

## Exchange Controls

Non-residents of Israel who purchase ADSs with U.S. dollars or other non-Israeli currency will be able to receive dividends, if any, and any amounts payable upon the dissolution, liquidation or winding up of the affairs of Teva, in U.S. dollars at the rate of exchange prevailing at the time of conversion. Dividends to non-Israeli residents are subject to withholding. See “Israeli Taxation-Withholding Taxes on Dividends Distributed by Teva to Non-Israeli Residents” below.

## Taxation

### U.S. Taxation Applicable to Holders of Our Ordinary Shares, Mandatory Convertible Preferred Shares and ADSs

#### *U.S. Federal Income Tax Considerations*

The following is a summary of material U.S. federal income tax consequences to U.S. Holders of ADSs who hold such securities as capital assets. Unless otherwise stated, this summary deals only with a U.S. Holder who is not an Israeli resident. For purposes of this summary, a “U.S. Holder” means a beneficial owner of an ADS that is for U.S. federal income tax purposes:

- a citizen or resident of the United States;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if the trust was in existence on August 20, 1996 and has elected to continue to be treated as a U.S. person.

If an entity that is classified as a partnership for U.S. federal tax purposes holds ADSs, the U.S. federal income tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Entities that are classified as partnerships for U.S. federal tax purposes and persons holding ADSs through such entities should consult their own tax advisors.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the “Code”), existing final, temporary and proposed regulations thereunder, judicial decisions and published positions of the Internal Revenue Service, and the treaty between the U.S. and Israel relating to income taxes, all as of the date of this annual report and all of which are subject to change (including changes in interpretation), possibly with retroactive effect. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

This summary does not purport to be a complete analysis of all potential tax consequences of owning ADSs. In particular, this discussion does not take into account the specific circumstances of any particular investor (such as tax-exempt entities, certain insurance companies, broker-dealers, investors subject to the alternative minimum tax, investors that actually or constructively own (or have at any time actually or constructively owned) 10% or more of Teva’s voting securities, investors that hold ordinary shares or ADSs as part of a straddle or hedging or conversion transaction, traders in securities that elect to mark to market, banks or other financial institutions, partnerships or other entities classified as partnerships for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar), some or all of which may be subject to special rules. Investors are advised to consult their own tax advisors with respect to the tax consequences of the ownership of ADSs, including the consequences under applicable state and local law and federal estate tax law, and the application of foreign laws or the effect of nonresident status on U.S. taxation.

U.S. Holders of ADSs will be treated as owners of the ordinary shares underlying their ADSs. Accordingly, deposits and withdrawals of ordinary shares in exchange for ADSs will not be taxable events for U.S. federal income tax purposes.

#### ***Taxation of Distributions to U.S. Holders***

The amount of any distribution paid to a U.S. Holder, including any Israeli taxes withheld from the amount of such distribution, will be subject to U.S. federal income taxation as ordinary income from sources outside the U.S. to the extent paid out of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Subject to applicable limitations, and provided Teva is not a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, dividends paid by Teva to non-corporate U.S. Holders (including individuals) are eligible for U.S. federal income taxation at the reduced rates generally applicable to long-term capital gains for non-corporate U.S. Holders (as qualified dividend income), provided that (i) Teva is a "qualified foreign corporation" and (ii) the U.S. Holder receiving the dividend satisfies the applicable holding period and other requirements. To the extent that an amount received by a U.S. Holder exceeds that U.S. Holder's allocable share of current and accumulated earnings and profits, such excess will be applied first to reduce that U.S. Holder's tax basis in the shares and then, to the extent the distribution exceeds that U.S. Holder's tax basis, will be treated as a capital gain. Any dividend received will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Dividends paid in NIS will be included in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the U.S. Holder's (or, in the case of ADSs, the depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should generally not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss, which will be treated as income from sources within the U.S., if he or she does not convert the amount of such dividend into U.S. dollars on the date of receipt.

Subject to applicable limitations that may vary depending on a U.S. Holder's circumstances, Israeli taxes withheld from dividends on Teva ADSs at the rate provided by the U.S.-Israel tax treaty will be creditable against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income.

The applicable rate of Israeli withholding tax on distributions to U.S. Holders depends on the profits out of which Teva chooses to make the payments. Accordingly, withholding on dividend distributions could be imposed generally at a rate of 15%, 20%, 25%, or a blended rate between 15% and 25%. See "Israeli Taxation-Withholding Taxes on Dividends Distributed by Teva to Non-Israeli Residents" below. In the event the applicable withholding rate under Israeli tax law is higher than the U.S. tax rate applicable to such distribution, a U.S. Holder may not be able to credit the full amount of the Israeli withholding tax against its U.S. tax liability unless it recognizes other non-U.S. source income in respect of which the credit may be applied.

The rules governing foreign tax credits are complex, and, therefore, U.S. Holders should consult their own tax advisor regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, a U.S. Holder may elect to deduct such otherwise creditable Israeli taxes in computing taxable income, subject to generally applicable limitations.

#### ***Taxation of the Disposition of ADSs***

Upon the sale or exchange of ADSs, a U.S. Holder will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized and the U.S. Holder's tax basis determined in U.S. dollars in the ADSs. The gain or loss will generally be gain or loss from sources within the U.S. for foreign tax credit limitation purposes. In general, a capital gain realized by a

## [Table of Contents](#)

non-corporate U.S. Holder is subject to tax at ordinary rates for ADSs held for one year or less and at the long-term capital gains rate (of up to 15% or 20%, as applicable) for ADSs held for more than one year. A U.S. Holder's ability to deduct capital losses is subject to limitations.

The surrender of ADSs in exchange for ordinary shares, or vice versa, will not be a taxable event for U.S. federal income tax purposes, and U.S. Holders will not recognize any gain or loss upon such an exchange.

Under the Patient Protection and Affordable Care Act, certain U.S. Holders (individuals, estates or trusts) having income above certain threshold amounts are subject to additional tax at a rate of 3.8% on their "net investment income," which includes dividends and capital gains from ordinary shares and ADSs.

### ***U.S. Information Reporting and Backup Withholding***

A U.S. Holder generally will be subject to information reporting with respect to dividends paid on, or proceeds from the sale or other disposition of, an ADS unless the U.S. Holder is a corporation or is included in another category of exempt recipients. If it is not exempt, a U.S. Holder may also be subject to backup withholding with respect to dividends or proceeds from the sale or disposition of an ADS unless a taxpayer identification number is provided and the other applicable requirements of the backup withholding rules are complied with. Any amount withheld under these rules will be creditable against the U.S. Holder's U.S. federal income tax liability or refundable to the extent that it exceeds such liability, provided that the required information is timely furnished to the Internal Revenue Service.

U.S. Holders should review the summary below under "Israeli Taxation" for a discussion of the Israeli taxes which may be applicable to them.

### **Israeli Taxation Applicable to Holders of Our Ordinary Shares, Mandatory Convertible Preferred Shares and ADSs**

The following discussion is for general information only. Investors are advised to consult their own tax advisors with respect to the tax consequences of the ownership of mandatory convertible preferred shares and/or ADSs, including the consequences under application of Israeli income tax laws to their particular situation as well as any tax consequences arising under any non-Israeli taxing jurisdiction or under any applicable tax treaty.

### ***Withholding Taxes on Dividends Distributed by Teva to Non-Israeli Residents***

Dividends distributed by an Israeli company to non-Israeli residents are generally subject to 25% withholding tax or 30% with respect to a shareholder who was considered a substantial shareholder (generally, a 10% shareholder) on the distribution date or at any time during the 12-month period preceding the distribution date, including any dividends distributed upon conversion of the mandatory convertible preferred shares into ADSs, unless a lower rate is provided in a treaty between Israel and the shareholder's country of residence and such shareholder files an Israeli tax return for refund based on such lower rate. In the case of dividends distributed from taxable income under the Approved Enterprise regime, the rate applied is 15% or 20%; provided that, if the dividend is attributable partly to income derived from an Approved Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. The rate of tax to be withheld on Teva's dividends for the fourth quarter of 2015 is 15%.

Under the U.S.-Israel tax treaty, the maximum Israeli tax and withholding tax on dividends paid to a holder of ordinary shares or mandatory convertible preferred shares or ADSs who is a resident of the U.S. is generally 25%, but is reduced to 12.5% or 15% (depending on the type of profits distributed) if the dividends are paid to a corporation that holds in excess of 10% of the voting rights of Teva over a required term and if certain other conditions are satisfied.

A non-resident of Israel who has interest or dividend income derived from or accrued in Israel, from which tax was withheld, is generally exempt from the duty to file tax returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

#### ***Capital Gains and Income Taxes Applicable to Non-Israeli Shareholders***

Israeli law generally imposes a capital gains tax on the sale of securities and any other capital asset.

Gains on the sale of our ordinary shares, mandatory convertible preferred shares and ADSs by non-Israeli tax resident investors will generally be exempt from Israeli capital gains tax.

In addition subject to certain conditions, the U.S.-Israel tax treaty exempts U.S. residents who hold less than 10% of the voting power in an Israeli company, including Teva, and who did not hold 10% or more of the voting power in the company at any time during the 12 months prior to a sale of their shares, from Israeli capital gains tax in connection with such sale. Certain other tax treaties to which Israel is a party also grant exemptions from Israeli capital gains taxes.

### **Taxation Applicable to the Company**

#### ***Corporate Tax Rate***

The regular corporate tax rate in Israel effective as of January 1, 2016 is 25% (26.5% in 2014 and 2015). Teva's effective consolidated tax rate for 2015 was 27%. Teva's effective consolidated tax rate for 2014 was 16% and its effective benefit rate (tax benefit as a percentage of pre-tax income) for 2013 was 3%. Teva's effective tax rate differs from the statutory rate mainly as a result of benefits from the "Preferred Enterprise" regime in Israel, as described below, as well as from operations outside of Israel, in countries where Teva has benefited from tax incentives and lower tax rates. As a result, our effective tax rate is often lower than the statutory rate in Israel.

The increase in our 2015 effective tax rate compared to 2014 is mainly due to our product mix in the different geographies and the effect of the loss on our Mylan shares.

The Company elected to compute its taxable income in accordance with the Israeli Income Tax Regulations (Rules for Accounting for Foreign Investors Companies and Certain Partnerships and Setting their Taxable Income), 1986. Accordingly, the Company's taxable income or loss is calculated in U.S. dollar terms. Applying these regulations reduces the effect of U.S. dollar to-NIS exchange rate fluctuations on the Company's Israeli taxable income.

#### ***Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law")***

Teva and certain of its Israeli subsidiaries currently qualify as "Industrial Companies" pursuant to the Industry Encouragement Law. As such, Teva and these subsidiaries qualify for certain tax benefits, including amortization of the purchase price of a good-faith acquisition of a patent or of certain other intangible property rights at a rate of 12.5% per annum and the right to file consolidated tax returns. Currently, Teva files consolidated tax returns together with certain Israeli subsidiaries. The tax laws and regulations provide that industrial enterprises such as those of Teva and its subsidiaries which qualify as "Industrial Companies" can claim special rates of depreciation of up to 40% on a linear basis for industrial equipment.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any government authority. There can be no assurance that Teva or any of its Israeli subsidiaries that presently qualify as Industrial Companies will continue to qualify as such in the future, or that the benefits will be granted in the future.

**Law for the Encouragement of Capital Investments, 1959 (the "Investment Law")**

***The New Incentives Regime – Amendment 68 to the Investment Law***

Under amendment 68 to the Investment Law ("Amendment 68"), which Teva started applying in 2014, upon an irrevocable election made by a company, a uniform corporate tax rate will apply to all qualifying industrial income of such company ("Preferred Enterprise"), as opposed to the previous law's incentives, which were limited to income from Approved Enterprises during the benefits period. Under the law, when the election is made, the uniform tax rate for 2014 and onwards is 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel. The profits of these "Preferred Enterprise" will be freely distributable as dividends, subject to a 20% withholding tax or lower, under an applicable tax treaty. Certain "Special Industrial Companies" that meet more stringent criteria (significant investment, R&D or employment thresholds) will enjoy further reduced tax rates of 5% in Zone A and 8% elsewhere. In order to be classified as a "Special Industrial Company," the approval of three governmental authorities in Israel is required.

Teva is currently examining its eligibility to be regarded as a "Special Industrial Company" under the new law.

***Incentives Applicable until 2013***

Under the incentives regime applicable to the Company until 2013, industrial projects of Teva and certain of its Israeli subsidiaries were eligible for "Approved Enterprise" status. The tax benefits derived from any such Approved Enterprise related only to taxable profits attributable to the specific program of investment to which the status was granted. In the event that Teva and its subsidiaries that have been granted Approved Enterprise status were operating under more than one approval, or in the event that their capital investments were only partly approved, their effective corporate tax rate was the result of a weighted combination of the various rates applicable.

Most of Teva's projects in Israel have been granted Approved Enterprise status. The vast majority of those Approved Enterprises elected to apply for alternative tax benefits—the waiver of government grants in return for tax exemptions on undistributed income or reduced tax rates. Upon distribution of such exempt income, the distributing company is subject to corporate tax at the rate ordinarily applicable to the Approved Enterprise's income. Such tax exemption on undistributed income applied for a limited period of between two to ten years, depending upon the location of the enterprise. During the remainder of the benefits period (generally until the expiration of a ten year period), a corporate tax rate not exceeding 25% applied.

Teva qualified as a Foreign Investors Company, or FIC, under the incentives regime applicable until 2013. FICs were entitled to further reductions in the tax rate normally applicable to Approved Enterprises, depending on the level of foreign ownership. Depending on the level of foreign ownership in each tax year, the tax rate ranged between 10% (when foreign ownership is 90% or more) to 25% (when the foreign ownership was below 49%).

Dividends paid by a company, the source of which is income derived from the Approved Enterprise accrued during the benefits period, are generally taxed at a rate of 15% (which is withheld and paid by the company paying the dividend) if such dividends were paid during the benefits period or at any time up to 12 years thereafter. The 12-year limitation does not apply to a FIC.

Starting in April 2005, under amendment 60 to the Investment Law ("Amendment 60"), with a view to simplifying the bureaucratic process, an industrial project was automatically qualified for Approved Enterprise status and benefits if it met all of the eligibility criteria under the Investment Law, with no need for prior approval from the Investment Center. Eligibility for the tax benefits is examined by the tax authorities as part of the tax audit of the Company's annual tax returns.

## [Table of Contents](#)

Amendment 60 introduced the Strategic Investment Track, applicable to companies that had an Approved Enterprise in Development Zone A that met certain investment and revenue thresholds. Income accrued under this track during the benefits period was exempt from corporate tax. In addition, dividends distributed from such income are also exempt from Israeli tax. Teva has one approved program under this track.

### ***Amendment 69 to the Investment Law***

Pursuant to amendment 69 to the Investment Law ("Amendment 69"), a company that elected by November 11, 2013 to pay a corporate tax rate as set forth in that amendment (rather than the tax rate applicable to Approved Enterprise income) with respect to undistributed exempt income accumulated by the company up until December 31, 2011, is entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over the five-year period commencing in 2013. The election is irrevocable.

During 2013, we applied the provisions of Amendment 69 to certain exempt profits we accrued prior to 2012. Consequently, we paid \$577 million in corporate tax on exempt income of \$9.4 billion. Part of this income was distributed as dividends during 2013, while the remainder is available to be distributed as dividends in future years with no additional corporate tax liability.

The application of Amendment 69 to its tax exempt profits requires Teva to invest \$286 million in its industrial enterprises in Israel over a five-year period ending in 2017, either in the acquisition of industrial assets (excluding real estate assets); investment in R&D in Israel; or salaries paid to new employees who joined the enterprise, relative to the number of employees employed in the enterprise at the end of the 2011 fiscal year, excluding payroll payment to "office holders" (as such term is defined in the Israeli Companies Law). Teva has already invested the entire required amount during 2013.

### ***Taxation of Non-Israeli Subsidiaries***

Non-Israeli subsidiaries are generally taxed based upon tax laws applicable in their countries of residence. In accordance with the provisions of Israeli-controlled foreign corporation rules, certain income of a non-Israeli subsidiary, if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or income from capital gains), may be deemed distributed as a dividend to the Israeli parent company and consequently is subject to Israeli taxation. Once a dividend is actually distributed, the dividend income would be reduced in the amount of the deemed dividend on which tax was already paid.

## **Documents on Display**

Teva files annual and special reports and other information with the SEC. You may inspect and copy such material at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of such material from the SEC at prescribed rates by writing to the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy statements, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system.

Teva also files annual and special 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](http://www.magna.isa.gov.il) or on the website of the TASE at [www.tase.co.il](http://www.tase.co.il).

Teva's ADSs are quoted on the New York Stock Exchange. Information about Teva is also available on its website at <http://www.tevapharm.com>. Such information on its website is not part of this annual report.