TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
May 11, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the month of May 2017

Commission File Number 001-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Translation of registrant s name into English)

5 Basel Street, P.O. Box 3190

Petach Tikva 4951033 Israel

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

INDEX

Exhibit No.	Description
EX-2.1	Senior Unsecured Japanese Yen Term Loan Credit Agreement dated as of March 22, 2017, by and among Teva Pharmaceutical Industries Limited, Teva Holdings K.K., the lenders party thereto and Sumitomo Mitsui Banking Corporation
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

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, 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, are based on information provided by IMS Health Inc., a provider of market research to the pharmaceutical industry (IMS), 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 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, to S&M are to Selling and Marketing and to G&A are to General and Administrative.

2

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

	March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 900	$ 988
Trade receivables	7,264	7,523
Inventories	4,999	4,954
Prepaid expenses	960	1,362
Other current assets	669	1,293
Assets held for sale	43	841
Total current assets	14,835	16,961
Deferred income taxes	747	725
Other non-current assets	1,319	1,235
Property, plant and equipment, net	8,160	8,073
Identifiable intangible assets, net	21,189	21,487
Goodwill	45,026	44,409
Total assets	$ 91,276	$ 92,890
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 1,942	$ 3,276
Sales reserves and allowances	7,500	7,839
Trade payables	2,378	2,157
Employee-related obligations	660	859
Accrued expenses	2,500	3,405
Other current liabilities	923	867
Liabilities held for sale		116
Total current liabilities	15,903	18,519
Long-term liabilities:		
Deferred income taxes	5,291	5,215
Other taxes and long-term liabilities	1,643	1,639
Senior notes and loans	32,694	32,524
Total long-term liabilities	39,628	39,378

Commitments and contingencies, see note 16		
Total liabilities	55,531	57,897
Equity:		
Teva shareholders equity:		
Preferred shares of NIS 0.10 par value per mandatory convertible preferred share; March 31, 2017 and December 31, 2016: authorized 5.0 million shares; issued 3.7 million shares	3,620	3,620
Ordinary shares of NIS 0.10 par value per share; March 31, 2017 and December 31, 2016: authorized 2,500 million shares; issued 1,123 million shares	54	54
Additional paid-in capital	23,410	23,409
Retained earnings	13,809	13,607
Accumulated other comprehensive loss	(2,714)	(3,159)
Treasury shares as of March 31, 2017 and December 31, 2016 107 million ordinary shares and 108 million ordinary shares, respectively	(4,156)	(4,194)
	34,023	33,337
Non-controlling interests	1,722	1,656
Total equity	35,745	34,993
Total liabilities and equity	$ 91,276	$ 92,890

/s/ DR. Y. PETERBURG
Dr. Y. Peterburg
Interim President and Chief Executive Officer

/s/ E. DESHEH
E. Desheh
Group Executive Vice President,
Chief Financial Officer

The accompanying notes are an integral part of the financial statements.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME

(U.S. dollars in millions, except share and per share data)

(Unaudited)

	Three months ended March 31,	
	2017	**2016**
Net revenues	$ 5,630	$ 4,810
Cost of sales	2,811	2,019
Gross profit	2,819	2,791
Research and development expenses	457	389
Selling and marketing expenses	971	839
General and administrative expenses	236	304
Impairments, restructuring and others	240	119
Legal settlements and loss contingencies	20	(25)
Operating income	895	1,165
Financial expenses, net	207	298
Income before income taxes	688	867
Income taxes	54	228
Share in (profits) losses of associated companies, net	(7)	6
Net income	641	633
Net loss attributable to non-controlling interests	(4)	(3)
Net income attributable to Teva	645	636
Dividends on preferred shares	65	66
Net income attributable to ordinary shareholders	$ 580	$ 570
Earnings per share attributable to ordinary shareholders:		
Basic	$ 0.57	$ 0.62
Diluted	$ 0.57	$ 0.62
Weighted average number of shares (in millions):		
Basic	1,016	913
Diluted	1,017	920

The accompanying notes are an integral part of the financial statements.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2017	**2016**
Net income	$ 641	$ 633
Other comprehensive income (loss), net of tax:		
Currency translation adjustment	466	255
Unrealized gain (loss) from derivative financial instruments, net	8	(336)
Unrealized gain (loss) from available-for-sale securities, net	54	(199)
Unrealized gain (loss) on defined benefit plans	(13)	
Total other comprehensive income (loss)	515	(280)
Total comprehensive income	1,156	353
Comprehensive income (loss) attributable to the non-controlling interests	66	(2)
Comprehensive income attributable to Teva	$ 1,090	$ 355

The accompanying notes are an integral part of the financial statements.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2017	**2016**
Operating activities:		
Net income	$ 641	$ 633
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	480	305
Net change in operating assets and liabilities	(463)	189
Deferred income taxes net and uncertain tax positions	(217)	(51)
Stock-based compensation	40	24
Net gain from sale of long-lived assets and investments	(39)	
Venezuela impairment of net monetary assets	14	246
Impairment of long-lived assets	11	13
Other items	3	7
Research and development in process		10
Net cash provided by operating activities	470	1,376
Investing activities:		
Proceeds from sales of business, investments and long-lived assets	1,412	2
Purchases of property, plant and equipment	(202)	(172)
Other investing activities	(22)	18
Purchases of investments and other assets	(6)	(29)
Acquisitions of subsidiaries, net of cash acquired		(2,236)
Net cash provided by (used in) investing activities	1,182	(2,417)
Financing activities:		
Net change in short-term debt	(1,350)	38
Dividends paid on ordinary shares	(346)	(307)
Dividends paid on preferred shares	(65)	(60)
Other financing activities	(7)	(31)
Proceeds from issuance of ordinary shares, net of issuance costs		329
Proceeds from issuance of mandatory convertible preferred shares, net of issuance costs		329
Repayment of long-term loans and other long-term liabilities		(41)
Proceeds from exercise of options by employees		13
Proceeds from long-term loans and other long-term liabilities		(3)

Net cash provided by (used in) financing activities	(1,768)	267
Translation adjustment on cash and cash equivalents	28	(208)
Net change in cash and cash equivalents	(88)	(982)
Balance of cash and cash equivalents at beginning of period	988	6,946
Balance of cash and cash equivalents at end of period	$ 900	$ 5,964

The accompanying notes are an integral part of the financial statements.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments necessary to fairly state the financial position and results of operations of Teva. These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company s audited financial statements included in its Annual Report on Form 20-F for the year ended December 31, 2016, as filed with the Securities and Exchange Commission (SEC). Amounts at December 31, 2016 were derived from the audited balance sheet at that date, but not all disclosures required by generally accepted accounting principles in the United States (U.S. GAAP) are included. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 - Significant accounting policies:

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. As of March 31, 2017 there has been no impact on the Company s consolidated financial statements.

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 will be 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. As of March 31, 2017 there has been no impact on the Company s 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 will be 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 does 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 variable interest entity (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 does 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 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.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

(Unaudited)

Recently issued accounting pronouncements, not yet adopted

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 will be effective for the fiscal year beginning on January 1, 2018, including interim periods within that year (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance on its 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. The guidance will become effective for interim and annual periods beginning on January 1, 2019 (early adoption is permitted) and is required to be adopted at the earliest period presented using a modified retrospective approach. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

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 will be effective for interim and annual periods beginning on January 1, 2018 (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance 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. 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 will be effective for the fiscal periods beginning on January 1, 2018 (early adoption is permitted).

While Teva has not yet completed its final review of the impact of the new standard, Teva does not currently anticipate a material impact on its revenue recognition practices. We continue to review variable consideration and potential disclosures to complete our evaluation of the impact on our consolidated financial statements. In addition we continue to monitor additional changes, modifications, clarifications or interpretations which may impact our current conclusions. Teva expects to adopt the new standard using the modified retrospective approach.

NOTE 3 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 operational network.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

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 of 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 (see note 11). In addition, Teva terminated its $22 billion bridge loan credit agreement.

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.

The following table summarizes the consideration transferred to acquire Actavis Generics and Anda:

Fair value of consideration transferred:

	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 has been reflected in the first quarter of 2017.

The adjustment was not settled in the period, and therefore there is no impact in the current period on the statements of cash flows.

(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%. Beginning on August 2, 2017 Allergan will no longer be prohibited from trading its Teva shares.

(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).

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

The table below summarizes the preliminary estimates of the fair value of the assets acquired and liabilities assumed and resulting goodwill. These values are not yet finalized and are subject to change, which could be significant. The amounts recognized and associated amortization periods will be finalized as the information necessary to complete the analyses is obtained, but no later than one year from the acquisition date (the measurement period).

Recognized amounts of identifiable assets acquired and liabilities assumed:

U.S.$ in millions

	Preliminary values at December 31, 2016	Measurement period adjustments	Preliminary values at March 31, 2017
Cash and cash equivalents	$ 84	$	$ 84
Trade receivables [1]	3,211	34	3,245
Inventories	1,670	1	1,671
Other current assets [2]	2,050	(8)	2,042
Property, plant and equipment	1,370	22	1,392
Other non-current assets	24		24
Identifiable intangible assets: [3]			
Product rights [4]	8,640	(682)	7,958
Trade names	417		417
In-process research and development	5,006	407	5,413
Goodwill	24,192	390	24,582
Total assets acquired	46,664	164	46,828
Sales reserves and allowances	1,988	49	2,037
Trade payables	441		441
Employee related obligations	134	13	147
Accrued expenses [5]	920	37	957
Other current liabilities	376	(22)	354
Deferred income taxes and other non-current liabilities	3,493	129	3,622
Total liabilities assumed	7,352	206	7,558
Net assets acquired [6]	$ 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 $3,347 million, of which approximately $102 million was not expected to be collected.

(2) Other current net assets related to divestitures were approximately $1,647 million.

(3) The fair value adjustment estimate of identifiable intangible assets is preliminary and 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 12 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 $524 million for litigation matters was assumed by Teva in connection with the acquisition. Refer further to note 16 for contingencies.

(6) 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 $8.0 billion was allocated from the purchase price to developed products and $5.4 billion to IPR&D.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

For both developed products and IPR&D, net cash flows were discounted to present values, using a range of discount rates from 6.5% 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 200 products and/or product groups included in this allocation. A probability of success factor was used to reflect inherent technological and regulatory risks.

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 is 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. The final amount of any contractual adjustment will be determined in arbitration, as provided for in the agreement, and it could be significantly lower than the amount submitted. No amount for the working capital true up has been recorded as a purchase price adjustment to date. Any amount recovered from the working capital true up before the end of the measurement period would be a reduction to purchase price and associated goodwill. Amounts recovered after the measurement period would 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. On October 5, 2016, Teva entered into an agreement to sell certain assets and operations of Actavis Generics in the U.K. and Ireland, and 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 general and administrative expenses. The currency translation impact was reclassified to the statements of income out of accumulated other comprehensive income (see note 10). The table below summarizes the major classes of assets and liabilities included as held for sale as at December 31, 2016.

Carrying amounts of major classes of assets included as held for sale:

	U.S.$ in millions

Trade receivables	$	59
Inventories		63
Other current assets		1
Deferred income taxes		7
Property, plant and equipment, net		36
Identifiable intangible assets, net		633
Total assets of the disposal group classified as held for sale in the consolidated balance sheets	$	799
Trade payables and accrued expenses	$	83
Other current liabilities		10
Other taxes and long-term liabilities		23
Total liabilities of the disposal group classified as held for sale in the consolidated balance sheets	$	116

In addition, assets held for sale at December 31, 2016 include other divestitures related to the acquisition of Actavis Generics, which are not significant to Teva.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

Other 2016 transactions:

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.

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 and 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.

Recognized amounts of identifiable assets acquired and liabilities assumed:

	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.

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 lawsuit against the Rimsa sellers remains outstanding.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

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.

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 charge 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. 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. The measurement period adjustments since December 31, 2016 were not material to Teva s consolidated financial statements.

Recognized amounts of identifiable assets acquired and liabilities assumed:

	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.

b. 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.

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 of up to $280 million, as well as royalties.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

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, with additional consideration of up to $150 million dependent on future sales. 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 quarter of 2017, Teva received a $75 million payment which was recognized in 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 benefits of this product, as well as ongoing associated research and development costs of approximately $1 billion. Teva paid an upfront payment of $250 million to Regeneron as part of the agreement.

NOTE 4 Inventories:

Inventories consisted of the following:

	March 31, 2017	December 31, 2016
	U.S. $ in millions	
Finished products	$ 2,865	$ 2,832
Raw and packaging materials	1,345	1,385
Products in process	568	538
Materials in transit and payments on account	221	199
	$ 4,999	$ 4,954

NOTE 5 - Property, plant and equipment:

Property, plant and equipment, net, consisted of the following:

	March 31, 2017	December 31, 2016
	(U.S. $ in millions)	
Machinery and equipment	$ 5,845	$ 5,748
Buildings	3,413	3,331
Computer equipment and other assets	1,849	1,774
Payments on account	588	634
Land [1]	450	439
	12,145	11,926
Less accumulated depreciation	3,985	3,853
	$ 8,160	$ 8,073

[1] Land includes long-term leasehold rights in various locations, with useful lives of between 30 and 99 years.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

NOTE 6 - Identifiable intangible assets:

Identifiable intangible assets consisted of the following:

	Original amount net of impairment		Accumulated amortization		Amortized balance	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
	(U.S. $ in millions)					
Product rights	$ 18,065	$ 18,180	$ 6,795	$ 6,460	$ 11,270	$ 11,720
Trade names	590	625	27	41	563	584
Research and development in process	9,356	9,183			9,356	9,183
Total	$ 28,011	$ 27,988	$ 6,822	$ 6,501	$ 21,189	$ 21,487

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 $321 million and $993 million in the three months ended March 31, 2017 and year ended December 31, 2016, respectively, and are recorded in earnings, as relevant, under cost of sales and selling and marketing expenses, depending on the nature of the asset.

Impairment of identifiable intangible assets amounted to $2 million and $589 million in the three months ended March 31, 2017 and year ended December 31, 2016, respectively, and are recorded in earnings under impairments, restructuring and others. See note 14.

NOTE 7 - Goodwill:

The changes in the carrying amount of goodwill for the period ended March 31, 2017 were as follows:

	Generics	Specialty	Other	Total
		(U.S. $ in millions)		
Balance as of January 1, 2017	$ 32,863	$ 9,323	$ 2,223	$ 44,409
Changes during the period:				
Goodwill adjustments [1]	355			355
Translation differences	235	22	5	262
Balance as of March 31, 2017	$ 33,453	$ 9,345	$ 2,228	$ 45,026

(1) Due to Actavis Generics and Rimsa measurement period adjustments.

As a result of the acquisition of Actavis Generics, Teva conducted an analysis of its business segments, which led to 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.

Notwithstanding the recent performance of Teva s shares on the market, the February 2017 departure of its President and Chief Executive Officer and the announcement of the impending departure of its Chief Financial Officer, management has determined that Teva s business has not changed in a manner that affects the conclusion that the fair value estimates of its reporting units are greater than their respective carrying amounts.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

NOTE 8 Earnings per share:

Basic earnings per share is computed by dividing net income attributable to Teva s ordinary shareholders by the weighted average number of ordinary shares outstanding (including fully vested restricted share units (RSUs)) during the period, net of treasury shares.

In computing diluted earnings per share for the three months ended March 31, 2017 and 2016, basic earnings per share was adjusted to take into account the potential dilution that could occur upon the exercise of options and non-vested RSUs granted under employee stock compensation plans, and convertible senior debentures, using the treasury stock method.

Additionally, for the three months ended March 31, 2017, no account was taken of the potential dilution of the mandatory convertible preferred shares amounting to 59 million weighted average shares, since they had an anti-dilutive effect on earnings per share.

NOTE 9 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, as well as other promotional items, such as shelf stock adjustments, are included in sales reserves and allowances (SR&A) under current liabilities. These provisions are recognized concurrently with the sales of products. Prompt payment discounts are netted against accounts receivable.

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, expected chargeback levels and wholesaler sales information for new 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 upon the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards 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.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

Sales reserves and allowances consisted of the following:

	March 31, 2017	December 31, 2016
	U.S. $ in millions	
Rebates	$ 2,852	$ 3,482
Medicaid	1,903	1,729
Chargebacks	1,717	1,584
Returns	813	844
Other	215	200
	$ 7,500	$ 7,839

NOTE 10 Equity:

Accumulated other comprehensive income (loss)

The components of, and changes within, accumulated other comprehensive income 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, December 31, 2016	$ (2,769)	$ (7)	$ (302)	$ (81)	$ (3,159)
Other comprehensive income/(loss) before reclassifications	448	90	2	(9)	531
Amounts reclassified to the statements of income	(52)	(35)	6	1	(80)
Net other comprehensive income/(loss) before tax	396	55	8	(8)	451
Corresponding income tax		(1)		(5)	(6)
	396	54	8	(13)	445

Net other comprehensive income/(loss) after tax*					
Balance, March 31, 2017	$ (2,373)	$ 47	$ (294)	$ (94)	$ (2,714)

* Amounts do not include foreign currency translation adjustments attributable to noncontrolling interests of $70 million gain

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

NOTE 11 Debt obligations

a. Short-term debt:

	Weighted average interest rate as of March 31, 2017	Maturity	March 31, 2017	December 31, 2016
			(U.S. $ in millions)	
Revolving credit facility	LIBOR+1.125%	2017	$ 260	$ 1,240
Term loan JPY 20.7 billion	JPY LIBOR+0.25%	2018	185	
Bank facilities	1.70%	2017	148	15
Convertible debentures	0.25%	2026	514	514
Term loan JPY 8.0 billion	JPY LIBOR+0.223%	2017		68
Term loan GBP 510 million	GBP LIBOR+0.7%	2017		629
Current maturities of long-term liabilities			835	810
Total short term debt			$ 1,942	$ 3,276

Short-term debt has an earliest date of repayment within 12 months.

b. Senior notes and loans:

Long-term debt includes the following:

	Weighted average interest rate as of March 31, 2017	Maturity	March 31, 2017	December 31, 2016
			(U.S. $ in millions)	
Senior notes EUR 1,750 million	0.38%	2020	$ 1,863	$ 1,834
Senior notes EUR 1,500 million	1.13%	2024	1,590	1,566
Senior notes EUR 1,300 million	1.25%	2023	1,378	1,357
Senior notes EUR 1,000 million	2.88%	2019	1,066	1,050
Senior notes EUR 750 million	1.63%	2028	792	780
Senior notes EUR 700 million	1.88%	2027	744	733
Senior notes USD 3,500 million	3.15%	2026	3,491	3,491

Senior notes USD 3,000 million	2.20%	2021	2,996	2,995
Senior notes USD 3,000 million	2.80%	2023	2,991	2,991
Senior notes USD 2,000 million	1.70%	2019	2,000	2,000
Senior notes USD 2,000 million	4.10%	2046	1,984	1,984
Senior notes USD 1,500 million	1.40%	2018	1,499	1,498
Senior notes USD 844 million	2.95%	2022	867	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	3.65%	2021	625	626
Senior notes USD 588 million	3.65%	2021	587	587
Senior notes CHF 450 million	1.50%	2018	449	442
Senior notes CHF 350 million	0.50%	2022	350	344
Senior notes CHF 350 million	1.00%	2025	350	345
Senior notes CHF 300 million	0.13%	2018	300	295
Fair value hedge accounting adjustments			(3)	(2)
Total senior notes			27,400	27,265

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

Term loan USD 2.5 billion	LIBOR +1.125%	2018	2,500	2,500
Term loan USD 2.5 billion	LIBOR +1.25%	2017-2020	2,500	2,500
Term loan JPY 65 billion	0.99%	2017	585	560
Term loan JPY 35 billion	1.42%	2019	313	299
Term loan JPY 35 billion	LIBOR +0.3%	2018	313	299
Total loans			6,211	6,158
Debentures USD 15 million	7.20%	2018	15	15
Other	5.07%	2026	10	9
Total debentures and others			25	24
Less current maturities			(835)	(810)
Derivative instruments			3	2
Less debt issuance costs			(110)	(115)
Total long-term debt			$ 32,694	$ 32,524

NOTE 12 Fair value measurement:

Teva s financial instruments consist mainly of cash and cash equivalents, investment in securities, current and non-current receivables, short-term debt, current and non current payables, contingent consideration, senior notes and loans, convertible senior debentures and derivatives.

The fair value of the financial instruments included in working capital and non-current receivables and payables approximates their carrying value. The fair value of term loans and bank facilities mostly approximates their carrying value, since they bear interest at rates close to the prevailing market rates.

a. Financial instruments measured at fair value

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.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

Financial items carried at fair value as of March 31, 2017 and December 31, 2016 are classified in the tables below in one of the three categories described above:

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			
Cash and cash equivalents:				
Money markets	$ 13	$	$	$ 13
Cash deposits and other	887			887
Investment in securities:				
Equity securities	226			226
Structured investment vehicles		90		90
Other	14		17	31
Derivatives:				
Asset derivatives - options and forward contracts		12		12
Asset derivatives - cross currency swaps		90		90
Liabilities derivatives - options and forward contracts		(26)		(26)
Liabilities derivatives - interest rate swaps		(3)		(3)
Contingent consideration*			(839)	(839)
Total	$ 1,140	$ 163	$ (822)	$ 481

	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	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 either liabilities or assets recorded at fair value in connection with acquisitions. Teva determined the fair value of the liability for the 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 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 risk adjusted discount rate for fair value measurement.

Table of Contents

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements (Continued)

The contingent consideration is evaluated quarterly or more frequently if circumstances dictate. Changes in the fair value of contingent consideration are recorded in earnings.

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:

	Three months ended March 31, 2017	Year ended December 31, 2016
	U.S. $ in millions	
Fair value at the beginning of the period	$ (811)	$ (811)
Investment in debt securities		16
Additional contingent consideration resulting from:		
Actavis Generics transaction		(302)
Adjustments to provisions for contingent consideration:		
Actavis Generics transaction	(34)	18
Labrys transaction	(1)	(6)
Eagle transaction	(5)	(179)
MicroDose transaction		(8)
Cephalon transaction		(12)
Nupathe transaction		122
Settlement of contingent consideration:		
Labrys transaction		25
Eagle transaction	29	115
Cephalon transaction		205
Gecko transaction		6
Fair value at the end of the period	$ (822)	$ (811)

b. Financial instruments not measured at fair value

Financial instruments measured on a basis other than fair value mostly consist of senior notes and convertible senior debentures, and are presented in the below table in terms of fair value:

	Estimated fair value*	
	March 31,	December 31,