.3 and 16.0 ADSs, subject to anti-dilution adjustments. At any time prior to the mandatory conversion date, other than during a fundamental change conversion period as

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defined, holders of the mandatory convertible preferred shares may elect to convert each mandatory convertible preferred share into ADSs at the minimum conversion rate of 13.3 ADSs per mandatory convertible preferred share, subject to anti-dilution adjustments.

In addition, holders may elect to convert their mandatory convertible preferred shares during a specified period beginning on the fundamental change effective date, in which case such mandatory convertible preferred shares will be converted into ADSs at the fundamental change conversion rate and converting holders will also be entitled to receive a fundamental change dividend make-whole amount and any accumulated but unpaid dividends.

On January 6, 2016, Teva sold an additional 337,500 mandatory convertible preferred shares pursuant to the underwriters exercise in full of their overallotment option. As a result, Teva received an additional $329 million in net proceeds, for an aggregate of approximately $3.62 billion including the initial closing. These additional 337,500 mandatory convertible preferred shares accumulated dividends from December 8, 2015.

Share repurchase program

In December 2011, Teva s Board of Directors authorized it to repurchase up to an aggregate amount of $3.0 billion of its ordinary shares/ADSs, of which $1.3 billion remained available for purchase. In October 2014, the Board of Directors authorized Teva to increase its share repurchase program by $1.7 billion to $3.0 billion, of which $2.1 billion remained available as of December 31, 2017. Teva did not repurchase any of its shares during 2017 and currently cannot do so due to its accumulated deficit. The repurchase program has no time limit. Repurchases may be commenced or suspended at any time, subject to applicable law.

The following table summarizes the shares repurchased and the amount Teva spent on these repurchases:

	Year ended December 31,		
	2017	2016	2015
	(in millions)		
Amount spent on shares repurchased	$	$	$ 439
Number of shares repurchased			7.7

c. Stock-based compensation plans:

Stock-based compensation plans are comprised of employee stock options, RSUs, PSUs, and other equity-based awards to employees, officers and directors. The purpose of the plans is to enable the Company to attract and retain qualified personnel and to motivate such persons by providing them with equity participation in the Company.

On June 29, 2010, the Teva 2010 Long-Term Equity-Based Incentive Plan was approved by Teva s shareholders, under which 70 million equivalent share units, including options exercisable into ordinary shares, RSUs and PSUs, were approved for grant. The 2010 Plan expired on June 28, 2015 (except with respect to awards outstanding on that date), and no additional awards under the 2010 Plan may be made.

On September 3, 2015, the Teva 2015 Long-Term Equity-Based Incentive Plan was approved by Teva s shareholders, under which 43.7 million equivalent share units, including options exercisable into ordinary shares, RSUs and PSUs, were approved for grant.

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On April 18, 2016, Teva s shareholders approved an increase of an additional 33.3 million equivalent share units to the share reserve of Teva s 2015 Long-Term Equity-Based Incentive Plan, so that 77 million equivalent share units, including options exercisable into ordinary shares, RSUs and PSUs, are approved for grant.

On July 13, 2017, Teva s shareholders approved an increase of an additional 65 million equivalent share units to the share reserve of Teva s 2015 Long-Term Equity-Based Incentive Plan, so that 142 million equivalent share units, including options exercisable into ordinary shares, RSUs and PSUs, are approved for grant.

As of December 31, 2017, 99.4 million equivalent share units remain available for future awards.

In the past, Teva had various employee stock and incentive plans under which stock options and other share-based awards were granted. Stock options and other share-based awards granted under such prior plans continue in accordance with the terms of the respective plans.

The vesting period of the outstanding options, RSUs and PSUs is generally from 1 to 4 years from the date of grant. The rights of the ordinary shares obtained from the exercise of options, RSUs or PSUs are identical to those of the other ordinary shares of the Company. The contractual term of these options is primarily for seven years in prior plans and ten years for options granted under the 2010 and 2015 plans described above.

Status of options

A summary of the status of the options as of December 31, 2017, 2016 and 2015, and changes during the years ended on those dates, is presented below (the number of options represents ordinary shares exercisable in respect thereof).

	Year ended December 31,					
	2017		2016		2015	
	Number (in thousands)	Weighted average exercise price	Number (in thousands)	Weighted average exercise price	Number (in thousands)	Weighted average exercise price
Balance outstanding at begining of year	32,789	$ 50.71	25,233	$ 49.69	26,733	$ 45.91
Changes during the year:						
Granted	15,467	32.08	10,895	53.21	7,655	59.82
Exercised	(7)	17.44	(766)	44.24	(8,127)	46.88
Forfeited	(4,953)	47.92	(1,382)	54.09	(1,028)	48.96
Expired	(175)	59.81	(1,191)	52.79		
Balance outstanding at end of year	43,121	44.32	32,789	50.71	25,233	49.69

Balance exercisable at end of year	19,129	47.94	14,468	46.06	11,299	44.67

The weighted average fair value of options granted during the years was generally estimated by using the Black-Scholes option-pricing model as follows:

	Year ended December 31,		
	2017	**2016**	**2015**
Weighted average fair value	$ 5.7	$ 9.4	$ 10.9

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The fair value of these options was estimated on the date of grant, based on the following weighted average assumptions:

	Year ended December 31,		
	2017	**2016**	**2015**
Dividend yield	3.7%	2.6%	2.3%
Expected volatility	29%	25%	24%
Risk-free interest rate	2.1%	1.4%	1.8%
Expected term	5 years	5 years	5 years

The expected term was estimated based on the weighted average period for which the options granted are expected to be outstanding, taking into consideration the current vesting of options and the historical exercise patterns of existing options. The expected volatility assumption used is based on a blend of the historical and implied volatility of the Company s stock. The risk-free interest rate used is based on the yield of U.S. Treasuries with a maturity closest to the expected term of the options granted. The dividend yield assumption reflects the expected dividend yield based on historical dividends and expected dividend growth.

The following tables summarize information at December 31, 2017 regarding the number of ordinary shares issuable upon (1) outstanding options and (2) vested options:

(1) Number of ordinary shares issuable upon exercise of outstanding options

Range of exercise prices	**Balance at end of period (in thousands) Number of shares**	**Weighted average exercise price $**	**Weighted average remaining life Years**	**Aggregate intrinsic value (in millions) $**
Lower than $15.01	592	11.40	9.85	4.5
$15.01 - $25.00	1,462	16.97	9.70	2.9
$25.01 - $35.00	12,018	34.63	9.17	
$35.01 - $45.00	7,281	40.49	4.63	
$45.01 - $55.00	14,864	50.99	6.75	
$55.01 - $65.00	6,891	59.42	7.29	
$65.01 - $70.00	13	66.67	3.21	
Total	43,121	44.32	7.30	7.4

(2) Number of ordinary shares issuable upon exercise of vested options

Range of exercise prices

	Balance at end of period (in thousands) Number of shares	Weighted average exercise price $	Weighted average remaining life Years	Aggregate intrinsic value (in millions) $
$15.01- $25.00	11	17.33	5.23	*
$25.01- $35.00	1	25.76	5.94	
$35.01- $45.00	7,054	40.54	4.53	
$45.01- $55.00	8,944	49.68	5.82	
$55.01- $65.00	3,105	59.82	7.21	
$65.01- $70.00	14	66.67	3.21	
Total	19,129	47.94	5.57	*

* Represents an amount less than 0.5 million.

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

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The aggregate intrinsic value in the above tables represents the total pre-tax intrinsic value, based on the Company s closing stock price of $18.95 on December 31, 2017, less the weighted average exercise price in each range. This represents the potential amount receivable by the option holders had all option holders exercised their options as of such date. As of December 31, 2017, there was a limited amount of options exercisable that were in-the-money.

The total intrinsic value of options exercised during the years ended December 31, 2017 was a limited amount, based on the Company s average stock price of $25.62.

The total intrinsic value of options exercised during the years ended December 31, 2016 and 2015 was $5 million and $120 million, respectively, based on the Company s average stock price of $50.96 and $61.66 during the years then ended, respectively.

Status of non-vested RSUs

The fair value of RSUs and PSUs is estimated based on the market value of the Company s stock on the date of award grant, less an estimate of dividends that will not accrue to RSU and PSU holders prior to vesting.

The following table summarizes information about the number of RSUs and PSUs issued and outstanding:

	Year ended December 31,					
	2017		2016		2015	
	Number (in thousands)	Weighted average grant date fair value	Number (in thousands)	Weighted average grant date fair value	Number (in thousands)	Weighted average grant date fair value
Balance outstanding at beginning of year	4,636	$ 45.15	2,551	$ 51.43	2,466	$ 43.05
Granted	5,461	20.10	3,193	40.78	1,519	56.75
Vested	(1,884)	39.63	(830)	45.79	(1,112)	41.04
Forfeited	(745)	42.84	(278)	46.08	(322)	48.27
Balance outstanding at end of year	7,468	27.95	4,636	45.15	2,551	51.43

The Company expenses compensation costs based on the grant-date fair value. For the years ended December 31, 2017, 2016 and 2015, the Company recorded stock-based compensation costs as follows:

	Year ended December 31,		
	2017	2016	2015

	(U.S. $ in millions)		
Employee stock options	$ 64	$ 56	$ 62
RSUs and PSUs	69	66	55
Total stock-based compensation expense	133	122	117
Tax effect on stock-based compensation expense	24	26	19
Net effect	$ 109	$ 96	$ 98

The total unrecognized compensation cost before tax on employee stock options and RSU/PSUs amounted to $126 million and $148 million, respectively, at December 31, 2017, and is expected to be recognized over a weighted average period of approximately 1.6 years.

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Notes to Consolidated Financial Statements (Continued)

d. Dividends:

Commencing in April 2015, dividends on Teva s ordinary shares were declared in U.S. dollars. Dividends paid per share in the years ended December 31, 2017, 2016 and 2015 were $0.85, $1.36 and $1.36, respectively.

In addition, dividends paid on our mandatory convertible preferred shares per share in the years ended December 31, 2017 and 2016 were $70 and $71.56, respectively.

In December 2017, Teva announced an immediate suspension of dividends on its ordinary shares and ADSs and that dividends on the company mandatory convertible preferred shares will be evaluated on a quarterly basis per current practice.

Teva suspended dividends on its mandatory convertible preferred shares in the fourth quarter of 2017, due to its accumulated deficit.

e. Accumulated other comprehensive income (loss):

The components of accumulated other comprehensive loss attributable to Teva are presented in the table below:

	Net Unrealized Gains/(Losses)			Benefit Plans	
	Foreign currency translation adjustments	Available-for-sale securities	Derivative financial instruments	Actuarial gains/(losses) and prior service (costs)/credits	Total
Balance, January 1, 2015	(1,283)	(7)	40	(93)	(1,343)
Other comprehensive income/(loss) before reclassifications	(1,131)	(413)	137	33	(1,374)
Amounts reclassified to the statements of income	24	737	(2)	4	763
Net other comprehensive income/(loss) before tax	(1,107)	324	135	37	(611)
Corresponding income tax	6	(5)		(2)	(1)
Net other comprehensive income/(loss) after tax*	(1,101)	319	135	35	(612)
Balance, December 31, 2015	(2,384)	312	175	(58)	(1,955)
	(355)	(456)	(491)	(26)	(1,328)

Other comprehensive income/(loss) before reclassifications					
Amounts reclassified to the statements of income	3	140	14	(6)	151
Net other comprehensive income/(loss) before tax	(352)	(316)	(477)	(32)	(1,177)
Corresponding income tax	(33)	(3)		9	(27)
Net other comprehensive income/(loss) after tax*	(385)	(319)	(477)	(23)	(1,204)
Balance, December 31, 2016	(2,769)	(7)	(302)	(81)	(3,159)