

Dividends on the 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 will be paid in cash on March 15, June 15, September 15 and December 15 of each year until December 15, 2018.

Subject to certain exceptions, so long as any mandatory convertible preferred shares remain outstanding, no dividend or distribution may be declared or paid on our ordinary shares or ADSs, and we may not purchase any such 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 apart for the payment of such dividends, for all outstanding mandatory convertible preferred shares.

Each mandatory convertible preferred share will automatically convert on December 15, 2018 (the “mandatory conversion date”) into between 13.3333 and 16.0000 ADSs, subject to anti-dilution adjustments. The number of ADSs issuable upon conversion of the mandatory convertible preferred shares will be determined based on the average volume weighted average price per ADS over the 20 consecutive trading day period beginning on and including the 22nd scheduled trading day immediately preceding the mandatory conversion date. At any time prior to the mandatory conversion date, other than during a fundamental change conversion period (as defined in the Articles), holders of mandatory convertible preferred shares may elect to convert each mandatory convertible preferred share into ADSs at the minimum conversion rate of 13.3333 ADSs per mandatory convertible preferred share, subject to anti-dilution adjustments.

In addition, if a fundamental change (as defined in the Articles) with respect to Teva occurs, 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 (as defined in the Articles) and converting holders will also be entitled to receive a fundamental change dividend make-whole amount and any accumulated but unpaid dividends.

Ownership and Voting of Teva Shares

Neither the Memorandum, nor the Articles or the laws of the State of Israel restrict the ownership or voting of our ordinary or preferred shares or ADSs by non-residents or persons who are not citizens of Israel, except with respect to citizens or residents of countries that are in a state of war with Israel.

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.

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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 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 our dividends for the fourth quarter of 2016 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 Teva

Corporate Tax Rate

The regular corporate tax rate in Israel in 2016 was 25% (which will decrease to 24% in 2017 and 23% in 2018 and onwards). Our effective consolidated tax rate for 2016 was 63%, compared to 27% for 2015 and 16% for 2014.

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The increase in our 2016 effective tax rate compared to 2015 is mainly due to non-deductible penalties resulting from legal settlements, impairments and devaluations that did not have a corresponding tax effect and the mix of products sold in different geographies.

We elected to compute our 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, our 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 our 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, we file 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")

Incentives Applicable until 2013

Under the incentives regime applicable to us until 2013, industrial projects of Teva and certain of its Israeli subsidiaries were eligible for "Approved Enterprise" status.

Most of our projects in Israel have been granted Approved Enterprise status under the "alternative" tax benefit track which offered tax exemption on undistributed income for a period of two to ten years, depending on the location of the enterprise. 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.

Amendment 69 to the Investment Law

Pursuant to Amendment 69 to the Investment Law, 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. We invested the entire required amount in 2013.

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 2013-2016, while the remainder is available to be distributed as dividends in future years with no additional corporate tax liability.

Incentives Applicable starting 2014: The Incentives Regime—Amendment 68 to the Investment Law

Under Amendment 68 to the Investment Law, which we 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 until 2016 was 9% in areas in Israel designated as Development Zone A and 16% elsewhere in Israel. The uniform tax rate for Development Zone A, as of January 1, 2017, is 7.5% (as part of changes enacted in Amendment 73, as described below). The profits of these "Preferred Enterprise" will be freely distributable as dividends, subject to a 20% or lower withholding tax, under an applicable tax treaty. Certain "Special Preferred Enterprises" 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 Preferred Enterprise," the approval of three governmental authorities in Israel is required.

We are currently examining our eligibility to be regarded as a "Special Preferred Enterprise" under the new law.

The New Technological Enterprise Incentives Regime—Amendment 73 to the Investment Law

Amendment 73 to the Investment Law, became effective on January 1, 2017, provided that regulations are promulgated no later than March 31, 2017 to implement the "Nexus Principles" based on OECD guidelines recently published as part of the Base Erosion and Profit Shifting (BEPS) project.

The new incentives regime will apply to "Preferred Technological Enterprises" that meet certain conditions, including:

1. investment of at least 7% of income, or at least NIS 75 million (approximately \$19 million) in R&D activities; and
2. one of the following:
 - at least 20% of the workforce (or at least 200 employees) are employed in R&D;
 - a venture capital investment approximately equivalent to at least \$2 million was previously made in the company; or
 - growth in sales or workforce by an average of 25% over the three years preceding the tax year.

A "Special Preferred Technological Enterprise" is an enterprise that meets conditions 1 and 2 above, and in addition has total annual consolidated revenues above NIS 10 billion (approximately \$2.5 billion).

Preferred Technological Enterprises will be subject to a corporate tax rate of 12% on their income derived from intellectual property, while Special Preferred Technological Enterprises will be subject to 6% on such income. The withholding tax on dividends from these enterprises will be 4% (or a lower rate under a tax treaty, if applicable).

We currently believe that we will meet the criteria for the tax rate of a "Special Preferred Technological Enterprise;" however, only after the regulations concerning the nexus approach are promulgated we will be able to assess the effect of the new law on our financial results.

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.