# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2020**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission file number 001-16174**

# TEVA PHARMACEUTICAL INDUSTRIES LIMITED

**(Exact name of registrant as specified in its charter)**

| **Israel** | **Not Applicable** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification Number)** |
| **5 Basel Street, Petach Tikva, ISRAEL** | **4951033** |
| **(Address of principal executive offices)** | **(Zip code)** |

**+972 (3) 914-8171**
**(Registrant's telephone number, including area code)**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | |

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

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

As of March 31, 2020, the registrant had 1,095,524,777 ordinary shares outstanding.

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## INTRODUCTION AND USE OF CERTAIN TERMS

Unless otherwise indicated, all references to the "Company," "we," "our" and "Teva" refer to Teva Pharmaceutical Industries Limited and its subsidiaries, and references to "revenues" refer to net revenues. References to "U.S. dollars," "dollars," "U.S. $" and "$" are to the lawful currency of the United States of America, and references to "NIS" are to new Israeli shekels. References to "ADS(s)" are to Teva's American Depositary Share(s). References to "MS" are to multiple sclerosis. Market data, including both sales and share data, is based on information provided by IQVIA (formerly IMS Health Inc.), a provider of market research to the pharmaceutical industry ("IQVIA"), unless otherwise stated. References to "Actavis Generics" are to the generic pharmaceuticals business we purchased from Allergan plc ("Allergan") on August 2, 2016. References to "R&D" are to Research and Development, references to "IPR&D" are to in-process R&D, references to "S&M" are to Selling and Marketing and references to "G&A" are to General and Administrative. Some amounts in this report may not add up due to rounding. All percentages have been calculated using unrounded amounts. This report on Form 10-Q contains many of the trademarks and trade names used by Teva in the United States and internationally to distinguish its products and services. Any third-party trademarks mentioned in this report are the property of their respective owners.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to successfully compete in the marketplace, including: that we are substantially dependent on our generic products; consolidation of our customer base and commercial alliances among our customers; the increase in the number of competitors targeting generic opportunities and seeking U.S. market exclusivity for generic versions of significant products; competition for our specialty products, especially COPAXONE®, our leading medicine, which faces competition from existing and potential additional generic versions, competing glatiramer acetate products and orally-administered alternatives; the uncertainty of commercial success of AJOVY® or AUSTEDO®; competition from companies with greater resources and capabilities; delays in launches of new products and our ability to achieve expected results from investments in our product pipeline; ability to develop and commercialize biopharmaceutical products; efforts of pharmaceutical companies to limit the use of generics, including through legislation and regulations and the effectiveness of our patents and other measures to protect our intellectual property rights;
- our substantial indebtedness, which may limit our ability to incur additional indebtedness, engage in additional transactions or make new investments, may result in a further downgrade of our credit ratings; and our inability to raise debt or borrow funds in amounts or on terms that are favorable to us;
- our business and operations in general, including uncertainty regarding the magnitude, duration, and geographic reach of the COVID-19 pandemic and its impact on our business, financial condition, operations, cash flows, and liquidity and on the economy in general; manufacturing or quality control protocols; interruptions in our supply chain, including due to potential effects of the COVID-19 pandemic on our operations and business in geographic locations impacted by the pandemic and on the business operations of our customers and suppliers; our ability to successfully execute and maintain the activities and efforts related to the measures we have taken or may take in response to the COVID-19 pandemic and associated costs therewith; challenges associated with conducting business globally, including adverse effects of the COVID-19 pandemic; costs resulting from the extensive governmental regulation to which we are subject or delays in governmental processing time due to modified government operations due to the COVID-19 pandemic, including effects on product and patent approvals due to the COVID-19 pandemic; disruptions of information technology systems; and our ability to successfully compete in the marketplace;
- our business and operations in general, including: effectiveness of our restructuring plan announced in December 2017; our ability to attract, hire and retain highly skilled personnel; our ability to develop and commercialize additional pharmaceutical products; compliance with anti-corruption sanctions and trade control laws; manufacturing or quality control problems; interruptions in our supply chain; disruptions of information technology systems; breaches of our data security; variations in intellectual property laws; challenges associated with conducting business globally, including adverse effects of political or economic instability, major hostilities or terrorism; significant sales to a limited number of customers; our ability to successfully bid for suitable acquisition targets or licensing opportunities, or to consummate and integrate acquisitions; our prospects and opportunities for growth if we sell assets and potential difficulties related to the operation of our new global enterprise resource planning (ERP) system;

- compliance, regulatory and litigation matters, including: increased legal and regulatory action in connection with public concern over the abuse of opioid medications in the U.S. and our ability to reach a final resolution of the remaining opioid-related litigation; costs and delays resulting from the extensive governmental regulation to which we are subject; the effects of reforms in healthcare regulation and reductions in pharmaceutical pricing, reimbursement and coverage; governmental investigations into S&M practices; potential liability for patent infringement; product liability claims; increased government scrutiny of our patent settlement agreements; failure to comply with complex Medicare and Medicaid reporting and payment obligations; and environmental risks;
- other financial and economic risks, including: our exposure to currency fluctuations and restrictions as well as credit risks; potential impairments of our intangible assets; potential significant increases in tax liabilities; and the effect on our overall effective tax rate of the termination or expiration of governmental programs or tax benefits, or of a change in our business;

and other factors discussed in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2019, including in the sections captioned “Risk Factors.” Forward-looking statements speak only as of the date on which they are made, and we assume no obligation to update or revise any forward-looking statements or other information contained herein, whether as a result of new information, future events or otherwise. You are cautioned not to put undue reliance on these forward-looking statements.

## PART I — FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**CONSOLIDATED BALANCE SHEETS**
**(U.S. dollars in millions, except for share data)**
**(Unaudited)**

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 1,804 | $ 1,975 |
| Accounts receivables, net of allowance for credit losses of $127 million and $135 million as of March 31, 2020 and December 31, 2019 | 5,189 | 5,676 |
| Inventories | 4,290 | 4,422 |
| Prepaid expenses | 977 | 870 |
| Other current assets | 538 | 434 |
| Assets held for sale | 86 | 87 |
| **Total current assets** | 12,884 | 13,464 |
| **Deferred income taxes** | 440 | 386 |
| **Other non-current assets** | 550 | 591 |
| **Property, plant and equipment, net** | 6,221 | 6,436 |
| **Operating lease right-of-use assets** | 489 | 514 |
| **Identifiable intangible assets, net** | 10,256 | 11,232 |
| **Goodwill** | 24,490 | 24,846 |
| **Total assets** | $55,330 | $ 57,470 |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Short-term debt | $ 1,630 | $ 2,345 |
| Sales reserves and allowances | 5,662 | 6,159 |
| Accounts payables | 1,710 | 1,718 |
| Employee-related obligations | 540 | 693 |
| Accrued expenses | 1,718 | 1,869 |
| Other current liabilities | 1,061 | 889 |
| **Total current liabilities** | 12,322 | 13,674 |
| **Long-term liabilities:** | | |
| Deferred income taxes | 912 | 1,096 |
| Other taxes and long-term liabilities | 2,624 | 2,640 |
| Senior notes and loans | 24,473 | 24,562 |
| Operating lease liabilities | 411 | 435 |
| **Total long-term liabilities** | 28,420 | 28,733 |
| **Commitments and contingencies**, see note 10 | | |
| **Total liabilities** | 40,742 | 42,407 |
| **Equity:** | | |
| **Teva shareholders' equity:** | | |
| Ordinary shares of NIS 0.10 par value per share; March 31, 2020 and December 31, 2019: authorized 2,495 million shares; issued 1,201 million shares and 1,198 million shares, respectively | 56 | 56 |
| Additional paid-in capital | 27,342 | 27,312 |
| Accumulated deficit | (6,887) | (6,956) |
| Accumulated other comprehensive loss | (2,852) | (2,312) |
| Treasury shares as of March 31, 2020 and December 31, 2019 — 106 million ordinary shares | (4,128) | (4,128) |
| | 13,531 | 13,972 |
| **Non-controlling interests** | 1,057 | 1,091 |
| **Total equity** | 14,588 | 15,063 |
| **Total liabilities and equity** | $55,330 | $ 57,470 |

**Amounts may not add up due to rounding.**
**The accompanying notes are an integral part of the financial statements.**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**
**(U.S. dollars in millions, except share and per share data)**
**(Unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net revenues | $4,357 | $4,149 |
| Cost of sales | 2,294 | 2,293 |
| Gross profit | 2,063 | 1,856 |
| Research and development expenses | 221 | 261 |
| Selling and marketing expenses | 613 | 648 |
| General and administrative expenses | 304 | 292 |
| Intangible assets impairments | 649 | 469 |
| Other assets impairments, restructuring and other items | 121 | 1 |
| Legal settlements and loss contingencies | (25) | 57 |
| Other income | (13) | (6) |
| Operating (loss) income | 191 | 134 |
| Financial expenses, net | 224 | 218 |
| Income (loss) before income taxes | (33) | (84) |
| Income taxes (benefit) | (59) | 9 |
| Share in (profits) losses of associated companies, net | 1 | 4 |
| Net income (loss) | 25 | (97) |
| Net income (loss) attributable to non-controlling interests | (44) | 8 |
| Net income (loss) attributable to Teva | 69 | (105) |
| Net income (loss) attributable to ordinary shareholders | $ 69 | $ (105) |
| Earnings (loss) per share attributable to ordinary shareholders: | | |
| Basic | $ 0.06 | $ (0.10) |
| Diluted | $ 0.06 | $ (0.10) |
| Weighted average number of shares (in millions): | | |
| Basic | 1,093 | 1,090 |
| Diluted | 1,096 | 1,090 |

**Amounts may not add up due to rounding.**
**The accompanying notes are an integral part of the financial statements.**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**
**(U.S. dollars in millions)**
**(Unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net income (loss) | $ 25 | $ (97) |
| Other comprehensive income (loss), net of tax: | | |
| Currency translation adjustment | (560) | 47 |
| Unrealized gain from derivative financial instruments | 30 | 47 |
| Total other comprehensive income (loss) | (530) | 94 |
| Total comprehensive income (loss) | (505) | (3) |
| Comprehensive income (loss) attributable to non-controlling interests | (34) | 2 |
| Comprehensive income (loss) attributable to Teva | $ (471) | $ (5) |

**Amounts may not add up due to rounding.**
**The accompanying notes are an integral part of the financial statements.**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(Unaudited)**

| | Teva shareholders' equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | | | | | | | | |
| | Number of shares (in millions) | Stated value | Additional paid-in capital | Retained earnings (accumulated deficit) | Accumulated other comprehensive (loss) | Treasury shares | Total Teva shareholders' equity | Non-controlling interests | Total equity |
| | (U.S. dollars in millions) | | | | | | | | |
| **Balance at December 31, 2019** | 1,198 | 56 | 27,312 | (6,956) | (2,312) | (4,128) | 13,972 | 1,091 | 15,063 |
| Comprehensive income (loss) | | | | 69 | (540) | | (471) | (34) | (505) |
| Issuance of Shares | 3 | * | | | | | | | * |
| Stock-based compensation expense | | | 30 | | | | 30 | | 30 |
| **Balance at March 31, 2020** | 1,201 | $ 56 | $ 27,342 | $ (6,887) | $ (2,852) | $(4,128) | $ 13,531 | $ 1,057 | $14,588 |

* Represents an amount less than $0.5 million.

| | Teva shareholders' equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary shares | | | | | | | | |
| | Number of shares (in millions) | Stated value | Additional paid-in capital | Retained earnings (accumulated deficit) | Accumulated other comprehensive (loss) | Treasury shares | Total Teva shareholders' equity | Non-controlling interests | Total equity |
| | (U.S. dollars in millions) | | | | | | | | |
| **Balance at December 31, 2018** | 1,196 | 56 | 27,210 | (5,958) | (2,459) | (4,142) | 14,707 | 1,087 | 15,794 |
| Comprehensive income (loss) | | | | (105) | 100 | | (5) | 2 | (3) |
| Issuance of shares | 2 | * | | | | | | | * |
| Issuance of Treasury Shares | | | (3) | | | 5 | 2 | | 2 |
| Stock-based compensation expense | | | 34 | | | | 34 | | 34 |
| Other | | | (6) | | | | (6) | | (6) |
| **Balance at March 31, 2019** | 1,198 | $ 56 | $ 27,234 | $ (6,063) | $ (2,359) | $(4,137) | $ 14,732 | $ 1,089 | $15,821 |

* Represents an amount less than $0.5 million.

**Amounts may not add up due to rounding.**
**The accompanying notes are an integral part of the financial statements.**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(U.S. dollars in millions)**
**(Unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Operating activities:** | | |
| Net income (loss) | $ 25 | $ (97) |
| Adjustments to reconcile net income (loss) to net cash provided by operations: | | |
| Depreciation and amortization | 399 | 443 |
| Impairment of long-lived assets | 724 | 489 |
| Net change in operating assets and liabilities | (666) | (805) |
| Deferred income taxes – net and uncertain tax positions | (233) | (33) |
| Stock-based compensation | 30 | 34 |
| Net loss (gain) from sale of long-lived assets and investments | 24 | (2) |
| Other items | 2 | 83 |
| **Net cash provided by operating activities** | 305 | 112 |
| **Investing activities:** | | |
| Beneficial interest collected in exchange for securitized accounts receivables | 368 | 362 |
| Purchases of property, plant and equipment | (128) | (125) |
| Proceeds from sale of long lived assets | 6 | 11 |
| Other investing activities | 6 | 24 |
| **Net cash provided by investing activities** | 252 | 272 |
| **Financing activities:** | | |
| Repayment of senior notes and loans and other long-term liabilities | (700) | (126) |
| Tax withholding payments made on shares and dividends | — | (52) |
| Other financing activities | — | (11) |
| **Net cash used in financing activities** | (700) | (189) |
| **Translation adjustment on cash and cash equivalents** | (28) | (4) |
| **Net change in cash and cash equivalents** | (171) | 191 |
| **Balance of cash and cash equivalents at beginning of period** | 1,975 | 1,782 |
| **Balance of cash and cash equivalents at end of period** | $1,804 | $1,973 |
| **Non-cash financing and investing activities:** | | |
| Beneficial interest obtained in exchange for securitized accounts receivables | $ 375 | $ 396 |

**Amounts may not add up due to rounding**
**The accompanying notes are an integral part of the financial statements.**

**TEVA PHARMACEUTICAL INDUSTRIES LIMITED**
**Notes to Consolidated Financial Statements**
**(Unaudited)**

**Note 1 – Basis of presentation:**

**a. 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 recurring adjustments necessary to fairly state the financial position and results of operations of Teva. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission ("SEC"). Amounts as of December 31, 2019 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.

In the process of preparing the consolidated financial statements, management makes estimates, judgments and assumptions that may affect the reported amounts of assets, liabilities, equity, revenues and expenses and related disclosure of contingent assets and liabilities. The inputs into Teva's judgments and estimates also consider the economic implications of COVID-19 on its critical and significant accounting estimates, most significantly in relation to sales, reserves and allowances, IPR&D assets, marketed product rights and goodwill, all of which will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain or treat it, as well as the economic impact on customers and markets. All estimates made by Teva related to the impact of COVID-19 within its financial statements may change in future periods. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform to current presentation. The results of operations for the three months ended March 31, 2020 are not necessarily indicative of results that could be expected for the entire fiscal year. Certain amounts in the consolidated financial statements and associated notes may not add up due to rounding. All percentages have been calculated using unrounded amounts.

**b. Significant accounting policies**

**Recently adopted accounting pronouncements**

In March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting". This guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. This guidance is effective for all entities as of March 12, 2020 through December 31, 2022. There was no impact to the Company's consolidated financial statements for the quarter ended March 31, 2020 as a result of adopting this standard update. The Company will continue to evaluate this guidance to determine the impact it may have in the future on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04 "Codification Improvements to Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Financial Instruments (Topic 825)." This ASU provides clarifications of three topics related to financial instruments accounting. Teva adopted the provisions of this update as of January 1, 2020 with no material impact on its consolidated financial statements.

In November 2018, the FASB issued ASU 2018-18 "Collaborative Arrangements (Topic 808)—Clarifying the interaction between Topic 808 and Topic 606." The amendments provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606. It also specifically (i) addresses when the participant should be considered a customer in the context of a unit of account, (ii) adds unit-of-account guidance in ASC 808 to align with guidance in ASC 606 and (iii) precludes presenting revenue from a collaborative arrangement together with revenue recognized under ASC 606 if the collaborative arrangement participant is not a customer. Teva adopted the provisions of this update as of January 1, 2020 with no material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15 "Intangibles—Goodwill and other—Internal-use software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract." This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Teva applied the guidance prospectively to all implementation costs incurred after the date of adoption. Teva adopted the provisions of this update as of January 1, 2020 with no material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the

period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. Teva adopted the provisions of this update as of January 1, 2020 with no material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 "Financial Instruments—Credit Losses—Measurement of Credit Losses on Financial Instruments." This 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. Teva adopted the provisions of this update as of January 1, 2020 with no impact on its consolidated financial statements.

**Recently issued accounting pronouncement, not yet adopted**

In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes" ("the Update"). The amendments in this Update simplify the accounting for income taxes by removing the following exceptions in ASC 740: (1) exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items; (2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

In addition, the Update also simplifies the accounting for income taxes in certain topics as follows: (1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax; (2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; (3) specifying that an entity can elect (rather than be required to) allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; and (4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

**c. Revision of Previously Reported Consolidated Financial Statements**

In connection with the preparation of Teva's consolidated financial statements for the fiscal year ended December 31, 2019, Teva determined that in the full years and interim periods of fiscal years 2017 and 2018, and the first three quarters of fiscal year 2019, it had an immaterial error in the presentation of distribution revenues from its Israeli distribution business. This business is part of the International Markets reporting segment and facilitates distribution of Teva and third party products to pharmacies, hospitals and other organizations in Israel.

Specifically, the Company concluded that it presented revenues from its Israeli distribution business on a gross basis, although it should have reported such revenues on a net basis. Because Teva has no discretion in establishing prices for any specified goods or services, limited inventory risk and is not primarily responsible for contract fulfillment, Teva does not meet the criteria for reporting revenues from such business as a principal (on a gross basis), as opposed to as an agent (on a net basis).

The Company evaluated the cumulative impact of this item on its previously issued annual financial statements for 2017 and 2018, and the interim financial statements for 2017, 2018 and the first three quarters of 2019, and concluded that, for the reasons mentioned below, the revisions were not material, individually or in the aggregate, to any of its previously-issued interim or annual financial statements. Teva has revised its presentation of net revenue and cost of sales in the historical consolidated financial statements to reflect the change in this item, as described in more detail below.

The impact of this revision is a decrease in net revenues with an offsetting decrease in cost of sales. There is no impact on gross profit, operating income or earnings per share. In addition, there is no impact on Teva's balance sheet or statement of cash flows for the related periods.

The following table summarizes the impact of the revision on net revenues and cost of sales in the consolidated statement of income for the relevant period:

| | | Net revenues | | | Cost of sales | | |
|---|---|---|---|---|---|---|---|
| | | As reported | Adjustment | As revised | As reported | Adjustment | As revised |
| | | (U.S. $ in millions) | | | | | |
| 2019 | Q1 | 4,295 | (146) | 4,149 | 2,440 | (146) | 2,293 |

**NOTE 2 – Certain transactions:**

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.

**Eli Lilly and Alder BioPharmaceuticals**

In December 2018, Teva entered into an agreement with Eli Lilly, resolving the European Patent Office opposition they had filed against Teva's AJOVY® patents. The settlement agreement with Lilly also resolved Lilly's action to revoke the patent protecting AJOVY in the United Kingdom.

On January 8, 2018, Teva signed a global license agreement with Alder BioPharmaceuticals ("Alder"). The agreement validates Teva's IP and resolves Alder's opposition to Teva's European patent with respect to anti-calcitonin gene-related peptide (CGRP) antibodies, including the withdrawal of Alder's appeal before the European Patent Office. Under the terms of the agreement, Alder will receive a non-exclusive license to Teva's anti-CGRP antibodies patent portfolio to develop, manufacture and commercialize eptinezumab in the United States and worldwide, excluding Japan and Korea. Teva received a $25 million upfront payment that was recognized as revenue during the first quarter of 2018, and a $25 million milestone payment in March 2020 that was recognized as revenue in the first quarter of 2020. The agreement stipulates additional milestone payments to Teva of up to $150 million, as well as future royalties.

**PGT Healthcare Partnership**

In July 2018, Teva terminated its joint venture with the Procter & Gamble Company ("P&G"), PGT Healthcare partnership ("PGT"), which the two companies established in 2011 to market OTC medicines. Teva will continue to maintain its OTC business on an independent basis.

As part of the separation, Teva transferred to P&G the shares it held in New Chapter Inc. and ownership rights in an OTC plant located in India. Teva provides certain services to P&G after the separation for a transition period.

During the first quarter of 2018, Teva classified the plant in India as an asset held for sale and recorded an impairment of $64 million under other assets impairments, restructuring and other items. In addition, Teva recorded a write-down of $94 million of its investment in New Chapter Inc. under share in losses of associated companies.

During September 2018, Teva and P&G completed the final net asset distribution as part of the dissolution and Teva recorded a gain of $50 million to reflect the cash payment received from P&G under the dissolution agreement.

**AUSTEDO®**

On September 19, 2017, Teva entered into a partnership agreement with Nuvelution Pharma, Inc. ("Nuvelution") for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. There are no further plans in this indication following clinical trial results received in February 2020, which failed to meet their primary endpoints.

**Otsuka**

On May 12, 2017, Teva entered into a license and collaboration agreement with Otsuka Pharmaceutical Co. Ltd. ("Otsuka"), providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for AJOVY in Japan and, if approved, to commercialize the product in Japan. Otsuka paid Teva an upfront payment of $50 million in consideration for the transaction. Teva may receive additional milestone payments upon filing with Japanese regulatory authorities, receipt of regulatory approval and achievement of certain revenue targets. Otsuka will also pay Teva royalties on AJOVY sales in Japan. Results for these trials were received in January 2020 indicating that primary and secondary endpoints were achieved and that no clinically significant adverse events were observed in subjects.

**Celltrion**

In October 2016, Teva and Celltrion, Inc. ("Celltrion") entered into a collaborative agreement to commercialize TRUXIMA® and HERZUMA®, two biosimilar products for the U.S. and Canadian markets. Teva paid Celltrion $160 million, of which up to $60 million is refundable or creditable. Teva and Celltrion will share the profit from the commercialization of these products. These two products, TRUXIMA and HERZUMA, were approved by the FDA in November and December 2018, respectively and were launched in the United States in November 2019 and March 2020, respectively.

**Regeneron**

In September 2016, Teva and Regeneron Pharmaceuticals, Inc. ("Regeneron") entered into a collaborative agreement to develop and commercialize Regeneron's pain medication product, fasinumab. Teva and Regeneron share equally in the global commercial rights to this product, as well as ongoing associated R&D costs of approximately $1 billion. Teva made an upfront payment of $250 million to Regeneron in the third quarter of 2016 as part of the agreement. The agreement stipulates additional development milestone payments to Regeneron, as well as future royalties.

**NOTE 3 – Revenue from contracts with customers:**

**Disaggregation of revenue**

The following table disaggregates Teva's revenues by major revenue streams. For additional information on disaggregation of revenues, see note 15.

| | Three months ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | North America | Europe | International Markets | Other activities | Total |
| | (U.S. $ in millions) | | | | |
| Sale of goods | 1,625 | 1,370 | 482 | 177 | 3,655 |
| Licensing arrangements | 25 | 12 | 3 | 1 | 41 |
| Distribution | 426 | 2 | 6 | — | 434 |
| Other | 6 | 19 | 74 | 129 | 227 |
| | $ 2,082 | $1,402 | $ 565 | $ 307 | $4,357 |

| | Three months ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | North America | Europe | International Markets | Other activities | Total |
| | (U.S. $ in millions) | | | | |
| Sale of goods | 1,637 | 1,259 | 468 | 187 | 3,551 |
| Licensing arrangements | 31 | 5 | § | 1 | 37 |
| Distribution | 379 | § | 5 | — | 383 |
| Other | — | § | 48 | 128 | 176 |
| | $ 2,047 | $1,264 | $ 521 | $ 317 | $4,149 |

§ Represents an amount less than $1 million.

The financial data presented in the tables above with respect to prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c.

**Variable consideration**

Variable consideration mainly includes sales reserves and allowances ("SR&A"), comprised of rebates (including Medicaid and other governmental program discounts), chargebacks, returns and other promotional (including shelf stock adjustments) items. Provisions for prompt payment discounts are netted against accounts receivables.

The Company recognizes these provisions at the time of sale and adjusts them if the actual amounts differ from the estimated provisions.

SR&A to U.S. customers comprised approximately 82% of the Company's total SR&A as of March 31, 2020, with the remaining balance primarily in Canada and Germany. The changes in SR&A for third-party sales for the three months ended March 31, 2020 and 2019 were as follows:

| | Sales Reserves and Allowances | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Reserves included in Accounts Receivable, net | Rebates | Medicaid and other governmental allowances | Chargebacks | Returns | Other | Total reserves included in SR&A | Total |
| | (U.S. $ in millions) | | | | | | | |
| Balance at December 31, 2019 | $ 87 | $ 2,895 | $ 1,109 | $ 1,342 | $ 637 | $176 | $ 6,159 | $ 6,246 |
| Provisions related to sales made in current year period | 102 | 1,370 | 233 | 2,223 | 139 | 33 | 3,998 | 4,100 |
| Provisions related to sales made in prior periods | — | (106) | (29) | (16) | (1) | 4 | (148) | (148) |
| Credits and payments | (106) | (1,513) | (248) | (2,396) | (112) | (35) | (4,304) | (4,410) |
| Translation differences | — | (21) | (2) | (6) | (4) | (10) | (43) | (43) |
| Balance at March 31, 2020 | $ 83 | 2,625 | $ 1,063 | $ 1,147 | $ 659 | $168 | $ 5,662 | $ 5,745 |

| | Reserves included in Accounts Receivable, net | Rebates | Medicaid and other governmental allowances | Chargebacks | Returns | Other | Total reserves included in SR&A | Total |
|---|---|---|---|---|---|---|---|---|
| | (U.S.$ in millions) | | | | | | | |
| Balance at December 31, 2018 | $ 175 | $ 3,006 | $ 1,361 | $ 1,530 | $ 638 | $ 176 | $ 6,711 | $ 6,886 |
| Provisions related to sales made in current year period | 112 | 1,350 | 324 | 2,320 | 72 | 114 | 4,180 | 4,292 |
| Provisions related to sales made in prior periods | — | — | 1 | (5) | 3 | (1) | (2) | (2) |
| Credits and payments | (125) | (1,613) | (438) | (2,413) | (117) | (101) | (4,682) | (4,807) |
| Translation differences | — | (6) | (1) | — | — | — | (7) | (7) |
| Balance at March 31, 2019 | $ 162 | 2,737 | $ 1,247 | $ 1,432 | $ 596 | $ 188 | $ 6,200 | $ 6,362 |

**Allowance for credit losses**

Accounts receivable are recognized net of allowance for credit losses. Allowances for credit losses were $127 million and $135 million as of March 31, 2020 and December 31, 2019, respectively. The decrease is mainly due to currency fluctuations.

**NOTE 4 – Inventories:**

Inventories, net of reserves, consisted of the following:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (U.S. $ in millions) | |
| Finished products | $ 2,193 | $ 2,504 |
| Raw and packaging materials | 1,306 | 1,183 |
| Products in process | 650 | 583 |
| Materials in transit and payments on account | 141 | 151 |
| Total | $ 4,290 | $ 4,422 |

**NOTE 5 – Identifiable intangible assets:**

Identifiable intangible assets consisted of the following:

| | Gross carrying amount net of impairment | | Accumulated amortization | | Net carrying amount | |
|---|---|---|---|---|---|---|
| | March 31, 2020 | December 31, 2019 | March 31, 2020 | December 31, 2019 | March 31, 2020 | December 31, 2019 |
| | (U.S. $ in millions) | | | | | |
| Product rights | $ 19,371 | $ 19,663 | $ 10,969 | $ 10,640 | $ 8,402 | $ 9,023 |
| Trade names | 595 | 600 | 135 | 126 | 460 | 474 |
| In process research and development | 1,394 | 1,735 | — | — | 1,394 | 1,735 |
| Total | $ 21,361 | $ 21,998 | $ 11,104 | $ 10,766 | $ 10,256 | $ 11,232 |

*Product rights and trade names*

Product rights and trade names are assets presented at amortized cost. Product rights and trade names represent a portfolio of pharmaceutical products from various therapeutic categories from various acquisitions with a weighted average life of approximately 12 years. Amortization of intangible assets amounted to $258 million and $283 million in the three months ended March 31, 2020 and 2019, respectively.

*IPR&D*

Teva's IPR&D are assets that have not yet been approved in major markets. Teva's IPR&D is comprised mainly of various generic products from the Actavis Generics acquisition for $1,333 million. IPR&D carries intrinsic risks that the asset might not succeed in advanced phases and may be impaired in future periods.

*Intangible assets impairments*

Impairments of long-lived intangible assets in the first three months of 2020 and 2019 were $649 million and $469 million, respectively.

Impairments in the first quarter of 2020 consisted of:

(a) IPR&D assets of $331 million, primarily due to: (i) $211 million related to AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States; and (ii) $106 million related to generic pipeline products acquired from Actavis Generics due to development progress and changes in other key valuation indications (e.g., market size, competition assumptions, legal landscape, launch date) in the United States; and

(b) Identifiable product rights of $318 million, mainly due to: (i) $165 million in Japan in connection with ongoing regulatory pricing reductions and generic competition; and (ii) $138 million due to updated market assumptions regarding price and volume of certain generic products primarily marketed in the United States.

Impairments in the first quarter of 2019 consisted of:

(a) IPR&D assets of $265 million, mainly due to: (i) $125 million related to lenalidomide (generic equivalent of Revlimid®) due to modified competition assumptions as a result of settlements between the innovator and other generic filers and (ii) $140 million of other generic products acquired from Actavis Generics due to development progress and changes in other key valuation indications (e.g., market size competition assumptions, legal landscape, launch date or discount rate); and

(b) Identifiable product rights of $204 million, mainly due to updated market assumptions regarding price and volume of products acquired from Actavis Generics and primarily marketed in the United States.

**NOTE 6 – Goodwill:**

The changes in the carrying amount of goodwill for the period ended March 31, 2020 were as follows:

| | North America | Europe | International Markets | Other | Total |
|---|---|---|---|---|---|
| | | (U.S. $ in millions) | | | |
| Balance as of December 31, 2019 | $ 11,091 | $8,536 | $ 2,532 | $2,687 | $24,846 |
| Changes during the period: | | | | | |
| Translation differences | (31) | (143) | (182) | — | (357) |
| Balance as of March 31, 2020 | $ 11,060 | $8,393 | $ 2,350 | $2,687 | $24,490 |

Teva operates its business through three reporting segments: North America, Europe and International Markets. Each of these business segments is a reporting unit. Additional reporting units include Teva's production and sale of APIs to third parties ("Teva API") and an out-licensing platform offering a portfolio of products to other pharmaceutical companies through its affiliate Medis. The Teva API and Medis reporting units are included under "Other" in the above table. See note 15 for additional segment information.

Teva determines the fair value of its reporting units using the income approach. The income approach is a forward-looking approach for estimating fair value. Within the income approach, the method used is the discounted cash flow method. Teva starts with a forecast of all the expected net cash flows associated with the reporting unit, which includes the application of a terminal value, and then applies a discount rate to arrive at a net present value amount. Cash flow projections are based on Teva's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted average cost of capital ("WACC"), adjusted for the relevant risk associated with country-specific and business-specific characteristics. If any of these expectations were to vary materially from Teva's assumptions, Teva may record an impairment of goodwill allocated to these reporting units in the future.

**First Quarter Developments**

During the first quarter of 2020, management assessed developments that occurred during the quarter to determine if it was more likely than not that the fair value of any of its reporting units was below its carrying amount. As part of this assessment, management also considered the sensitivity of its conclusions as they relate to changes in the estimates and assumptions used in the latest forecast available for each period.

Teva evaluated qualitative factors, including expected effects of COVID-19 on its business. The impact of the COVID-19 pandemic on Teva's business has been evaluated and it is not expected to significantly alter the Company's business model at this time. Based on this assessment, management has concluded that it is not more likely than not that the fair value of any of the reporting units is below its carrying value as of March 31, 2020 and, therefore, no quantitative assessment was performed. If circumstances were to change from Teva's expectations about the duration or impact of COVID-19, one or more business units could be impacted, which may result in an impairment.

**Market Capitalization**

Teva analyzed the aggregate fair value of its reporting units, calculated as part of the annual goodwill impairment test performed in the fourth quarter of 2019, compared to its market capitalization.

At December 31, 2019, Teva's market capitalization was below management's assessment of the aggregate fair value of the Company's reporting units. Management viewed this as a temporary situation mainly attributed to an acute reaction by the market primarily related to opioid and price fixing litigation risks. Management continues to believe market concerns regarding the uncertainty of these matters are impacting its market capitalization. However, developments in the case are expected to clarify the outlook with regards to the opioid litigation, assuming the proposed settlement framework is finalized in 2020.

During 2020, Teva experienced additional volatility in its share price resulting from the impact of the COVID-19 pandemic on equity markets and the global economy. Management believes the current market reaction is based upon the lack of information regarding the impact the pandemic might have on Teva's business and the entire economy. The economic uncertainties in the market related to the COVID-19 pandemic, along with the uncertainties related to Teva's litigations, result in a similar gap between book value and market value at the date of this filing as compared to the gap that existed at December 31, 2019. Further, as of the date of this filing, the Company's market capitalization plus a reasonable control premium exceeds its book value. Based on management's assessment of the developments in the first quarter of 2020 and considering the Company's current market capitalization as comparable to that of December 31, 2019, management concluded that the estimated fair value of its reporting units more likely than not exceeds its carrying amount.

Management will continue to monitor business conditions, including the impact of COVID-19, and will consider future developments in Teva's market capitalization when assessing whether additional goodwill impairment is required in future periods.

**NOTE 7 – Debt obligations:**

**a. Short-term debt:**

| | Weighted average interest rate as of March 31, 2020 | Maturity | March 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| | | | (U.S. $ in millions) | |
| Convertible debentures | 0.25% | 2026 | $ 514 | $ 514 |
| Current maturities of long-term liabilities | | | 1,116 | 1,831 |
| Total short-term debt | | | $ 1,630 | $ 2,345 |

***Convertible senior debentures***

Teva's 0.25% convertible senior debentures due 2026, with $514 million principal amount outstanding as of March 31, 2020 and December 31,2019, include a "net share settlement" feature according to which the principal amount will be paid in cash and in case of conversion, only the residual conversion value above the principal amount will be paid in Teva shares. Due to the "net share settlement" feature, exercisable at any time, these convertible senior debentures are classified in the Balance Sheet under short-term debt. Holders of the convertible debentures will be able to cause Teva to redeem the debentures on February 1, 2021.

**Long-term debt:**

| | Weighted average interest rate as of March 31, 2020 | Maturity | March 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| | | | (U.S. $ in millions) | |
| Senior notes EUR 1,010 million | 0.38% | 2020 | $ 1,116 | $ 1,131 |
| Senior notes EUR 1,500 million | 1.13% | 2024 | 1,651 | 1,673 |
| Senior notes EUR 1,300 million | 1.25% | 2023 | 1,432 | 1,451 |
| Senior notes EUR 1,000 million | 6.00% | 2025 | 1,105 | 1,120 |
| Senior notes EUR 900 million | 4.50% | 2025 | 994 | 1,008 |
| Senior notes EUR 750 million | 1.63% | 2028 | 822 | 833 |
| Senior notes EUR 700 million | 3.25% | 2022 | 773 | 784 |
| Senior notes EUR 700 million | 1.88% | 2027 | 771 | 782 |
| Senior notes USD 3,500 million | 3.15% | 2026 | 3,494 | 3,494 |
| Senior notes USD 1,475 million | 2.20% | 2021 | 1,474 | 1,474 |
| Senior notes USD 3,000 million | 2.80% | 2023 | 2,995 | 2,995 |
| Senior notes USD 2,000 million | 4.10% | 2046 | 1,985 | 1,985 |
| Senior notes USD 1,250 million | 6.00% | 2024 | 1,250 | 1,250 |
| Senior notes USD 1,250 million | 6.75% | 2028 | 1,250 | 1,250 |
| Senior notes USD 1,000 million | 7.13% | 2025 | 1,000 | 1,000 |
| Senior notes USD 844 million | 2.95% | 2022 | 855 | 856 |
| Senior notes USD 789 million | 6.15% | 2036 | 783 | 782 |
| Senior notes USD 700 million (1) | 2.25% | 2020 | — | 700 |
| Senior notes USD 613 million | 3.65% | 2021 | 618 | 618 |
| Senior notes USD 588 million | 3.65% | 2021 | 587 | 587 |
| Senior notes CHF 350 million | 0.50% | 2022 | 366 | 361 |
| Senior notes CHF 350 million | 1.00% | 2025 | 366 | 362 |
| Total senior notes | | | 25,687 | 26,496 |
| Other long-term debt | 1.14% | 2026 | 1 | 1 |
| Less current maturities | | | (1,116) | (1,831) |
| Less debt issuance costs | | | (98) | (103) |
| Total senior notes and loans | | | $ 24,473 | $ 24,562 |

(1) During the first quarter of 2020, Teva repaid at maturity $700 million of its 2.25% senior notes.

Long-term debt was issued by several indirect wholly-owned subsidiaries of the Company and is fully and unconditionally guaranteed by the Company as to payment of all principal, interest, discount and additional amounts, if any.

Long-term debt as of March 31, 2020 is effectively denominated in the following currencies: 66% in U.S. dollar, 31% in euro and 3% in Swiss franc.

Teva's principal sources of short-term liquidity are its cash on hand, existing cash investments, liquid securities and available credit facilities, primarily its $2.3 billion revolving credit facility ("RCF").

In April 2019, the Company entered into a $2.3 billion unsecured syndicated RCF. The RCF agreement provides for two separate tranches, a $1.15 billion tranche A and a $1.15 billion tranche B. Loans and letters of credit will be available from time to time under each tranche for Teva's general corporate purposes. Tranche A has a maturity date of April 8, 2022, with two one-year extension options, of which $1.0 billion was extended to April 8, 2023. Tranche B has a maturity date of April 8, 2024.

The RCF contains certain covenants, including certain limitations on incurring liens and indebtedness and maintenance of certain financial ratios, including the requirement to maintain compliance with a net debt to EBITDA ratio, which becomes more restrictive over time. The net debt to EBITDA ratio limit is 6.0x in the first and second quarters of 2020 and declines to 5.75x in the third and fourth quarters of 2020, and continues to gradually decline over the remaining term of the RCF.

The RCF can be used for general corporate purposes, including repaying existing debt. As of March 31, 2020, no amounts were outstanding under the RCF. Based on current and forecasted results, the Company expects that it will not exceed the financial covenant thresholds set forth in the RCF within one year from the date these financial statements are issued.

Under specified circumstances, including non-compliance with any of the covenants described above and the unavailability of any waiver, amendment or other modification thereto, the Company will not be able to borrow under the RCF. Additionally, violations of the covenants, under the above-mentioned circumstances, would result in an event of default in all borrowings under the RCF and, when greater than a specified threshold amount as set forth in each series of senior notes is outstanding, could lead to an event of default under the Company's senior notes due to cross acceleration provisions.

Teva expects that it will continue to have sufficient cash resources to support its debt service payments and all other financial obligations within one year from the date that these financial statements are issued.

**NOTE 8 – Derivative instruments and hedging activities:**

**a. Foreign exchange risk management:**

In the first three months of 2020, approximately 50% of Teva's revenues were denominated in currencies other than the U.S. dollar. As a result, Teva is subject to significant foreign currency risks.

The Company enters into forward exchange contracts, purchases and writes options in order to hedge the currency exposure on balance sheet items, revenues and expenses. In addition, the Company takes measures to reduce exposure by using natural hedging. The Company also acts to offset risks in opposite directions among the companies within Teva. The currency hedged items are usually denominated in the following main currencies: the Russian ruble, the euro, the Swiss franc, the Japanese yen, the British pound, the Canadian dollar, the Polish zloty, the Indian rupee and other European and Latin American currencies.

Depending on market conditions, foreign currency risk is also managed through the use of foreign currency debt.

The Company hedged against possible fluctuations in foreign subsidiaries' net assets ("net investment hedge") and from time to time enters into cross-currency swaps and forward contracts in order to hedge such an exposure.

Most of the counterparties to the derivatives are major banks and the Company is monitoring the associated inherent credit risks. The Company does not enter into derivative transactions for trading purposes.

**b. Interest risk management:**

The Company raises capital through various debt instruments, including straight notes that bear a fixed or variable interest rate, bank loans, securitizations and convertible debentures. In some cases, the Company has swapped from a fixed to a floating interest rate ("fair value hedge") and from a fixed to a fixed interest rate with an exchange from a currency other than the functional currency ("cash flow hedge"), thereby reducing overall interest expenses or hedging risks associated with interest rate fluctuations.

**c. Derivative instruments notional amounts:**

The following table summarizes the notional amounts for hedged items, when transactions are designated as hedge accounting:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (U.S. $ in millions) | |
| Cross-currency swap—net investment hedge | $ — | $ 1,000 |

**d. Derivative instrument outstanding:**

The following table summarizes the classification and fair values of derivative instruments:

| | Fair value | | | |
|---|---|---|---|---|
| | Designated as hedging instruments | | Not designated as hedging instruments | |
| | March 31, 2020 | December 31, 2019 | March 31, 2020 | December 31, 2019 |
| Reported under | (U.S. $ in millions) | | | |
| **Asset derivatives:** | | | | |
| **Other current assets:** | | | | |
| Option and forward contracts | $ — | $ — | $ 104 | $ 32 |
| **Liability derivatives:** | | | | |
| **Other current liabilities:** | | | | |
| Cross-currency swaps—net investment hedge | — | (22) | — | — |
| Option and forward contracts | — | — | (94) | (41) |

The table below provides information regarding the location and amount of pre-tax (gains) losses from derivatives designated in fair value or cash flow hedging relationships:

| | Financial expenses, net | | Other comprehensive income (loss) | |
|---|---|---|---|---|
| | Three months ended, | | Three months ended, | |
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| Reported under | (U.S. $ in millions) | | | |
| **Line items in which effects of hedges are recorded** | $ 224 | $ 218 | $ (530) | $ 94 |
| Cross-currency swaps—cash flow hedge (1) | — | (1) | — | (20) |
| Cross-currency swaps—net investment hedge (2) | (2) | (7) | (21) | $ (20) |
| Interest rate swaps—fair value hedge (3) | — | 1 | — | — |

The table below provides information regarding the location and amount of pre-tax (gains) losses from derivatives not designated as hedging instruments:

| | Financial expenses, net | | Net revenues | |
|---|---|---|---|---|
| | Three months ended, | | Three months ended, | |
| | March 31, 2020 | March 31, 2019 | March 31, 2020 | March 31, 2019 |
| Reported under | (U.S. $ in millions) | | | |
| **Line items in which effects of hedges are recorded** | $ 224 | $ 218 | $ (4,357) | $ (4,149) |
| Option and forward contracts (4) | 24 | (42) | — | — |
| Option and forward contracts economic hedge (5) | — | — | (60) | — |

(1) With respect to cross-currency swap agreements, Teva recognized gains which mainly reflect the differences between the fixed interest rate and the floating interest rate. In the fourth quarter of 2019, Teva terminated cross-currency swap agreements against its outstanding 3.65% senior notes maturing in November 2021. The settlement of these transactions resulted in cash proceeds of $95 million. The cash flow hedge accounting adjustments of these instruments, which are recorded under senior notes and loans, are amortized under financial expenses-net over the life of the debt as additional interest expense.

(2) In each of the first and second quarters of 2017, Teva entered into a cross currency swap agreement with a notional amount of $500 million maturing in 2020. These cross currency swaps were designated as a net investment hedge of Teva's foreign subsidiaries euro denominated net assets, in order to reduce the risk of adverse exchange rate fluctuations. With respect to these cross currency swap agreements, Teva recognized gains which mainly reflect the differences between the float-for-float interest rates paid and received. In the first quarter of 2020, these cross-currency swap agreements expired. The settlement of these transactions resulted in cash proceeds of $3 million.

(3) In the fourth quarter of 2016, Teva entered into an interest rate swap agreement designated as fair value hedge relating to its 2.8% senior notes due 2023 with respect to $500 million notional amount of outstanding debt. With respect to this interest rate swap agreement, Teva recognized a loss which mainly reflects the differences between the fixed interest rate and the floating interest rate. In the third quarter of 2019, Teva terminated this interest rate swap agreement. The settlement of these transactions resulted in a gain position of $10 million. The fair value hedge accounting adjustments of these instruments, which are recorded under senior notes and loans, are amortized under financial expenses-net over the life of the debt as additional interest expense.

(4) Teva uses foreign exchange contracts (mainly option and forward contracts) to hedge balance sheet items from currency exposure. These foreign exchange contracts are not designated as hedging instruments for accounting purposes. In connection with these foreign exchange contracts, Teva recognizes gains or losses that offset the revaluation of the balance sheet items also recorded under financial expenses-net.

(5) Teva entered into option and forward contracts designed to limit the exposure of foreign exchange fluctuations on projected revenues and expenses recorded in euro, the British pound, the Russian ruble and some other currencies during the quarter for which such instruments are transacted. These derivative instruments do not meet the criteria for hedge accounting, however, they are accounted for as economic hedge. These derivative instruments, which may include hedging transactions against future projected revenues and expenses, are recognized on the balance sheet at their fair value on a quarterly basis, while the foreign exchange impact on the underlying revenues and expenses may occur in subsequent quarters. Changes in the fair value of the derivative instruments are recognized in the same line item in the statements of income as the underlying exposure being hedged. In the first quarter of 2020, the positive impact from these derivatives recognized under revenues was $60 million, partially offset by a $5 million negative impact recognized under cost of sales. The cash flows associated with these derivatives are reflected as cash flows from operating activities in the consolidated statements of cash flows.

**e. Matured forward starting interest rate swaps and treasury lock agreements:**

Certain forward starting interest rate swaps and treasury lock agreements were terminated in July 2016 in connection with Teva's debt issuances. The termination of these transactions resulted in a loss position of $493 million, which was recorded in other comprehensive income (loss) and is amortized under financial expenses-net over the life of the debt.

With respect to these forward starting interest rate swaps and treasury lock agreements, losses of $8 million and $7 million were recognized under financial expenses, net for the three months ended March 31, 2020 and 2019, respectively.

In the third quarter of 2019, Teva terminated $500 million interest rate swap agreements designated as a fair value hedge relating to its 2.8% senior notes due 2023 with respect to $3,000 million notional amount. Settlement of these transactions resulted in cash proceeds of $10 million. The fair value hedge accounting adjustments of these instruments, which are recorded under senior notes and loans, are amortized under financial expenses-net over the life of the debt.

In the fourth quarter of 2019, Teva terminated $588 million cross-currency swap agreements against its outstanding 3.65% senior notes maturing in November 2021. Settlement of these transactions resulted in cash proceeds of $95 million. The cash flow hedge accounting adjustments of these instruments, which are recorded under senior notes and loans, are amortized under financial expenses-net over the life of the debt.

In the first quarter of 2020, a $1,000 million cross currency swap agreement designated as a net investment hedge of Teva's foreign subsidiaries euro denominated net assets expired. Settlement of these transactions resulted in cash proceeds of $3 million.

With respect to the interest rate swap and cross-currency swap agreements, gains of $1 million and $2 million were recognized under financial expenses, net for the three months ended March 31, 2020 and 2019, respectively.

**NOTE 9 – Legal settlements and loss contingencies:**

In the first quarter of 2020, Teva recorded an income of $25 million in legal settlements and loss contingencies, compared to an expense of $57 million in the first quarter of 2019. The income in the first quarter of 2020 was mainly due to a settlement of an action brought against the sellers of Auden McKenzie (an acquisition made by Actavis Generics).

As of March 31, 2020 and December 31, 2019, Teva's provision for legal settlements and loss contingencies recorded under accrued expenses was $1,539 million and $1,580 million, respectively.

**NOTE 10 – Commitments and contingencies:**

**General**

From time to time, Teva and/or its subsidiaries are subject to claims for damages and/or equitable relief arising in the ordinary course of business. In addition, as described below, in large part as a result of the nature of its business, Teva is frequently subject to litigation. Teva generally believes that it has meritorious defenses to the actions brought against it and vigorously pursues the defense or settlement of each such action.

Teva records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Based upon the status of the cases described below, management's assessments of the likelihood of damages, and the advice of counsel, no provisions have been made regarding the matters disclosed in this note, except as noted below. Litigation outcomes and contingencies are unpredictable, and excessive verdicts can occur. Accordingly, management's assessments involve complex judgments about future events and often rely heavily on estimates and assumptions. Teva continuously reviews the matters described below and may, from time to time, remove previously disclosed matters that the Company has determined no longer meet the materiality threshold for disclosure.

If one or more of such proceedings described below were to result in final judgments against Teva, such judgments could be material to its results of operations and cash flows in a given period. In addition, Teva incurs significant legal fees and related expenses in the course of defending its positions even if the facts and circumstances of a particular litigation do not give rise to a provision in the financial statements.

In connection with third-party agreements, Teva may under certain circumstances be required to indemnify, and may be indemnified by, in unspecified amounts, the parties to such agreements against third-party claims. Among other things, Teva's agreements with third parties may require Teva to indemnify them, or require them to indemnify Teva, for the costs and damages incurred in connection with product liability claims, in specified or unspecified amounts.

Except as otherwise noted, all of the litigation matters disclosed below involve claims arising in the United States. Except as otherwise noted, all third party sales figures given below are based on IQVIA (formerly IMS Health Inc.) data.

**Intellectual Property Litigation**

From time to time, Teva seeks to develop generic versions of patent-protected pharmaceuticals for sale prior to patent expiration in various markets. In the United States, to obtain approval for most generics prior to the expiration of the originator's patents, Teva must challenge the patents under the procedures set forth in the Hatch-Waxman Act of 1984, as amended. To the extent that Teva seeks to utilize such patent challenge procedures, Teva is and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator's patents. Teva may also be involved in patent litigation involving the extent to which its product or manufacturing process techniques may infringe other originator or third-party patents.

Additionally, depending upon a complex analysis of a variety of legal and commercial factors, Teva may, in certain circumstances, elect to market a generic version even though litigation is still pending. To the extent Teva elects to proceed in this manner, it could face substantial liability for patent infringement if the final court decision is adverse to Teva, which could be material to its results of operations and cash flows in a given period.

Teva could also be sued for patent infringement outside of the context of the Hatch-Waxman Act. For example, Teva could be sued for patent infringement after commencing sales of a product. In addition, for biosimilar products, Teva could be sued according to the "patent dance" procedures of the Biologics Price Competition and Innovation Act (BPCIA).

The general rule for damages in patent infringement cases in the United States is that the patentee should be compensated by no less than a reasonable royalty and it may also be able, in certain circumstances, to be compensated for its lost profits. The amount of a reasonable royalty award would generally be calculated based on the sales of Teva's product. The amount of lost profits would generally be based on the lost sales of the patentee's product. In addition, the patentee may seek consequential damages as well as enhanced damages of up to three times the profits lost by the patent holder for willful infringement, although courts have typically awarded much lower multiples.

Teva is also involved in litigation regarding patents in other countries where it does business, particularly in Europe. The laws concerning generic pharmaceuticals and patents differ from country to country. Damages for patent infringement in Europe may include lost profits or a reasonable royalty, but enhanced damages for willful infringement are generally not available.

In July 2014, GlaxoSmithKline ("GSK") sued Teva in Delaware federal court for infringement of a patent expiring in June 2015 directed to using carvedilol in a specified manner to decrease the risk of mortality in patients with congestive heart failure. Teva and eight other generic producers began selling their carvedilol tablets (the generic version of GSK's Coreg®) in September 2007. A jury trial was held and the jury returned a verdict in GSK's favor finding Teva liable for induced infringement, including willful infringement, and assessing damages of $235.5 million, not including pre- or post-judgment interest or a multiplier for willfulness. Following post-trial motions filed by the parties, on March 28, 2018, the district court issued an opinion overturning the jury verdict and instead found no induced infringement by Teva, thereby finding that Teva did not owe any damages; the district court also denied Teva's motion seeking to overturn the jury verdict with respect to invalidity. The provision that was originally included in the financial statements following the damages verdict in this matter was reversed following the opinion overturning the verdict as the exposure was no longer considered probable. A hearing on an appeal filed by both parties was held on September 4, 2019 and Teva awaits the Court's decision. If the appeal of the district court's decision is decided against Teva, the case would be remanded to the district court for it to consider Teva's other legal and equitable defenses that have not yet been considered by the district court.

In 2014, Teva Canada succeeded in its challenge of the bortezomib (the generic equivalent of Velcade®) product and mannitol ester patents under the Patented Medicines (Notice Of Compliance) Regulations ("PM (NOC)"). At the time of Teva's launch in 2015, annual sales of Velcade were approximately 94 million Canadian dollars. Additionally, Teva commenced an action under Section 8 of PM (NOC) to recover damages for being kept off of the market during the PM (NOC) proceedings. Janssen and Millennium filed a counterclaim for infringement of the same two patents as well as a patent covering a process to prepare bortezomib. The product patent expired in October 2015; the other patents expire in January 2022 and March 2025. In 2017, Teva entered into an agreement with Janssen and Millennium which limits the damages payable by either party depending on the outcome of the infringement/impeachment action. As a result, the most Janssen and Millennium could recover is 200 million Canadian dollars plus post-judgment interest. In June 2018, the court ruled that Janssen and Millennium pay Teva 5 million Canadian dollars in Section 8 damages. Janssen and Millennium filed an appeal, which was denied by the appellate court on November 4, 2019. On January 3, 2020, Janssen and Millennium applied for leave to appeal to the Canadian Supreme Court. If the decision is ultimately overturned, Teva could owe the capped damages set forth above. In addition to the potential damages that could be awarded, Teva could be ordered to cease sales of its bortezomib product.

**Product Liability Litigation**

Teva's business inherently exposes it to potential product liability claims. Teva maintains a program of insurance, which may include commercial insurance, self-insurance (including direct risk retention), or a combination of both approaches, in amounts and on terms that it believes are reasonable and prudent in light of its business and related risks. However, Teva sells, and will continue to sell, pharmaceuticals that are not covered by its product liability insurance; in addition, it may be subject to claims for which insurance coverage is denied as well as claims that exceed its policy limits. Product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, Teva may not be able to obtain the type and amount of insurance it desires, or any insurance on reasonable terms, in all of its markets.

**Competition Matters**

As part of its generic pharmaceuticals business, Teva has challenged a number of patents covering branded pharmaceuticals, some of which are among the most widely-prescribed and well-known drugs on the market. Many of Teva's patent challenges have resulted in litigation relating to Teva's attempts to market generic versions of such pharmaceuticals under the federal Hatch-Waxman Act. Some of this litigation has been resolved through settlement agreements in which Teva obtained a license to market a generic version of the drug, often years before the patents expire.

Teva and its subsidiaries have increasingly been named as defendants in cases that allege antitrust violations arising from such settlement agreements. The plaintiffs in these cases, which are usually direct and indirect purchasers of pharmaceutical products, and often assert claims on behalf of classes of all direct and indirect purchasers, typically allege that (1) Teva received something of value from the innovator in exchange for an agreement to delay generic entry, and (2) significant savings could have been realized if there had been no settlement agreement and generic competition had commenced earlier. These class action cases seek various forms of injunctive and monetary relief, including damages based on the difference between the brand price and what the generic price allegedly would have been and disgorgement of profits, which are automatically tripled under the relevant statutes, plus attorneys' fees and costs. The alleged damages generally depend on the size of the branded market and the length of the alleged delay, and can be substantial—potentially measured in multiples of the annual brand sales—particularly where the alleged delays are lengthy or branded drugs with annual sales in the billions of dollars are involved.

Teva believes that its settlement agreements are lawful and serve to increase competition, and has defended them vigorously. In Teva's experience to date, these cases have typically settled for a fraction of the high end of the damages sought, although there can be no assurance that such outcomes will continue.

In June 2013, the U.S. Supreme Court held, in Federal Trade Commission v. Actavis, Inc. (the "AndroGel case"), that a rule of reason test should be applied in analyzing whether such settlements potentially violate the federal antitrust laws. The Supreme Court held that a trial court must analyze each agreement in its entirety in order to determine whether it violates the antitrust laws. This new test has resulted in increased scrutiny of Teva's patent settlements, additional action by the FTC and state and local authorities, and an increased risk of liability in Teva's currently pending antitrust litigations.

Beginning in April 2006, certain subsidiaries of Teva were named in a class action lawsuit filed in the U.S. District Court for the Eastern District of Pennsylvania with allegations that the settlement agreements entered into between Cephalon, Inc., now a Teva subsidiary ("Cephalon"), and various generic pharmaceutical companies in late 2005 and early 2006 to resolve patent litigation involving certain finished modafinil products (marketed as PROVIGIL®) were unlawful because they had the effect of excluding generic competition. The cases also allege that Cephalon improperly asserted its PROVIGIL patent against the generic pharmaceutical companies. Separately, Apotex challenged Cephalon's PROVIGIL patent and, in October 2011, the court found the patent to be invalid and unenforceable based on inequitable conduct. Teva has either settled or reached agreements in principle to settle with all plaintiffs in such cases, except for an action brought by the State of Louisiana. The settlement with the State of California that was reached in 2019 is still pending final court approval. All settlements entered into in connection with the above proceeding are covered by the settlement fund explained below.

In May 2015, Cephalon entered into a consent decree with the FTC (the "Modafinil Consent Decree") under which the FTC dismissed its claims against Cephalon in the FTC Modafinil Action in exchange for payment of $1.2 billion (less set-offs for prior settlements) by Cephalon and Teva into a settlement fund. The settlement fund does not cover any judgments or settlements outside the United States. Under the Modafinil Consent Decree, Teva also agreed to certain injunctive relief with respect to the types of settlement agreements Teva may enter into to resolve patent litigation in the United States for a period of ten years. The remaining balance of the settlement fund after consideration of the settlement with the State of California noted above is approximately $19 million. In February 2019, in connection with the settlement of other unrelated FTC antitrust lawsuits, as described below, Teva and the FTC agreed to amend certain non-financial provisions of the Modafinil Consent Decree and to restart its ten-year term.

Additionally, following an investigation initiated by the European Commission in April 2011 regarding a modafinil patent settlement in Europe, the European Commission issued a Statement of Objections in July 2017 against both Cephalon and Teva alleging that the 2005 settlement agreement between the parties had the object and effect of hindering the entry of generic modafinil. No final decision regarding liability has yet been taken by the European Commission. The sales of modafinil in the European Economic Area during the last full year of the alleged breach amounted to €46.5 million.

In January 2009, the FTC and the State of California filed a complaint for injunctive relief in California federal court alleging that a September 2006 patent lawsuit settlement between Watson Pharmaceuticals, Inc. ("Watson"), from which Teva later acquired certain assets and liabilities, and Solvay Pharmaceuticals, Inc. ("Solvay") relating to AndroGel® 1% (testosterone gel) violated the antitrust laws. Additional lawsuits alleging similar claims were later filed by private plaintiffs (including plaintiffs purporting to represent classes of similarly situated claimants as well as retailer plaintiffs filing separately) and the various actions were consolidated in a multidistrict litigation in Georgia federal court. On February 22, 2019, the FTC stipulated to the dismissal of its claims against Watson, in exchange for Teva's agreement to amend the Modafinil Consent Decree, as described above. Teva also settled with most of the retailer plaintiffs in April 2019. On July 16, 2018, the direct purchaser plaintiffs' motion for class certification was denied, and in December 2019, Teva reached a settlement agreement with the three direct purchasers that had sought class certification. Settlement amounts were paid in full. In addition, in August 2019, certain other direct-purchaser plaintiffs (who would have been members of the direct purchaser class, had it been certified) filed their own claims in federal court in Philadelphia, challenging (in one complaint) both the September 2006 settlement between Watson and Solvay referenced above, as well as Teva's December 2011 settlement with AbbVie involving AndroGel® and TriCor®, referenced below. Annual sales of AndroGel® 1% were approximately $350 million at the time of the settlement and approximately $140 million at the time Actavis launched its generic version of AndroGel® 1% in November 2015. A provision for this case was included in the financial statements.

In December 2011, three groups of plaintiffs sued Wyeth and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving extended release venlafaxine (generic Effexor XR®) entered into in November 2005. The cases were filed by a purported class of direct purchasers, by a purported class of indirect purchasers and by certain chain pharmacies in the U.S. District Court for the District of New Jersey. The plaintiffs claim that the settlement agreement between Wyeth and Teva unlawfully delayed generic entry. In October 2014, the court granted Teva's motion to dismiss in the direct purchaser cases, after which the parties agreed that the court's reasoning applied equally to the indirect purchaser cases. Plaintiffs appealed and, in August 2017, the Third Circuit reversed the district court's decision and remanded for further proceedings. In March 2020, the district court temporarily stayed discovery and referred the case to mediation. Annual sales of Effexor XR® were approximately $2.6 billion at the time of settlement and at the time Teva launched its generic version of Effexor XR® in July 2010.

In February 2012, two purported classes of direct-purchaser plaintiffs sued GSK and Teva in New Jersey federal court for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving lamotrigine (generic Lamictal®) entered into in February 2005. The plaintiffs claim that the settlement agreement unlawfully delayed generic entry and seek unspecified damages. In December 2012, the court dismissed the case, but in June 2015, the U.S. Court of Appeals for the Third Circuit reversed and remanded for further proceedings. In December 2018, the district court granted the direct-purchaser plaintiffs' motion for class certification, but on April 22, 2020, the Third Circuit reversed that ruling and remanded for further class certification proceedings. Annual sales of Lamictal® were approximately $950 million at the time of the settlement and approximately $2.3 billion at the time Teva launched its generic version of Lamictal® in July 2008.

In April 2013, purported classes of direct purchasers of, and end payers for, Niaspan® (extended release niacin) sued Teva and Abbott for violating the antitrust laws by entering into a settlement agreement in April 2005, to resolve patent litigation over the product. A multidistrict litigation has been established in the U.S. District Court for the Eastern District of Pennsylvania. Throughout 2015 and in January 2016, several individual direct-purchaser opt-out plaintiffs filed complaints with allegations nearly identical to those of the direct purchasers' class and, in August 2019, the district court certified the direct-purchaser class, although the court has yet to rule on the indirect purchasers' pending motion for class certification. In October 2016, the District Attorney for Orange County, California, filed a similar complaint in California state court, which has since been amended, alleging violations of state law. Defendants moved to strike the District Attorney's claims for restitution and civil penalties to the extent not limited to alleged activity occurring in Orange County. The Superior Court denied that motion. The Court of Appeals subsequently reversed the decision and review of the Appellate Court decision is now pending before the California Supreme Court. Annual sales of Niaspan® were approximately $416 million at the time of the settlement and approximately $1.1 billion at the time Teva launched its generic version of Niaspan® in September 2013.

Beginning in 2013, several putative class actions were filed against Actavis, Inc. and certain of its affiliates, alleging that Watson's 2012 patent lawsuit settlement with Endo Pharmaceuticals Inc. relating to Lidoderm® (lidocaine transdermal patches) violated the antitrust laws. The cases were consolidated as a multidistrict litigation in federal court in California and were settled in 2018. The FTC also filed suit to challenge the Lidoderm® settlement, although in February 2019, the FTC dismissed its claims against Actavis and Allergan, in exchange for Teva's agreement to amend the Modafinil Consent Decree, as described above. In July 2019, Teva also settled a complaint brought by the State of California. On September 16, 2019, end-payers Blue Cross Blue Shield of Michigan and Blue Care Network of Michigan filed their own lawsuit against Watson, and other defendants, in Michigan state court and that lawsuit remains pending. On January 24, 2020, the State of Mississippi filed a lawsuit against Teva and Watson in Mississippi state court, which the defendants have moved to dismiss, which motion remains pending.

Since January 2014, numerous lawsuits have been filed in the U.S. District Court for the Southern District of New York by purported classes of end-payers for, and direct-purchasers of, Actos® and Actoplus Met (pioglitazone and pioglitazone plus metformin) against Takeda, the innovator, and several generic manufacturers, including Teva, Actavis and Watson. The lawsuits allege, among other things, that the settlement agreements between Takeda and the generic manufacturers violated the antitrust laws. The court dismissed the end-payers' lawsuits against all defendants in September 2015. On February 8, 2017, the Court of Appeals for the Second Circuit affirmed the dismissal in part and vacated and remanded the dismissal in part with respect to the claims against Takeda. The direct purchasers' case had been stayed pending resolution of the appeal in the end payer matter and the direct purchasers amended their complaint for a second time following the Second Circuit's decision, but on October 8, 2019, the district court dismissed, with prejudice, the direct purchasers' claims against the generic manufacturers (including Teva, Actavis, and Watson). At the time of the settlement, annual sales of Actos® and Actoplus Met were approximately $3.7 billion and approximately $500 million, respectively. At the time Teva launched its authorized generic version of Actos® and Actoplus Met in August 2012, annual sales of Actos® and Actoplus Met were approximately $2.8 billion and approximately $430 million, respectively.

In September 2014, the FTC sued AbbVie Inc. and certain of its affiliates ("AbbVie") as well as Teva in federal court in Philadelphia alleging that they violated the antitrust laws by entering into a December 2011 settlement agreement to resolve the patent litigation on AndroGel® and a supply agreement under which AbbVie agreed to supply Teva with an authorized generic version of TriCor®. In May 2015, the court dismissed the FTC's claim concerning the settlement and supply agreements, and thus dismissed Teva from the case entirely. The FTC proceeded with a separate claim against AbbVie alone and, in June 2018, secured a $448 million judgement against AbbVie. The FTC then filed a notice of appeal, including as to the claims against Teva that had been dismissed by the district court, but in February 2019, the FTC stipulated to dismiss Teva from its appeal, in exchange for Teva's agreement to amend the Modafinil Consent Decree, as described above. In August 2019, two groups of direct-purchaser plaintiffs filed similar claims against AbbVie and Teva, in the same federal court in Philadelphia where the FTC's claims had been pending. In December 2019, Teva reached a settlement agreement with one group of plaintiffs. The second group's claims challenge both Teva's December 2011 settlement with AbbVie and the September 2006 AndroGel® settlement between Watson and Solvay, referenced above. Those claims remain pending.

In May 2015, a purported class of end payers for Namenda IR® (memantine hydrochloride) filed a lawsuit against Forest Laboratories, LLC ("Forest"), the innovator, and several generic manufacturers, including Teva. In November 2019, two additional plaintiffs filed a similar lawsuit – purportedly as opt-outs from the end payers' class – against the same defendants. These lawsuits allege, among other things, that settlement agreements between Forest and the generic manufacturers to resolve patent litigation over Namenda IR® violated the antitrust laws. Annual sales of Namenda IR® at the time of the settlement were approximately $1.1 billion and approximately $550 million at the time other manufacturers first launched generic versions of Namenda IR® in July 2015.

In January 2019, generic manufacturer Cipla Limited filed a lawsuit against Amgen in Delaware federal court, alleging, among other things, that a January 2, 2019 settlement agreement between Amgen and Teva, resolving patent litigation over cinacalcet (generic Sensipar®), violated the antitrust laws. In March 2019, Cipla Limited amended its complaint to name Teva as an additional defendant, and putative classes of direct-purchaser and end-payer plaintiffs have also filed antitrust lawsuits (which have since been consolidated in federal court in Delaware) against Amgen and Teva related to the January 2, 2019 settlement. Both Cipla Limited and the putative class plaintiffs seek damages and injunctive relief and the defendants moved to dismiss their claims on October 15, 2019. Those motions remain pending. Annual sales of Sensipar® in the United States were approximately $1.4 billion at the time Teva launched its generic version of Sensipar® in December 2018, and at the time of the January 2, 2019 settlement.

On December 16, 2016, the U.K. Competition and Markets Authority ("CMA") issued a statement of objections (a provisional finding of breach of the Competition Act) in respect of certain allegations against Allergan, Actavis UK and certain Auden Mckenzie entities alleging competition law breaches in connection with the supply of 10mg and 20mg hydrocortisone tablets in the U.K. On December 18, 2017, the CMA issued a Statement of Draft Penalty Calculation. On March 3, 2017 and February 28, 2019, the CMA issued second and third statements of objections in respect of certain additional allegations relating to the same products and covering part of the same time periods as in the first statement of objections. On February 12, 2020, the CMA issued a supplementary statement of objections effectively combining the three previously issued statements referenced above. On January 9, 2017, Teva completed the sale of Actavis UK to Accord Healthcare Limited, in connection with which Teva will indemnify Accord Healthcare for potential fines imposed by the CMA and/or damages awarded by a court against Actavis UK in relation to the December 16, 2016 and March 3, 2017 statements of objections, and resulting from conduct prior to the closing date of the sale. In addition, Teva agreed to indemnify Allergan against losses arising from this matter in the event of any such fines or damages. A liability for this matter has been recorded in the financial statements.

**Government Investigations and Litigation Relating to Pricing and Marketing**

Teva is involved in government investigations and litigation arising from the marketing and promotion of its pharmaceutical products in the United States.

In 2015 and 2016, Actavis and Teva USA each respectively received subpoenas from the U.S. Department of Justice ("DOJ") Antitrust Division seeking documents and other information relating to the marketing and pricing of certain Teva USA generic products and communications with competitors about such products. In May 2018, Teva received a civil investigative demand from the DOJ Civil Division, pursuant to the federal False Claims Act, seeking documents and information produced since January 1, 2009 relevant to the Civil Division's investigation concerning allegations that generic pharmaceutical manufacturers, including Teva, engaged in market allocation and price-fixing agreements, paid illegal remuneration, and caused false claims to be submitted in violation of the False Claims Act. Teva is cooperating with these subpoena requests.

In 2015 and 2016, Actavis and Teva USA each respectively received a subpoena from the Connecticut Attorney General seeking documents and other information relating to potential state antitrust law violations. Subsequently, on December 15, 2016, a civil action was brought by the attorneys general of twenty states against Teva USA and several other companies asserting claims under federal antitrust law alleging price fixing of generic products in the United States. That complaint was later amended to add new states as named plaintiffs, as well as new allegations and new state law claims, and on June 18, 2018, the attorneys general of 49 states plus Puerto Rico and the District of Columbia filed a consolidated amended complaint against Actavis and Teva, as well as other companies and individuals. On May 10, 2019, most (though not all) of these attorneys general filed yet another antitrust complaint against Actavis, Teva and other companies and individuals, alleging price-fixing and market allocation with respect to additional generic products. On November 1, 2019, the state attorneys general filed an amended complaint, bringing the total number of plaintiff states and territories to 54. The amended complaint alleges that Teva was at the center of a conspiracy in the generic pharmaceutical industry, and asserts that Teva and others fixed prices, rigged bids, and allocated customers and market share with respect to certain additional products, many of which were not previously at issue in the Pennsylvania MDL. In the various complaints described above, the states seek a finding that the defendants' actions violated federal antitrust law and state antitrust and consumer protection laws, as well as injunctive relief, disgorgement, damages on behalf of various state and governmental entities and consumers, civil penalties and costs. All such complaints have been transferred to the generic drug multidistrict litigation in the Eastern District of Pennsylvania ("Pennsylvania MDL").

Beginning on March 2, 2016, numerous complaints have been filed in the United States on behalf of putative classes of direct and indirect purchasers of several generic drug products, as well as several individual direct and indirect purchaser opt-out plaintiffs. These complaints, which allege that the defendants engaged in conspiracies to fix prices and/or allocate market share of generic products have been brought against various manufacturer defendants, including Teva and Actavis. The plaintiffs generally seek injunctive relief and damages under federal antitrust law, and damages under various state laws. On April 6, 2017, these cases were transferred to the Pennsylvania MDL. Additional cases were transferred to that court and the

plaintiffs filed consolidated amended complaints on August 15, 2017. On October 16, 2018, the court denied certain of the defendants' motions to dismiss as to certain federal claims, and on February 15, 2019, the court granted in part and denied in part defendants' motions to dismiss as to certain state law claims. On July 18, 2019, certain individual plaintiffs commenced a civil action in the Pennsylvania Court of Common Pleas of Philadelphia County against many of the defendants in the Pennsylvania MDL, including Teva and Actavis, but no complaint has been filed and the case has been placed in deferred status. On November 13, 2019, several counties in New York commenced a civil action against many of the defendants in the Pennsylvania MDL, including Teva and Actavis, and the complaint has been transferred to the Pennsylvania MDL. On March 1, 2020, Harris County in Texas filed a complaint against several generic manufacturers including Teva and Actavis in the District Court for the Southern District of Texas. This complaint largely mirrors certain allegations in the complaints in the Pennsylvania MDL. This case has not been transferred to the Pennsylvania MDL.

On March 21, 2017, Teva received a subpoena from the U.S. Attorney's office in Boston, Massachusetts requesting documents related to Teva's donations to patient assistance programs. Teva is cooperating in responding to the subpoena.

In December 2016, Teva resolved certain claims under the U.S. Foreign Corrupt Practices Act ("FCPA") with the SEC and the DOJ. The settlement included a fine, disgorgement and prejudgment interest, a three-year deferred prosecution agreement ("DPA") for Teva and the retention of an independent compliance monitor for a period of three years. In February 2020 the term of the monitorship provided for by the DPA and Teva's consent judgement with the SEC expired and on March 4, 2020, following Teva's certification to the SEC and the DOJ confirming that Teva had complied with its disclosure obligations under the DPA, the DOJ filed a motion to dismiss the information filed against Teva at the time the DPA was entered into.

**Opioids Litigation**

Since May 2014, more than 2,900 complaints have been filed with respect to opioid sales and distribution against various Teva affiliates, along with several other pharmaceutical companies, by a number of cities, counties, states, other governmental agencies, tribes and private plaintiffs (including various putative class actions of individuals) in both state and federal courts. Most of the federal cases have been consolidated into a multidistrict litigation in the Northern District of Ohio ("MDL Opioid Proceeding") and many of the cases filed in state court have been removed to federal court and consolidated into the MDL Opioid Proceeding. Other cases remain pending in various states. In some jurisdictions, such as Illinois, New York, Pennsylvania, South Carolina, Texas, Utah and West Virginia, certain state court cases have been transferred to a single court within their respective state court systems for coordinated pretrial proceedings. Complaints asserting claims under similar provisions of different state law, generally contend that the defendants allegedly engaged in improper marketing and distribution of opioids, including ACTIQ® and FENTORA®. The complaints also assert claims related to Teva's generic opioid products. In addition, personal injury plaintiffs, including various putative class actions of individuals, have asserted personal injury and wrongful death claims. Furthermore, approximately 600 complaints have named Anda, Inc. (and other distributors and manufacturers) alleging that Anda failed to develop and implement systems sufficient to identify suspicious orders of opioid products and prevent the abuse and diversion of such products to individuals who used them for other than legitimate medical purposes. Plaintiffs seek a variety of remedies, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys' fees and injunctive relief. Certain plaintiffs assert that the measure of damages is the entirety of the costs associated with addressing the abuse of opioids and opioid addiction and certain plaintiffs specify multiple billions of dollars in the aggregate as alleged damages. In many of these cases, plaintiffs are seeking joint and several damages among all defendants. An adverse resolution of any of these lawsuits or investigations may involve large monetary penalties, damages, and/or other forms of monetary and non-monetary relief and could have a material and adverse effect on Teva's reputation, business, results of operations and cash flows.

Absent resolutions, trials are expected to proceed in several states in 2020 and 2021. A court in New York had set a date, for a liability trial only, to start in March 2020. However, that trial has been postponed due to the impact of COVID-19. A new trial date has not been set. It is also anticipated that a court in California may reset a trial date, most recently scheduled for June 2020, to the second half of 2020. It is difficult to predict when or if trials will occur in 2020 given the current impact of COVID-19 on the United States and the U.S. judicial system.

In May 2019, Teva settled the Oklahoma litigation brought by the Oklahoma Attorney General (State of Oklahoma, ex. rel. Mike Hunter, Attorney General of Oklahoma vs. Purdue Pharma L.P., et. al.) for $85 million. The settlement did not include any admission of violation of law for any of the claims or allegations made. As the Company demonstrated a willingness to settle part of the litigation, for accounting purposes, management considered a portion of opioid-related cases as probable and, as such, recorded an estimated provision in the second quarter of 2019. Given the relatively early stage of the cases, management viewed no amount within the range to be the most likely outcome. Therefore, management recorded a provision for the reasonably estimable minimum amount in the assessed range for such opioid-related cases in accordance with Accounting Standards Codification 450 "Accounting for Contingencies."

On October 21, 2019, Teva reached a settlement with the two plaintiffs in the MDL Opioid Proceeding that was scheduled for trial for the Track One case, Cuyahoga and Summit Counties of Ohio. Under the terms of the settlement, Teva will provide the two counties with opioid treatment medication, buprenorphine naloxone (sublingual tablets), known by the brand name Suboxone®, with a value of $25 million at wholesale acquisition cost and distributed over three years to help in the care and treatment of people suffering from addiction, and a cash payment in the amount of $20 million, to be paid in four payments over three years.

Also on October 21, 2019, Teva and certain other defendants reached an agreement in principle with a group of Attorneys General from North Carolina, Pennsylvania, Tennessee and Texas for a nationwide settlement framework. The framework is designed to provide a mechanism by which the Company attempts to seek resolution of remaining potential and pending opioid claims by both the U.S. states and political subdivisions (i.e., counties, tribes and other plaintiffs) thereof. Under this agreement, Teva would provide buprenorphine naloxone (sublingual tablets) with an estimated value of up to approximately $23 billion at wholesale acquisition cost over a ten year period. In addition, Teva would also provide cash payments of up to $250 million over a ten year period. The Company cannot predict if the nationwide settlement framework will be finalized.

Following these developments, the Company considered a range of potential settlement outcomes. No single outcome in the range was considered to be more likely than any other outcome; accordingly, in the third quarter of 2019, Teva accrued to the new low end of the range, resulting in an increase in Teva's previously recorded estimated liability. There was no change in this estimate in the first quarter of 2020.

Separately, on April 27, 2018, Teva received subpoena requests from the United States Attorney's office in the Western District of Virginia and the Civil Division seeking documents relating to the manufacture, marketing and sale of branded opioids. In August 2019, Teva received a grand jury subpoena from the United States Attorney's Office for the Eastern District of New York for documents related to the Company's anti-diversion policies and procedures and distribution of its opioid medications, in what the Company understands to be part of a broader investigation into manufacturers' and distributors' monitoring programs and reporting under the Controlled Substances Act. In September 2019, Teva received subpoenas from the New York State Department of Financial Services (NYDFS) as part of an industry-wide inquiry into the effect of opioid prescriptions on New York health insurance premiums. The Company is cooperating with NYDFS's inquiry and producing documents in response to the various subpoenas and requests for information. Currently, Teva cannot predict how the nationwide settlement framework agreement (if finalized) will affect these investigations. In addition, a number of state attorneys general, including a coordinated multistate effort, have initiated investigations into sales and marketing practices of Teva and its affiliates with respect to opioids. Other states are conducting their own investigations outside of the multistate group. Teva is cooperating with these ongoing investigations and cannot predict their outcome at this time.

In addition, several jurisdictions in Canada have initiated litigation regarding opioids alleging similar claims as those in the United States. The cases in Canada are likely to be consolidated and are in their early stages.

**Shareholder Litigation**

On November 6, 2016 and December 27, 2016, two putative securities class actions were filed in the U.S. District Court for the Central District of California against Teva and certain of its current and former officers and directors. Those lawsuits were consolidated and transferred to the U.S. District Court for the District of Connecticut (the "Ontario Teachers Securities Litigation"). On December 13, 2019, the lead plaintiff in that action filed an amended complaint, purportedly on behalf of purchasers of Teva's securities between February 6, 2014 and May 10, 2019. The amended complaint asserts that Teva and certain of its current and former officers and directors violated federal securities and common laws in connection with Teva's alleged failure to disclose pricing strategies for various drugs in its generic drug portfolio and by making allegedly false or misleading statements in certain offering materials. The amended complaint seeks unspecified damages, legal fees, interest, and costs. In July 2017, August 2017, and June 2019, other putative securities class actions were filed in other federal courts based on similar allegations, and those cases have been transferred to the U.S. District Court for the District of Connecticut. Between August 2017 and January 2020, eighteen complaints were filed against Teva and certain of its current and former officers and directors seeking unspecified compensatory damages, legal fees, costs and expenses. The similar claims in these complaints have been brought on behalf of plaintiffs, in various forums across the country, who have indicated that they intend to "opt-out" of the plaintiffs' class if one is certified in the Ontario Teachers Securities Litigation. On March 10, 2020, the Court consolidated the Ontario Teachers Securities Litigation with all of the above-referenced putative class actions for all purposes and the "opt-out" cases for pretrial purposes. The case is now in discovery.

Motions to approve derivative actions against certain past and present directors and officers have been filed in Israel alleging negligence and recklessness with respect to the acquisition of the Rimsa business and the acquisition of Actavis Generics. Motions for document disclosure prior to initiating derivative actions were filed with respect to several settlement agreements, opioids and the U.S. price-fixing investigations. Motions to approve securities class actions against Teva and certain of its current and former directors and officers were filed in Israel based on allegations of improper disclosure of the above-mentioned pricing investigation, as well as lack of disclosure of negative developments in the generic sector, including price erosion with respect to Teva's products. Various motions were filed in Israel to approve a derivative action, discovery and a class action related to claims regarding Teva's above-mentioned FCPA resolution with the SEC and DOJ. The parties have reached an agreement in principle to settle these proceedings and the settlement was approved by the Tel Aviv District Court on April 6, 2020.

**Environmental Matters**

Teva or its subsidiaries are party to a number of environmental proceedings, or have received claims, including under the federal Superfund law or other federal, provincial or state and local laws, imposing liability for alleged noncompliance, or for the investigation and remediation of releases of hazardous substances and for natural resource damages. Many of these proceedings and claims seek to require the generators of hazardous wastes disposed of at a third party-owned site, or the party responsible for a release of hazardous substances that impacted a site, to investigate and clean the site or to pay or reimburse others for such activities, including for oversight by governmental authorities and any related damages to natural resources. Teva or its subsidiaries have received claims, or been made a party to these proceedings, along with others, as an alleged generator of wastes that were disposed of or treated at third-party waste disposal sites, or as a result of an alleged release from one of Teva's facilities or former facilities.

Although liability among the responsible parties, under certain circumstances, may be joint and several, these proceedings are frequently resolved so that the allocation of clean-up and other costs among the parties reflects the relative contributions of the parties to the site conditions and takes into account other pertinent factors. Teva's potential liability varies greatly at each of the sites; for some sites the costs of the investigation, clean-up and natural resource damages have not yet been determined, and for others Teva's allocable share of liability has not been determined. At other sites, Teva has taken an active role in identifying those costs, to the extent they are identifiable and estimable, which do not include reductions for potential recoveries of clean-up costs from insurers, indemnitors, former site owners or operators or other potentially responsible parties. In addition, enforcement proceedings relating to alleged violations of federal, state, commonwealth or local requirements at some of Teva's facilities may result in the imposition of significant penalties (in amounts not expected to materially adversely affect Teva's results of operations) and the recovery of certain costs and natural resource damages, and may require that corrective actions and enhanced compliance measures be implemented.

**Other Matters**

On February 1, 2018, former shareholders of Ception Therapeutics, Inc., a company that was acquired by and merged into Cephalon in 2010, prior to Cephalon's acquisition by Teva, filed breach of contract and other related claims against the Company, Teva USA and Cephalon in the Delaware Court of Chancery. Among other things, the plaintiffs allege that Cephalon breached the terms of the 2010 Ception-Cephalon merger agreement by failing to exercise commercially reasonable efforts to develop and commercialize CINQAIR® (reslizumab) for the treatment of eosinophilic esophagitis ("EE"). The plaintiffs claim damages of at least $200 million, an amount they allege is equivalent to the milestones payable to the former shareholders of Ception in the event Cephalon were to obtain regulatory approval for EE in the United States ($150 million) and Europe ($50 million). Defendants moved to dismiss the complaint and on December 28, 2018, the court granted the motion in part and dismissed all of plaintiffs' claims, except for their claim against Cephalon for breach of contract.

**NOTE 11 – Income taxes:**

In the first quarter of 2020, Teva recognized a tax benefit of $59 million, on pre-tax loss of $33 million. In the first quarter of 2019, Teva recognized a tax expense of $9 million, on pre-tax loss of $84 million. Teva's tax rate for the first quarter of 2020 was mainly affected by impairments in jurisdictions in which tax rates are higher than Teva's average tax rate on its ongoing business operations.

The statutory Israeli corporate tax rate is 23% in 2020. Teva's tax rate differs from the Israeli statutory tax rate, mainly due to generation of profits in various jurisdictions in which tax rates are different than the Israeli tax rate, tax benefits in Israel and other countries, as well as infrequent or nonrecurring items.

Teva filed a claim seeking the refund of withholding taxes paid to the Indian tax authorities in 2012. Trial in this case is scheduled to begin in July 2020. A final and binding decision against Teva in this case may lead to an impairment in the amount of $136 million.

**NOTE 12 – Other assets impairments, restructuring and other items:**

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| Impairments of long-lived tangible assets (1) | $ 75 | $ 20 |
| Contingent consideration | 6 | (71) |
| Restructuring | 39 | 32 |
| Other | — | 20 |
| Total | $ 121 | $ 1 |

(1) Including impairments related to exit and disposal activities.

*Impairments*

Impairments of tangible assets for the first three months of 2020 and 2019 were $75 million and $20 million, respectively. The impairments in the first three months of 2020 are mainly related to plant rationalization.

Teva may record additional impairments in the future, to the extent it changes its plans on any given asset and/or the assumptions underlying such plans, as a result of its plant rationalization plan.

*Contingent consideration*

In the three months ended March 31, 2020, Teva recorded an expense of $6 million for contingent consideration, compared to an income of $71 million in the three months ended March 31, 2019. The income in the first quarter of 2019 was mainly related to a decrease in royalty payments expected in connection with lenalidomide (generic equivalent of Revlimid®) which was part of the Actavis Generics acquisition.

*Restructuring*

In the three months ended March 31, 2020, Teva recorded $39 million of restructuring expenses, compared to $32 million in the three months ended March 31, 2019. The expenses in the first quarter of 2020 were primarily related to residual expenses of the restructuring plan announced in 2017.

The following tables provide the components of costs associated with Teva's restructuring plan, including other costs associated with Teva's restructuring plan and recorded under different items:

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| Restructuring | | |
| Employee termination | $ 33 | $ 20 |
| Other | 6 | 12 |
| Total | $ 39 | $ 32 |

The following table provides the components of and changes in the Company's restructuring accruals:

| | Employee termination costs | Other | Total |
|---|---|---|---|
| | (U.S. $ in millions ) | | |
| Balance as of January 1, 2020 | $ (208) | $ (7) | $(215) |
| Provision | (33) | (6) | (39) |
| Utilization and other* | 69 | 6 | 75 |
| Balance as of March 31, 2020 | $ (172) | $ (7) | $(179) |

* Includes adjustments for foreign currency translation.

*Significant regulatory events*

In July 2018, the FDA completed an inspection of Teva's manufacturing plant in Davie, Florida in the United States, and issued a Form FDA-483 to the site. In October 2018, the FDA notified Teva that the inspection of the site is classified as "official action indicated" (OAI). On February 5, 2019, Teva received a warning letter from the FDA that contained four additional enumerated concerns related to production, quality control, and investigations at this site. Teva has been working diligently to address the FDA's concerns in a manner consistent with current good manufacturing practice (cGMP) requirements, and to address those concerns as quickly and as thoroughly as possible. An FDA follow up inspection occurred in January 2020, resulting in some follow up findings, and Teva received a letter from the FDA dated April 24, 2020 notifying that the site continues to be classified as OAI. If Teva is unable to remediate the findings to the FDA's satisfaction, it may face additional consequences. These would potentially include delays in FDA approval for future products from the site, financial implications due to loss of revenues, impairments, inventory write offs, customer penalties, idle capacity charges, costs of additional remediation and possible FDA enforcement action. Teva expects to generate approximately $230 million in revenues from this site in 2020, assuming remediation or enforcement does not cause any unscheduled slowdown or stoppage at the facility, however delays in FDA approvals of future products from the site may occur.

In July 2018, Teva announced the voluntary recall of valsartan and certain combination valsartan medicines in various countries due to the detection of trace amounts of a previously unknown nitrosamine impurity called NDMA found in valsartan API supplied to Teva by Zhejiang Huahai Pharmaceuticals Co. Ltd. ("Huahai"). Since July 2018, Teva has been actively engaged with regulatory agency requests around the world in reviewing its sartan and other products to determine whether NDMA and/or other related nitrosamine impurities are present in specific products. Where necessary, Teva has initiated additional voluntary recalls. The aggregate direct impact of the sartan recalls on Teva's 2018 and 2019 financial statements was $54 million, primarily related to inventory write-downs and returns. As a result of this loss, Teva initiated negotiations with Huahai and in December 2019, Teva reached a settlement with Huahai resolving its claims related to certain sartan API supplied by Huahai to Teva. Under the settlement agreement, Huahai agreed to compensate Teva for some of the direct losses suffered by Teva and provide Teva prospective cost reductions for API. The settlement does not release Huahai from liability for any losses Teva may incur as a result of third party personal injury or product liability claims relating to the sartan API at issue. In addition, multiple lawsuits have been filed in connection with this matter, which may lead to additional customer penalties, impairments and litigation costs. Teva expects additional expenses and loss of revenues and profits in connection with this matter going forward.

**NOTE 13 – Earnings (Loss) per share:**

Basic earnings and loss per share are computed by dividing net results 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, 2020, basic earnings per share were 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, using the treasury stock method. No account was taken of the potential dilution by the convertible senior debentures, since they had an anti-dilutive effect on earnings per share.

In computing diluted loss per share for the three months ended March 31, 2019, no account was taken of the potential dilution by the assumed exercise of employee stock options and non-vested RSUs granted under employee stock compensation plans, and convertible senior debentures, since they had an anti-dilutive effect on loss per share.

Basic and diluted earnings per share were $0.06 in the first quarter of 2020, compared to basic and diluted loss per share of $0.10 in the first quarter of 2019.

**NOTE 14 – Accumulated other comprehensive loss:**

The components of, and changes within, accumulated other comprehensive losses 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 |
| | | | (U.S. $ in millions) | | |
| Balance as of December 31, 2019 | $ (1,794) | $ — | $ (420) | $ (98) | $(2,312) |
| Other comprehensive income (loss) before reclassifications | (570) | — | 22 | — | (548) |
| Amounts reclassified to the statements of income | — | — | 8 | — | 8 |
| Net other comprehensive income (loss) before tax | (570) | — | 30 | — | (540) |
| Net other comprehensive income (loss) after tax* | (570) | — | 30 | — | (540) |
| Balance as of March 31, 2020 | $ (2,364) | $ — | $ (390) | $ (98) | $(2,852) |

* Amounts do not include a $10 million loss from foreign currency translation adjustments attributable to non-controlling interests.

| | 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 |
| | | | (U.S. $ in millions) | | |
| Balance as of December 31, 2018 | $ (1,878) | $ 1 | $ (504) | $ (78) | $(2,459) |
| Other comprehensive income (loss) before reclassifications | 53 | | 40 | — | 93 |
| Amounts reclassified to the statements of income | — | — | 7 | — | 7 |
| Net other comprehensive income (loss) before tax | 53 | — | 47 | — | 100 |
| Net other comprehensive income (loss) after tax* | 53 | — | 47 | | 100 |
| Balance as of March 31, 2019 | $ (1,825) | $ 1 | $ (457) | $ (78) | $(2,359) |

* Amounts do not include a $6 million loss from foreign currency translation adjustments attributable to non-controlling interests.

**NOTE 15 – Segments:**

Teva operates its business and reports its financial results in three segments:

(a) North America segment, which includes the United States and Canada.

(b) Europe segment, which includes the European Union and certain other European countries.

(c) International Markets segment, which includes all countries other than those in the North America and Europe segments.

In addition to these three segments, Teva has other sources of revenues, primarily the sale of APIs to third parties, certain contract manufacturing services and an out-licensing platform offering a portfolio of products to other pharmaceutical companies through its affiliate Medis.

Teva's Chief Executive Officer ("CEO"), who is the chief operating decision maker ("CODM"), reviews financial information prepared on a consolidated basis, accompanied by disaggregated information about revenues and contributed profit by the three identified reportable segments, namely North America, Europe and International Markets, to make decisions about resources to be allocated to the segments and assess their performance.

Segment profit is comprised of gross profit for the segment less R&D expenses, S&M expenses, G&A expenses and other income related to the segment. Segment profit does not include amortization and certain other items.

Teva manages its assets on a company basis, not by segments, as many of its assets are shared or commingled. Teva's CODM does not regularly review asset information by reportable segment and, therefore, Teva does not report asset information by reportable segment.

Teva's CEO may review its strategy and organizational structure from time to time. Any changes in strategy may lead to a reevaluation of the Company's segments and goodwill allocation to reporting units, as well as fair value attributable to its reporting units. See note 6.

**a. Segment information:**

| | Three months ended March 31, 2020 | | |
|---|---|---|---|
| | North America | Europe | International Markets |
| | | (U.S. $ in millions) | |
| Revenues | $ 2,082 | $1,402 | $ 565 |
| Gross profit | 1,062 | 823 | 305 |
| R&D expenses | 146 | 55 | 15 |
| S&M expenses | 251 | 202 | 106 |
| G&A expenses | 118 | 66 | 34 |
| Other income | (2) | (1) | (6) |
| Segment profit | $ 550 | $ 502 | $ 156 |

| | Three months ended March 31, 2019 | | |
|---|---|---|---|
| | North America | Europe | International Markets* |
| | | (U.S. $ in millions) | |
| Revenues | $ 2,047 | $1,264 | $ 521 |
| Gross profit | 1,039 | 730 | 269 |
| R&D expenses | 165 | 66 | 22 |
| S&M expenses | 268 | 215 | 115 |
| G&A expenses | 112 | 48 | 36 |
| Other (income) expense | (4) | (1) | — |
| Segment profit | $ 498 | $ 403 | $ 97 |

* The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c for additional information.

The following table presents a reconciliation of our segment profits to our consolidated operating income (loss) and to consolidated income (loss) before income taxes for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| North America profit | $ 550 | $ 498 |
| Europe profit | 502 | 403 |
| International Markets profit | 156 | 97 |
| Total reportable segments profit | 1,208 | 998 |
| Profit of other activities | 36 | 21 |
| Total segments profit | 1,244 | 1,019 |
| Amounts not allocated to segments: | | |
| Amortization | 258 | 283 |
| Other assets impairments, restructuring and other items | 121 | 1 |
| Intangible asset impairments | 649 | 469 |
| Legal settlements and loss contingencies | (25) | 57 |
| Other unallocated amounts | 49 | 75 |
| Consolidated operating income (loss) | 191 | 134 |
| Financial expenses, net | 224 | 218 |
| Consolidated income (loss) before income taxes | $ (33) | $ (84) |

**b. Segment revenues by major products and activities:**

The following tables present revenues by major products and activities for the three months ended March 31, 2020 and 2019:

| North America | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| Generic products | $ 952 | $ 966 |
| AJOVY | 29 | 20 |
| AUSTEDO | 122 | 74 |
| BENDEKA/TREANDA | 105 | 122 |
| COPAXONE | 198 | 208 |
| ProAir* | 59 | 59 |
| QVAR | 45 | 64 |
| Anda | 426 | 379 |
| Other | 146 | 155 |
| Total | $ 2,082 | $ 2,047 |

* Does not include revenues from the ProAir authorized generic, which are included under generic products.

| Europe | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| Generic products | $ 1,032 | $ 919 |
| COPAXONE | 109 | 114 |
| Respiratory products | 106 | 91 |
| AJOVY | 4 | — |
| Other | 151 | 140 |
| Total | $ 1,402 | $ 1,264 |

| International Markets* | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| Generic products | $ 449 | $ 441 |
| COPAXONE | 12 | 13 |
| Other | 104 | 67 |
| Total | $ 565 | $ 521 |

* The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c for additional information.

**NOTE 16 – Fair value measurement:**

Financial items carried at fair value as of March 31, 2020 and December 31, 2019 are classified in the tables below in one of the three categories of fair value levels:

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. $ in millions) | | | |
| Cash and cash equivalents: | | | | |
| Money markets | $ 260 | $ — | $ — | $ 260 |
| Cash, deposits and other | 1,544 | — | — | 1,544 |
| Investment in securities: | | | | |
| Equity securities | 31 | — | — | 31 |
| Other, mainly debt securities | 2 | — | 12 | 14 |
| Derivatives: | | | | |
| Asset derivatives—options and forward contracts | — | 104 | — | 104 |
| Liability derivatives—options and forward contracts | — | (94) | — | (94) |
| Contingent consideration* | — | — | (435) | (435) |
| Total | $1,837 | $ 10 | $ (423) | $1,424 |

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (U.S. $ in millions) | | | |
| Cash and cash equivalents: | | | | |
| Money markets | $ 577 | $ — | $ — | $ 577 |
| Cash, deposits and other | 1,398 | — | — | 1,398 |
| Investment in securities: | | | | |
| Equity securities | 42 | — | — | 42 |
| Other, mainly debt securities | 2 | — | 12 | 14 |
| Derivatives: | | | | |
| Asset derivatives—options and forward contracts | — | 32 | — | 32 |
| Liability derivatives—options and forward contracts | — | (41) | — | (41) |
| Liability derivatives—interest rate and cross-currency swaps | — | (22) | — | (22) |
| Contingent consideration* | — | — | (460) | (460) |
| Total | $2,019 | $ (31) | $ (448) | $1,540 |

* Contingent consideration represents liabilities 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 of 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 United States and Europe, and the risk adjusted discount rate for fair value measurement. A probability of success factor ranging from 80% to 100% was used in the fair value calculation to reflect inherent regulatory and commercial risk of the contingent payments and IPR&D. The discount rate applied ranged from 8% to 9%. The weighted average discount rate, calculated based on the relative fair value of our contingent consideration obligations, was 8.6%.

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, 2020 |
|---|---|
| | (U.S. $ in millions) |
| Fair value at the beginning of the period | $ (448) |
| Adjustments to provisions for contingent consideration: | |
| Actavis Generics transaction | (5) |
| Eagle transaction | (1) |
| Settlement of contingent consideration: | |
| Eagle transaction | 31 |
| Fair value at the end of the period | $ (423) |

**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 table below in terms of fair value (level 1 inputs):

| | Fair value* | |
|---|---|---|
| | March 31, 2020 | December 31, 2019 |
| | (U.S. $ in millions) | |
| Senior notes included under senior notes and loans | $ 21,960 | $ 22,686 |
| Senior notes and convertible senior debentures included under short-term debt | 1,583 | 2,318 |
| Total | $ 23,543 | $ 25,004 |

* Based on quoted market price. See note 7 for carrying value.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Business Overview

We are a global pharmaceutical company, committed to helping patients around the world to access affordable medicines and benefit from innovations to improve their health. Our mission is to be a global leader in generics, specialty medicines and biopharmaceuticals, improving the lives of patients.

We operate worldwide, with headquarters in Israel and a significant presence in the United States, Europe and many other markets around the world. Our key strengths include our world-leading generic medicines expertise and portfolio, focused specialty medicines portfolio and global infrastructure and scale.

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

### Our Business Segments

We operate our business through three segments: North America, Europe and International Markets. Each business segment manages our entire product portfolio in its region, including generics, specialty and OTC products. This structure enables strong alignment and integration between operations, commercial regions, R&D and our global marketing and portfolio function, optimizing our product lifecycle across therapeutic areas.

In addition to these three segments, we have other activities, primarily the sale of API to third parties, certain contract manufacturing services and an out-licensing platform offering a portfolio of products to other pharmaceutical companies through our affiliate Medis.

### The COVID-19 Pandemic

As a leading global pharmaceutical company, Teva provides essential medicines to millions of patients around the world every day. Our priorities remain focused on the health and well-being of our employees and on our responsibility to continue to provide our medicines to the nearly 200 million patients who depend on us every day.

Our industry plays a critical role, particularly during such challenging times. We are working with governments to do all they can, in partnership with our industry, to maintain the development, production, supply and distribution of high quality medicines for patients worldwide during this unprecedented global health crisis.

#### *Business Continuity*

The supply chain supporting our key products – specialty, generics and API – remains largely uninterrupted, and with adequate product inventory across our network. Additionally, based on analysis of potential scenarios, we currently have inventory and redundancy plans in place to address potential shortfalls, if any. We are closely monitoring the evolving situation in our key manufacturing locations and commercial markets, and are accordingly adapting our business continuity plans. All our facilities that research, manufacture, order, pack, distribute and provide critical customer and patient services are currently functioning to meet demand for essential medicines for patients throughout the world.

Teva has worked since the early days of the COVID-19 pandemic to support efforts of governments and health services to curb the impact of the virus. Our global manufacturing network has been tirelessly focused on securing and scaling production of both API and finished doses for potential treatments that may prove essential in treating the condition nearly everywhere Teva does business. Teva will continue to work with governments and international organizations throughout the world to support emerging needs related to this crisis, while doing everything possible to also continue to supply our vast portfolio of medicines to patients.

#### *R&D and New Launches*

We do not expect a material impact on our ongoing clinical research programs and product launches as a result of the COVID-19 pandemic; however, if the pandemic continues for an extended period of time, we may experience delays in clinical trials due to cessation of recruitment for patient studies and suspended regulatory inspections, delays in regulatory approvals of new products due to reduced capacity or re-prioritization of regulatory agencies and delays in pre-commercial launch activities. All of our new product launches have been risk-assessed based on upcoming manufacturing and regulatory inspections.

#### *Workforce Policy and Measures*

Our employees across all aspects of our business are safeguarding the continuity of our activities and we are committed to supporting their efforts and caring for their personal health and safety. We are enacting appropriate measures to ensure the safe supply and transport of our medicines and APIs, and have established measures intended to ensure our sites remain open, allowing us to maintain our business, R&D and manufacturing operations. We have reduced the number of people in our facilities to only those who are essential and may not work remotely. By doing our part to reduce proximity to one another, we hope to better protect our overall workforce, and ultimately, the communities in which we live.

As we work through this health crisis, we are starting to plan our strategy for returning to usual operations at all organizational levels, under guiding principles to protect our business, maximize organizational productivity and efficiency while simultaneously ensuring a safe workplace.

***Trends***

We have limited insight into the extent to which our business may be impacted by the COVID-19 pandemic and there are many unknowns facing our industry and society at large. At this stage of the pandemic, we are not experiencing material delays in development, production and distribution of medicines or disruptions in our supply chains; however, longer term affects cannot be predicted at this time and would depend on the duration and severity of the pandemic and the restrictive measures put in place to control its impact. We are experiencing increasing demand for certain medicines, as would be expected during a global crisis of this nature, and cannot assess whether such increased demand is the result of stocking by wholesalers or patients. Although no one can predict future demand for pharmaceutical products, market dynamics or the scope or duration of the financial and other challenges arising from the pandemic, it is possible that we will see a compensating effect during the remainder of the year, but we do not currently anticipate a material negative impact on our 2020 financial results due to the evolving global pandemic.

**Highlights**

Significant highlights in the first quarter of 2020 included:

- Revenues in the first quarter of 2020 were $4,357 million, an increase of 5%, in both U.S. dollar and local currency terms, compared to the first quarter of 2019, mainly due to higher revenues from generics and OTC sales in Europe, higher revenues from AUSTEDO® and Anda in North America and higher revenues from our International Markets segment, partially offset by lower revenues from generics in the U.S. and lower revenues from QVAR® and BENDEKA®/TREANDA® in North America.
- Our North America segment generated revenues of $2,082 million and profit of $550 million in the first quarter of 2020. Revenues increased by 2% compared to the first quarter of 2019, mainly due to an increase in revenues of AUSTEDO and Anda as well as a milestone payment related to our anti-CGRP intellectual property, partially offset by lower revenues from QVAR, BENDEKA/TREANDA, COPAXONE® and generic products. Profit increased by 10%, mainly due to the changes in revenues described above.
- Our Europe segment generated revenues of $1,402 million and profit of $502 million in the first quarter of 2020. Revenues increased by 11%. In local currency terms, revenues increased by 13% compared to the first quarter of 2019, mainly due to higher demand for certain products resulting from the impact of the COVID-19 pandemic on purchasing patterns as well as continuing growth in generics and new generic product launches, partially offset by price declines for oncology products as a result of generic competition and a decline in COPAXONE revenues due to competing glatiramer acetate products. Profit increased by 25%, mainly due to higher revenues and lower expenses.
- Our International Markets segment generated revenues of $565 million and profit of $156 million in the first quarter of 2020. Revenues increased by 8% in U.S. dollars or 5% in local currency terms, compared to the first quarter of 2019. The increase in revenues was mainly due to higher sales in Latin America, Asia-Pacific, Ukraine and Russia, partially offset by lower sales in Japan. The revenues in the first quarter of 2020 included $35 million from a positive hedging impact. Profit increased by 61%, mainly due to higher sales and the positive impact from hedging activity.
- Impairment of identifiable intangible assets were $649 million in the first quarter of 2020, compared to $469 million in the first quarter of 2019. Impairment expenses in the first quarter of 2020 related to IPR&D assets were $331 million and identifiable product rights were $318 million.
- No goodwill impairments were recorded in the first quarters of both 2020 and 2019.
- We recorded expenses of $121 million for other asset impairments, restructuring and other items in the first quarter of 2020, compared to expenses of $1 million in the first quarter of 2019.
- In the first quarter of 2020, we recorded an income of $25 million in legal settlements and loss contingencies, compared to an expense of $57 million in the first quarter of 2019. The income in the first quarter of 2020 was mainly related to a settlement of an action brought against the sellers of Auden McKenzie (an acquisition made by Actavis Generics).
- Operating income was $191 million in the first quarter of 2020, compared to $134 million in the first quarter of 2019. The increase in the first quarter of 2020 was mainly due to higher profit in our Europe, International Markets and North America segments and income from legal settlements (compared to an expense in the first quarter of 2019), partially offset by higher intangible asset impairments and higher other assets impairments, restructuring and other items in the first quarter of 2020.

- Financial expenses were $224 million in the first quarter of 2020, compared to $218 million in the first quarter of 2019. Financial expenses in the first quarter of 2020 were mainly comprised of interest expenses of $241 million. Financial expenses in the first quarter of 2019 were mainly comprised of interest expenses of $227 million.
- In the first quarter of 2020, we recognized a tax benefit of $59 million, on pre-tax loss of $33 million. In the first quarter of 2019, we recognized a tax expense of $9 million, on pre-tax loss of $84 million. Our tax rate for the first quarter of 2020 was mainly affected by impairments in jurisdictions in which tax rates are higher than Teva's average tax rate on its ongoing business operations.
- Exchange rate movements between the first quarter of 2020 and the first quarter of 2019, net of hedging, negatively impacted overall revenues by $3 million and positively impacted operating income by $27 million.
- As of March 31, 2020, our debt was $26,103 million, compared to $26,908 million as of December 31, 2019. This decrease was mainly due to repayment at maturity of our $700 million 2.25% senior notes, as well as exchange rate fluctuations.
- Cash flow generated from operating activities during the first quarter of 2020 was $305 million, compared to $112 million in the first quarter of 2019. This increase in cash flow in the first quarter of 2020 was mainly due to higher operating profit in each of our three segments, as well as lower performance incentive payments to employees paid in the first quarter of 2020, compared to the amounts paid in the first quarter of 2019.
- During the first quarter of 2020, we generated free cash flow of $551 million, which we define as comprising $305 million in cash flow generated from operating activities, $368 million in beneficial interest collected in exchange for securitized accounts receivables and $6 million in proceeds from sale of property, plant and equipment and intangible assets, partially offset by $128 million in cash used for capital investment. This increase compared to the first quarter of 2019, resulted mainly from higher cash flow generated from operating activities, including significant consumption of inventories.

**Results of Operations**

**Comparison of Three Months Ended March 31, 2020 to Three Months Ended March 31, 2019**

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

| | Percentage of Net Revenues Three Months Ended March 31, | | Percentage Change |
|---|---|---|---|
| | 2020 | 2019 | 2020 - 2019 |
| | % | % | % |
| Net revenues | 100 | 100 | 5 |
| Gross profit | 47 | 45 | 11 |
| Research and development expenses | 5 | 6 | (15) |
| Selling and marketing expenses | 14 | 16 | (5) |
| General and administrative expenses | 7 | 7.0 | 4 |
| Intangible assets impairments | 15 | 11 | 38 |
| Other assets impairments, restructuring and other items | 3 | § | NA |
| Legal settlements and loss contingencies | (1) | 1 | NA |
| Other income (loss) | § | § | 115 |
| Operating income | 4 | 3 | 43 |
| Financial expenses, net | 5 | 5 | 3 |
| Income (loss) before income taxes | (1) | (2) | (61) |
| Income taxes (benefit) | (1) | § | — |
| Share in losses (profits) of associated companies, net | § | § | NA |
| Net income attributable to non-controlling interests | (1) | § | NA |
| Net income (loss) attributable to Teva | 2 | (3) | — |
| Net income (loss) attributable to ordinary shareholders | 2 | (3) | — |

§ Represents an amount less than 0.5%.

**Segment Information**

**North America Segment**

The following table presents revenues, expenses and profit for our North America segment for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | (U.S. $ in millions / % of Segment Revenues) | | | |
| Revenues | $2,082 | 100% | $2,047 | 100.0% |
| Gross profit | 1,062 | 51.0% | 1,039 | 50.8% |
| R&D expenses | 146 | 7.0% | 165 | 8.1% |
| S&M expenses | 251 | 12.1% | 268 | 13.1% |
| G&A expenses | 118 | 5.6% | 112 | 5.5% |
| Other (income) expense | (2) | § | (4) | § |
| Segment profit* | $ 550 | 26.4% | $ 498 | 24.3% |

* Segment profit does not include amortization and certain other items.
§ Represents an amount less than 0.5%.

***North America Revenues***

Our North America segment includes the United States and Canada. Revenues from our North America segment in the first quarter of 2020 were $2,082 million, an increase of $36 million, or 2%, compared to the first quarter of 2019, mainly due to an increase in revenues of AUSTEDO and Anda as well as a milestone payment related to our anti-CGRP intellectual property (see note 2 to our consolidated financial statements), partially offset by lower revenues from QVAR, BENDEKA/TREANDA, COPAXONE and generic products.

***Revenues by Major Products and Activities***

The following table presents revenues for our North America segment by major products and activities for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | Percentage Change 2019-2020 |
|---|---|---|---|
| | 2020 | 2019 | |
| | (U.S. $ in millions) | | |
| Generic products | $ 952 | $ 966 | (1%) |
| AJOVY | 29 | 20 | 44% |
| AUSTEDO | 122 | 74 | 64% |
| BENDEKA/TREANDA | 105 | 122 | (14%) |
| COPAXONE | 198 | 208 | (5%) |
| ProAir* | 59 | 59 | 1% |
| QVAR | 45 | 64 | (29%) |
| Anda | 426 | 379 | 13% |
| Other | 146 | 155 | (6%) |
| Total | $ 2,082 | $ 2,047 | 2% |

* Does not include revenues from the ProAir authorized generic, which are included under generic products.

**Generic products** revenues in our North America segment (including biosimilars) in the first quarter of 2020 were $952 million, a decrease of 1% compared to the first quarter of 2019. This decrease was mainly due to price erosion in our product portfolio and lower royalty income, offset by an increase in revenues from launches of new products, including TRUXIMA and from our ProAir® authorized generic due to higher demand related to the COVID-19 pandemic.

Among the most significant generic products we sold in North America in the first quarter of 2020 were albuterol sulfate inhalation aerosol (ProAir HFA authorized generic of our specialty product), epinephrine injectable solution (the generic equivalent of EpiPen® and EpiPen Jr.®), TRUXIMA (the biosimilar to Rituxan®), lidocaine transdermal patch (the generic equivalent of Lidoderm Patch®) and amphetamine salt tablets (the generic equivalent of Adderall IR®).

We launched HERZUMA for Injection (the biosomilar to Herceptin®) in the United States in March 2020. HERZUMA and TRUXIMA were also launched in Canada in January 2020 and February 2020, respectively. On May 4, 2020, TRUXIMA became available in the U.S. for the treatment of rheumatoid arthritis, granulomatosis with polyangiitis (Wegener's Granulomatosis) and microscopic polyangiitis.

In the first quarter of 2020, we led the U.S. generics market in total prescriptions and new prescriptions, with approximately 389 million total prescriptions (based on trailing twelve months), representing 10.4% of total U.S. generic prescriptions according to IQVIA data.

**AJOVY®** revenues in our North America segment in the first quarter of 2020 were $29 million, an increase of $9 million, or 44% compared to the first quarter of 2019, mainly due to growth in volume in the first quarter of 2020. AJOVY was approved by the FDA and launched in the United States in September 2018 for the preventive treatment of migraine in adults. On January 27, 2020, the FDA approved an auto-injector device for AJOVY in the U.S., which became commercially available in April 2020. In addition, AJOVY was approved in Canada on April 14, 2020.

On May 12, 2017, we entered into a license and collaboration agreement with Otsuka Pharmaceutical Co., Ltd. ("Otsuka") providing Otsuka with an exclusive license to conduct phase 2 and 3 clinical trials for AJOVY in Japan and, once approved, to commercialize the product in Japan. Results for these trials were received in January 2020 indicating that primary and secondary endpoints were achieved and that no clinically significant adverse events were observed in subjects.

AJOVY is also in clinical development to evaluate safety and efficacy in the treatment of post traumatic headache and fibromyalgia.

AJOVY is protected by patents expiring in 2026 in Europe and in 2027 in the United States. Applications for patent term extensions have been submitted in various markets around the world. An additional patent relating to the use of AJOVY in the treatment of migraine is issued in the United States and will expire in 2035. This patent is also pending in other countries. AJOVY will also be protected by regulatory exclusivity for 12 years from marketing approval in the United States and 10 years from marketing approval in Europe.

We have filed a lawsuit in the U.S. District Court for the District of Massachusetts alleging that Eli Lilly & Co.'s ("Lilly") marketing and sale of its galcanezumab product for the treatment of migraine infringes nine Teva patents. Lilly has also submitted IPR (inter partes review) petitions to the Patent Trial and Appeal Board, challenging the validity of the nine patents asserted against it in the litigation. The litigation in the district court was stayed pending resolution of the IPR petitions. On February 18, 2020, the Patent Trial and Appeal Board issued decisions on the first six IPRs, finding the six patents invalid as being obvious. On April 21, 2020, we filed notices of appeal in connection with these decisions. On March 31, 2020 the Patent Trial and Appeal Board issued a decision upholding the 3 method of treatment patents. The litigation stay ended following the issuance of the most recent IPR decisions, and the parties are proceeding with the litigation. In addition, we have entered into separate agreements with Alder Biopharmaceuticals, Inc. and Lilly, resolving the European Patent Office oppositions that they filed against our AJOVY patents. The settlement agreement with Lilly also resolved Lilly's action to revoke the patent protecting AJOVY in the United Kingdom.

**AUSTEDO** revenues in our North America segment in the first quarter of 2020 increased by 64%, to $122 million, compared to $74 million in the first quarter of 2019. This increase was mainly due to growth in volume in the first quarter of 2020.

In April 2017, AUSTEDO was approved by the FDA and launched in the United States for the treatment of chorea associated with Huntington disease. In August 2017, the FDA approved AUSTEDO for the treatment of tardive dyskinesia.

We do not have further plans for the development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States, which was being developed under a partnership agreement with Nuvelution Pharma, Inc. ("Nuvelution"), following clinical trial results received in February 2020, which failed to meet their primary endpoints.

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

**BENDEKA** and **TREANDA** combined revenues in our North America segment in the first quarter of 2020 decreased by 14% to $105 million, compared to the first quarter of 2019, mainly due to the emergence of alternative novel therapies and continued competition from Belrapzo® (a ready-to-dilute bendamustine hydrochloride product from Eagle Pharmaceuticals, Inc. ("Eagle")).

In July 2018, Eagle prevailed in its suit against the FDA to obtain seven years of orphan drug exclusivity in the United States for BENDEKA. On March 13, 2020, this decision was upheld in the appellate court. As a result, drug applications referencing BENDEKA, TREANDA or any other bendamustine product will not be approved by the FDA until the orphan drug exclusivity expires in December 2022. It is unclear whether the FDA or the intervening generic defendants will further appeal this ruling. In April 2019, we signed an amendment to the license agreement with Eagle extending the royalty term applicable to the United States to the full period for which we sell BENDEKA and increasing the royalty rate. In consideration, Eagle agreed to assume a portion of BENDEKA-related patent litigation expenses. In September 2019, a patent infringement action against four of the five ANDA filers for generic versions of BENDEKA was tried in the United States District Court for the District of Delaware. On April 27, 2020, the District Court upheld the validity of all of the asserted patents and found that all four ANDA filers infringe these patents. As a result, the ANDA filers should be enjoined until these patents expire in 2031.

Additionally, in July 2018, Teva and Eagle filed suit against Hospira, Inc. ("Hospira") related to its 505(b)(2) new drug application ("NDA") referencing BENDEKA in the U.S. District Court for the District of Delaware. Hospira's 30-month stay expires in December 2020. On December 16, 2019, the Delaware District Court dismissed the case against Hospira on all but one of the asserted patents, which expires in 2031. Trial against Hospira on that patent is scheduled to begin on November 15, 2021.

We have U.S. Orange Book patents for TREANDA expiring between 2026 and 2031. One 505(b)(2) NDA was filed for a liquid version of bendamustine and 21 ANDAs were filed for generic versions of the lyophilized form of TREANDA. We have reached final settlements with all 22 filers, providing for the launch of generic versions of TREANDA prior to patent expiration.

**COPAXONE** revenues in our North America segment in the first quarter of 2020 decreased by 5% to $198 million, compared to the first quarter of 2019, mainly due to generic competition in the United States.

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

**ProAir** revenues in our North America segment in the first quarter of 2020 were $59 million, flat compared to the first quarter of 2019. In January 2019, we launched our own ProAir authorized generic in the United States following the launch of a generic version of Ventolin® HFA, another albuterol inhaler. Revenues from our ProAir HFA authorized generic are included in "generic products" above. ProAir is the fourth-largest short-acting beta-agonist in the market, with an exit market share of 15.5% (37.5% including our ProAir HFA authorized generic, making our overall albuterol product the largest in the market) in terms of total number of prescriptions for albuterol inhalers during the first quarter of 2020, compared to 27.6% in the first quarter of 2019. In June 2014, we settled a patent challenge to ProAir HFA with Perrigo Company plc ("Perrigo"), under which Perrigo is now permitted to launch its generic product. In February 2020, Perrigo obtained FDA approval of its generic product and announced initial release of limited supplies. In November 2017, we settled another patent challenge to ProAir HFA with Lupin Pharmaceuticals, Inc. ("Lupin"), et al. permitting Lupin to launch its generic product on September 23, 2019, or earlier under certain circumstances.

**QVAR** revenues in our North America segment in the first quarter of 2020 decreased by 29% to $45 million, compared to the first quarter of 2019, mainly due to increased price competition and lower volumes. QVAR maintained its second-place position in the inhaled corticosteroids category in the United States, with an exit market share of 20.8% in terms of total number of prescriptions during the first quarter of 2020, compared to 21.7% in the first quarter of 2019.

**Anda** revenues in our North America segment in the first quarter of 2020 increased by 13% to $426 million, compared to $379 million in the first quarter of 2019, mainly due to higher volume increases primarily related to the COVID-19 pandemic. Anda, our distribution business in the United States, distributes generic, specialty and OTC pharmaceutical products from various third party manufacturers to independent retail pharmacies, pharmacy retail chains, hospitals and physician offices in the United States. Anda is able to compete in the secondary distribution market by maintaining high inventory levels for a broad offering of products, competitive pricing and offering next day delivery throughout the United States.

***Product Launches and Pipeline***

In the first quarter of 2020, we launched the generic version of the following branded products in North America:

| Product Name | Brand Name | Launch Date | Total Annual U.S. Branded Sales at Time of Launch (U.S. $ in millions (IQVIA))* |
|---|---|---|---|
| Doxepin tablets, 3 mg & 6 mg | Silenor® | January | $ 50 |
| HERZUMA® (trastuzumab-pkrb) for injection, 150 mg/vial & 420 mg/vial | Herceptin®** | March | $ 3,042 |

* The figures presented are for the twelve months ended in the calendar quarter immediately prior to our launch or re-launch

** Biosimilar.

Our generic products pipeline in the United States includes, as of March 31, 2020, 242 product applications awaiting FDA approval, including 79 tentative approvals. This total reflects all pending ANDAs, supplements for product line extensions and tentatively approved applications and includes some instances where more than one application was submitted for the same reference product. Excluding overlaps, the branded products underlying these pending applications had U.S. sales for the twelve months ended March 31, 2020 exceeding $119 billion, according to IQVIA. Approximately 70% of pending applications include a paragraph IV patent challenge, and we believe we are first to file with respect to 90 of these products, or 112 products including final approvals where launch is pending a settlement agreement or court decision. Collectively, these first to file opportunities represent over $77 billion in U.S. brand sales for the twelve months ended March 31, 2020, according to IQVIA.

IQVIA reported brand sales are one of the many indicators of future potential value of a launch, but equally important are the mix and timing of competition, as well as cost effectiveness. The potential advantages of being the first filer with respect to some of these products may be subject to forfeiture, shared exclusivity or competition from so-called “authorized generics,” which may ultimately affect the value derived.

In the first quarter of 2020, we did not receive any tentative approvals for generic equivalents. A “tentative approval” indicates that the FDA has substantially completed its review of an application and final approval is expected once the relevant patent expires, a court decision is reached, a 30-month regulatory stay lapses or a 180-day exclusivity period awarded to another manufacturer either expires or is forfeited.

Below is a description of key products in our specialty pipeline as of March 31, 2020:

| Product | Potential Indication(s) | Route of Administration | Development Phase (date entered phase 3) | Comments |
|---|---|---|---|---|
| **CNS, Neurology and Neuropsychiatry** | | | | |
| AUSTEDO (deutetrabenazine) | Tourette syndrome | Oral | | No further plans in this indication. |
| | Dyskinesia in cerebral palsy | Oral | 3 (September 2019) | |
| TV-46000 (risperidone LAI) | Schizophrenia | Subcutaneous | 3 (April 2018) | |

| Product | Potential Indication(s) | Route of Administration | Development Phase (date entered phase 3) | Comments |
|---|---|---|---|---|
| **Migraine and Pain** | | | | |
| fremanezumab (anti CGRP) | Post traumatic headache | Subcutaneous | 2 | |
| | fibromyalgia | Subcutaneous | 2 | |
| fasinumab | Osteoarthritis pain | Subcutaneous | 3 (March 2016) | Developed in collaboration with Regeneron Pharmaceuticals, Inc. ("Regeneron") |
| **Respiratory** | | | | |
| ProAir e-RespiClick™ | Bronchospasm and exercise induced bronchitis | Oral inhalation | Approved by FDA (December 2018) | |
| AirDuo® Digihaler® | Treatment of asthma in patients aged 12 years and older | Oral inhalation | Approved by FDA (July 2019) | |
| ArmonAir® DigiHaler® | Treatment of asthma in patients aged 12 years and older | Oral inhalation | Approved by FDA (February 2020) | |
| GoResp® DigiHaler® / DuoResp® DigiHaler® | Treatment of asthma in patients aged 12 years and older and COPD | Oral inhalation | Under regulatory review | |

***North America Gross Profit***

Gross profit from our North America segment in the first quarter of 2020 was $1,062 million, an increase of 2%, compared to $1,039 million in the first quarter of 2019. This increase was mainly due to the change in mix of revenues, as discussed above.

Gross profit margin for our North America segment in the first quarter of 2020 increased to 51.0%, compared to 50.8% in the first quarter of 2019.

***North America R&D Expenses***

R&D expenses relating to our North America segment in the first quarter of 2020 were $146 million, a decrease of 12%, compared to $165 million in the first quarter of 2019.

For a description of our R&D expenses in the first quarter of 2020, see "—Teva Consolidated Results—Research and Development (R&D) Expenses" below.

***North America S&M Expenses***

S&M expenses relating to our North America segment in the first quarter of 2020 were $251 million, a decrease of 6%, compared to $268 million in the first quarter of 2019. This decrease was mainly due to cost reductions and efficiency measures.

***North America G&A Expenses***

G&A expenses relating to our North America segment in the first quarter of 2020 were $118 million, an increase of 5%, compared to $112 million in the first quarter of 2019.

***North America Other Income (Expense)***

Other income from our North America segment in the first quarter of 2020 was $2 million, compared to other income of $4 million in the first quarter of 2019.

***North America Profit***

Profit from our North America segment consists of gross profit less R&D expenses, S&M expenses, G&A expenses and any other income related to this segment. Segment profit does not include amortization and certain other items.

Profit from our North America segment in the first quarter of 2020 was $550 million, an increase of 10%, compared to $498 million in the first quarter of 2019. This increase was due to higher revenues and lower expenses as discussed above.

**Europe Segment**

The following table presents revenues, expenses and profit for our Europe segment for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | (U.S. $ in millions / % of Segment Revenues) | | | |
| Revenues | $ 1,402 | 100% | $ 1,264 | 100% |
| Gross profit | 823 | 58.7% | 730 | 57.8% |
| R&D expenses | 55 | 3.9% | 66 | 5.2% |
| S&M expenses | 202 | 14.4% | 215 | 17.0% |
| G&A expenses | 66 | 4.7% | 48 | 3.8% |
| Other (income) expense | (1) | § | (1) | § |
| Segment profit* | $ 502 | 35.8% | $ 403 | 31.9% |

* Segment profit does not include amortization and certain other items.

§ Represents an amount less than 0.5%.

***Europe Revenues***

Our Europe segment includes the European Union and certain other European countries. Revenues from our Europe segment in the first quarter of 2020 were $1,402 million, an increase of 11% or $138 million, compared to the first quarter of 2019. In local currency terms, revenues increased by 13%, mainly due to higher demand for certain products resulting from the impact of the COVID-19 pandemic on purchasing patterns as well as continuing growth in generics and new generic product launches, partially offset by price declines for oncology products as a result of generic competition and a decline in COPAXONE revenues due to competing glatiramer acetate products.

***Revenues by Major Products and Activities***

The following table presents revenues for our Europe segment by major products and activities for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | Percentage Change 2019-2020 |
|---|---|---|---|
| | 2020 | 2019 | |
| | (U.S. $ in millions) | | |
| Generic products | $ 1,032 | $ 919 | 12% |
| COPAXONE | 109 | 114 | (4%) |
| Respiratory products | 106 | 91 | 16% |
| AJOVY | 4 | — | NA |
| Other | 151 | 140 | 7% |
| Total | $ 1,402 | $ 1,264 | 11% |

**Generic products** revenues in our Europe segment in the first quarter of 2020, including OTC products, increased by 12% to $1,032 million, compared to the first quarter of 2019. In local currency terms, revenues increased by 16% compared to the first quarter of 2019, mainly due to higher demand for certain products resulting from the impact of the COVID-19 pandemic on purchasing patterns as well as continuing growth in generics and new generic product launches. We estimate that the impact of the COVID-19 pandemic on advanced purchasing patterns was approximately $100 million.

**COPAXONE** revenues in our Europe segment in the first quarter of 2020 decreased by 4% to $109 million, compared to the first quarter of 2019. In local currency terms, revenues decreased by 1%, mainly due to price reductions and a decline in volume resulting from competing glatiramer acetate products, partially offset by higher demand due to the impact of the COVID-19 pandemic on purchasing patterns.

COPAXONE 40 mg/mL is protected by one European patent expiring in 2030. This patent is being challenged in various European jurisdictions. In October 2017, the U.K. High Court found this patent invalid and our application for permission to appeal this decision was rejected. The patent was upheld by the Opposition Division of the European Patent Office in April 2019. A hearing for an appeal in this case has been set for June 2020.

**Respiratory products** revenues in our Europe segment in the first quarter of 2020 increased by 16% to $106 million, compared to the first quarter of 2019. In local currency terms, revenues increased by 20%, mainly due to higher demand attributed to the impact of the COVID-19 pandemic.

**AJOVY** revenues in our Europe segment in the first quarter of 2020 were $4 million.

AJOVY was granted a Marketing Authorization in the European Union by the European Medicines Agency ("EMA") in a centralized process in April 2019. We commenced launching AJOVY in certain European markets in May 2019 and are moving forward with plans to launch in other European countries. In October 2019, we received approval from the EMA for AJOVY's auto-injector submission in the European Union and we commenced launch in March 2020. For information about AJOVY patent protection, see "—North America Revenues—Revenues by Major Product" above.

***Product Launches and Pipeline***

As of March 31, 2020, our generic products pipeline in Europe included 88 generic approvals relating to 27 compounds in 49 formulations, no EMA approvals received. In addition, approximately 1,115 marketing authorization applications pending approval in 37 European countries, relating to 119 compounds in 236 formulations. No applications are pending with the EMA.

For information regarding our specialty pipeline and launches in the first quarter of 2020, see "—North America Segment —Product Launches and Pipeline" above.

***Europe Gross Profit***

Gross profit from our Europe segment in the first quarter of 2020 was $823 million, an increase of 13% compared to $730 million in the first quarter of 2019. This increase was mainly due to higher revenues, as discussed above.

Gross profit margin for our Europe segment in the first quarter of 2020 increased to 58.7%, compared to 57.8% in the first quarter of 2019. This increase was mainly due to a favorable mix of generic products and lower inventory write-offs.

***Europe R&D Expenses***

R&D expenses relating to our Europe segment in the first quarter of 2020 were $55 million, a decrease of 17% compared to $66 million in the first quarter of 2019.

For a description of our R&D expenses in the first quarter of 2020, see "—Teva Consolidated Results—Research and Development (R&D) Expenses" below.

***Europe S&M Expenses***

S&M expenses relating to our Europe segment in the first quarter of 2020 were $202 million, a decrease of 6% compared to $215 million in the first quarter of 2019. This decrease was mainly due to lower marketing and travel costs attributed to travel restrictions related to the COVID-19 pandemic.

***Europe G&A Expenses***

G&A expenses relating to our Europe segment in the first quarter of 2020 were $66 million, an increase of 37% compared to $48 million in the first quarter of 2019.

***Europe Profit***

Profit of our Europe segment consists of gross profit less R&D expenses, S&M expenses, G&A expenses and any other income related to this segment. Segment profit does not include amortization and certain other items.

Profit from our Europe segment in the first quarter of 2020 was $502 million, an increase of 25%, compared to $403 million in the first quarter of 2019. This increase was mainly due to higher revenues and lower expenses as discussed above.

**International Markets Segment**

The following table presents revenues, expenses and profit for our International Markets segment for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | (U.S. $ in millions / % of Segment Revenues) | | | |
| Revenues | $ 565 | 100% | $ 521 | 100% |
| Gross profit | 305 | 54.0% | 269 | 51.7% |
| R&D expenses | 15 | 2.7% | 22 | 4.2% |
| S&M expenses | 106 | 18.8% | 115 | 22.0% |
| G&A expenses | 34 | 6.0% | 36 | 6.8% |
| Other (income) expense | (6) | (1.1%) | — | § |
| Segment profit* | $ 156 | 27.6% | $ 97 | 18.6% |

* Segment profit does not include amortization and certain other items.

§ Represents an amount less than 0.5%.

** The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c to our consolidated financial statements for additional information.

***International Markets Revenues***

Our International Markets segment includes all countries in which we operate other than those in our North America and Europe segments. The International Markets segment includes more than 35 countries, covering a substantial portion of the global pharmaceutical market. Our key international markets are Japan, Russia and Israel. The countries in our International Markets segment include highly regulated, pure generic markets, such as Israel, branded generics oriented markets, such as Russia and certain Latin America markets and hybrid markets such as Japan.

Revenues from our International Markets segment in the first quarter of 2020 were $565 million, an increase of $44 million, or 8%, compared to the first quarter of 2019. In local currency terms, revenues increased by 5% compared to the first quarter of 2019, mainly due to higher sales in Latin America, Asia-Pacific, Ukraine and Russia, partially offset by lower sales in Japan. The revenues in the first quarter of 2020 included $35 million from a positive hedging impact, which are included in “Other” in the table below. See note 8d to our consolidated financial statements.

The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c to our consolidated financial statements for additional information.

***Revenues by Major Products and Activities***

The following table presents revenues for our International Markets segment by major products and activities for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | | Percentage Change 2019-2020 |
|---|---|---|---|
| | 2020 | 2019 | |
| | (U.S. $ in millions) | | |
| Generic products | $ 449 | $ 441 | 2% |
| COPAXONE | 12 | 13 | (11%) |
| Other | 104 | 67 | 57% |
| Total | $ 565 | $ 521 | 8% |

* The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c to our consolidated financial statements for additional information.

**Generic products** revenues in our International Markets segment in the first quarter of 2020, which include OTC products, increased by 2% to $449 million, compared to the first quarter of 2019. In local currency terms, revenues increased by 6%, mainly due to higher sales in Latin America, Asia-Pacific, Ukraine and Russia, partially offset by lower sales in Japan resulting from generic competition to off-patented products.

**COPAXONE** revenues in our International Markets segment in the first quarter of 2020 decreased by 11% to $12 million, compared to $13 million in the first quarter of 2019. In local currency terms, revenues decreased by 1%.

***International Markets Gross Profit***

Gross profit from our International Markets segment in the first quarter of 2020 was $305 million, an increase of 13% compared to $269 million in the first quarter of 2019.

Gross profit margin for our International Markets segment in the first quarter of 2020 increased to 54.0%, compared to 51.7% in the first quarter of 2019. This increase was mainly due to higher sales and the positive impact from the hedging activity discussed above.

***International Markets R&D Expenses***

R&D expenses relating to our International Markets segment in the first quarter of 2020 were $15 million, a decrease of 31% compared to $22 million in the first quarter of 2019.

For a description of our R&D expenses in the first quarter of 2020, see "—Teva Consolidated Results—Research and Development (R&D) Expenses" below.

***International Markets S&M Expenses***

S&M expenses relating to our International Markets segment in the first quarter of 2020 were $106 million, a decrease of 8% compared to $115 million in the first quarter of 2019. This decrease was mainly due to a decline in distribution fees paid in Japan.

***International Markets G&A Expenses***

G&A expenses relating to our International Markets segment in the first quarter of 2020 were $34 million, a decrease of 5% compared to $36 million in the first quarter of 2019.

***International Markets Profit***

Profit of our International Markets segment consists of gross profit less R&D expenses, S&M expenses, G&A expenses and any other income related to this segment. Segment profit does not include amortization and certain other items.

Profit from our International Markets segment in the first quarter of 2020 was $156 million, an increase of 61%, compared to $97 million in the first quarter of 2019. This increase was mainly due to higher sales and the positive impact from the hedging activity discussed above.

**Other Activities**

We have other sources of revenues, primarily the sale of APIs to third parties, certain contract manufacturing services and an out-licensing platform offering a portfolio of products to other pharmaceutical companies through our affiliate Medis. Our other activities are not included in our North America, Europe or International Markets segments described above.

Our revenues from other activities in the first quarter of 2020 were $307 million, a decrease of 3% compared to the first quarter of 2019. In local currency terms, revenues decreased by 2%.

API sales to third parties in the first quarter of 2020 were $177 million, a decrease of 5%, in both U.S. dollar and local currency terms, compared to the first quarter of 2019. This decrease was mainly due to timing of certain orders and divestment of certain activities.

**Teva Consolidated Results**

The data presented with respect to revenues, gross profit, R&D expenses, S&M expenses, G&A expenses and operating income (loss) for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c to our consolidated financial statements for additional information.

**Revenues**

Revenues in the first quarter of 2020 were $4,357 million, an increase of 5% in both U.S. dollar and local currency terms, compared to the first quarter of 2019. This increase was mainly due to higher revenues from generics and OTC sales in Europe, higher revenues from AUSTEDO and Anda in North America and higher revenues from our International Markets segment, partially offset by lower revenues from generics in the U.S. and lower revenues from QVAR and BENDEKA/TREANDA in North America. See "—North America Revenues," "—Europe Revenues," "—International Markets Revenues" and "—Other Activities" above.

Exchange rate movements during the first quarter of 2020, net of hedging, negatively impacted revenues by $3 million compared to the first quarter of 2019. See note 8d to our consolidated financial statements.

**Gross Profit**

Gross profit in the first quarter of 2020 was $2,063 million, an increase of 11% compared to the first quarter of 2019. This increase was mainly a result of the factors discussed above under "—North America Gross Profit," "—Europe Gross Profit" and "—International Markets Gross Profit."

Gross profit as a percentage of revenues was 47.3% in the first quarter of 2020, compared to 44.7% in the first quarter of 2019.

The increase in gross profit as a percentage of revenues was mainly due to higher profitability in each of our three segments, primarily higher revenues from AUSTEDO, a favorable mix of generic products in North America, a favorable mix of generic products in Europe and International Markets and a positive impact from our hedging activity, partially offset by higher revenues from Anda, which has lower profitability.

**Research and Development (R&D) Expenses**

Net R&D expenses in the first quarter of 2020 were $221 million, a decrease of 15% compared to the first quarter of 2019.

Our R&D activities for generic products in each of our segments include both (i) direct expenses relating to product formulation, analytical method development, stability testing, management of bioequivalence and other clinical studies and regulatory filings; and (ii) indirect expenses, such as costs of internal administration, infrastructure and personnel.

Our R&D activities for specialty products in each of our segments include costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, clinical trials and product registration costs. These expenditures are reported net of contributions received from collaboration partners. Our spending takes place throughout the development process, including (i) early-stage projects in both discovery and preclinical phases; (ii) middle-stage projects in clinical programs up to phase 3; (iii) late-stage projects in phase 3 programs, including where a new drug application is currently pending approval; (iv) life cycle management and post-approval studies for marketed products; and (v) indirect expenses that support our overall specialty R&D efforts but are not allocated by product or to specific R&D projects, such as the costs of internal administration, infrastructure and personnel.

In the first quarter of 2020, our R&D expenses related primarily to specialty product candidates in the pain, migraine, headache and respiratory therapeutic areas, with additional activities in selected other areas and generic products.

Our lower R&D expenses in the first quarter of 2020, compared to the first quarter of 2019, resulted primarily from the life cycle and stage of various projects.

R&D expenses as a percentage of revenues were 5.1% in the first quarter of 2020, compared to 6.3% in the first quarter of 2019.

**Selling and Marketing (S&M) Expenses**

S&M expenses in the first quarter of 2020 were $613 million, a decrease of 5% compared to the first quarter of 2019. Our S&M expenses were primarily the result of the factors discussed above under "—North America Segment— S&M Expenses," "—Europe Segment— S&M Expenses" and "—International Markets Segment— S&M Expenses."

S&M expenses as a percentage of revenues were 14.1% in the first quarter of 2020, compared to 15.6% in the first quarter of 2019.

**General and Administrative (G&A) Expenses**

G&A expenses in the first quarter of 2020 were $304 million, an increase of 4% compared to the first quarter of 2019.

G&A expenses as a percentage of revenues were 7.0% in the first quarter of 2020, flat compared to the first quarter of 2019.

**Intangible Asset Impairments**

We recorded expenses of $649 million for identifiable intangible asset impairments in the first quarter of 2020, compared to expenses of $469 million in the first quarter of 2019. See note 5 to our consolidated financial statements.

**Goodwill Impairment**

No goodwill impairments were recorded in the first quarters of both 2020 and 2019. See note 6 to our consolidated financial statements.

**Other Asset Impairments, Restructuring and Other Items**

We recorded expenses of $121 million for other asset impairments, restructuring and other items in the first quarter of 2020, compared to expenses of $1 million in the first quarter of 2019. See note 12 to our consolidated financial statements.

***Significant regulatory events***

In July 2018, the FDA completed an inspection of our manufacturing plant in Davie, Florida in the United States, and issued a Form FDA-483 to the site. In October 2018, the FDA notified us that the inspection of the site is classified as "official action indicated" (OAI). On February 5, 2019, we received a warning letter from the FDA that contained four additional enumerated concerns related to production, quality control and investigations at this site. We have been working diligently to address the FDA's concerns in a manner consistent with current good manufacturing practice (cGMP) requirements as quickly and as thoroughly as possible. An FDA follow up inspection occurred in January 2020, resulting in some follow up findings, and we received a letter from the FDA dated April 24, 2020 notifying us that the site continues to be classified as OAI. If we are unable to remediate the findings to the FDA's satisfaction, we may face additional consequences. These would potentially include delays in FDA approval for future products from the site, financial implications due to loss of revenues, impairments, inventory write offs, customer penalties, idle capacity charges, costs of additional remediation and possible FDA enforcement action. We expect to generate approximately $230 million in revenues from this site in 2020, assuming remediation or enforcement does not cause any unscheduled slowdown or stoppage at the facility, however delays in FDA approvals of future products from the site may occur.

In July 2018, we announced the voluntary recall of valsartan and certain combination valsartan medicines in various countries due to the detection of trace amounts of a previously unknown nitrosamine impurity called NDMA found in valsartan API supplied to us by Zhejiang Huahai Pharmaceuticals Co. Ltd. ("Huahai"). Since July 2018, we have been actively engaged with regulatory agency requests around the world in reviewing our sartan and other products to determine whether NDMA and/or other related nitrosamine impurities are present in specific products. Where necessary, we have initiated additional voluntary recalls. The aggregate direct impact of the sartan recalls on our 2018 and 2019 financial statements was $54 million, primarily related to inventory write-downs and returns. As a result of this loss, we initiated negotiations with Huahai and in December 2019, we reached a settlement with Huahai resolving our claims related to certain sartan API supplied by Huahai to Teva. Under the settlement agreement, Huahai agreed to compensate Teva for some of the direct losses suffered by Teva and provide Teva prospective cost reductions for API. The settlement does not release Huahai from liability for any losses we may incur as a result of third party personal injury or product liability claims relating to the sartan API at issue. In addition, multiple lawsuits have been filed in connection with this matter, which may lead to additional customer penalties, impairments and litigation costs. We expect additional expenses and loss of revenues and profits in connection with this matter going forward.

***Restructuring***

In the first quarter of 2020, we recorded $39 million of restructuring expenses, compared to $32 million in the first quarter of 2019. The expenses in the first quarter of 2020 were primarily related to residual expenses of the restructuring plan announced in 2017.

**Legal Settlements and Loss Contingencies**

In the first quarter of 2020, we recorded an income of $25 million in legal settlements and loss contingencies, compared to an expense of $57 million in the first quarter of 2019. The income in the first quarter of 2020 was mainly due to a settlement of an action brought against the sellers of Auden McKenzie (an acquisition made by Actavis Generics).

**Other Income**

Other income in the first quarter of 2020 was $13 million, compared to $6 million in the first quarter of 2019.

**Operating Income (Loss)**

Operating income was $191 million in the first quarter of 2020, compared to operating income of $134 million in the first quarter of 2019.

Operating income as a percentage of revenues was 4.4% in the first quarter of 2020, compared to 3.2% in the first quarter of 2019. This increase was mainly due to higher profit in our Europe, International Markets and North America segments and income from legal settlements (compared to an expense in the first quarter of 2019), partially offset by higher intangible asset impairments and higher other assets impairments, restructuring and other items in the first quarter of 2020.

**Financial Expenses, Net**

Financial expenses were $224 million in the first quarter of 2020, compared to $218 million in the first quarter of 2019. Financial expenses in the first quarter of 2020 and 2019 were mainly comprised of interest expenses of $241 million and $227 million, respectively.

The following table presents a reconciliation of our segment profits to our consolidated operating income (loss) and to consolidated income (loss) before income taxes for the three months ended March 31, 2020 and 2019:

| | Three months ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (U.S. $ in millions) | |
| North America profit | $ 550 | $ 498 |
| Europe profit | 502 | 403 |
| International Markets profit | 156 | 97 |
| Total reportable segments profit | 1,208 | 998 |
| Profit of other activities | 36 | 21 |
| Total segments profit | 1,244 | 1,019 |
| Amounts not allocated to segments: | | |
| Amortization | 258 | 283 |
| Other assets impairments, restructuring and other items | 121 | 1 |
| Intangible asset impairments | 649 | 469 |
| Legal settlements and loss contingencies | (25) | 57 |
| Other unallocated amounts | 49 | 75 |
| Consolidated operating income (loss) | 191 | 134 |
| Financial expenses, net | 224 | 218 |
| Consolidated income (loss) before income taxes | $ (33) | $ (84) |

**Tax Rate**

In the first quarter of 2020, we recognized a tax benefit of $59 million, on pre-tax loss of $33 million. In the first quarter of 2019, we recognized a tax expense of $9 million, on pre-tax loss of $84 million. Our tax rate for the first quarter of 2020 was mainly affected by impairments in jurisdictions in which tax rates are higher than Teva's average tax rate on its ongoing business operations.

The statutory Israeli corporate tax rate is 23% in 2020. Our tax rate differs from the Israeli statutory tax rate, mainly due to generation of profits in various jurisdictions in which tax rates are different than the Israeli tax rate, tax benefits in Israel and other countries, as well as infrequent or nonrecurring items.

**Share In Losses (Income) of Associated Companies, Net**

Share in losses of associated companies, net in the first quarter of 2020 was $1 million, compared to $4 million in the first quarter of 2019.

**Net Income (Loss) Attributable to Teva**

Net income attributable to Teva and net income attributable to ordinary shareholders were $69 million in the first quarter of 2020, compared to net loss of $105 million in the first quarter of 2019.

**Diluted Shares Outstanding and Earnings (Loss) per Share**

The weighted average diluted shares outstanding used for the fully diluted share calculation for the three months ended March 31, 2020 and 2019 were 1,096 million and 1,090 million shares, respectively.

In computing diluted earnings per share for the three months ended March 31, 2020, basic earnings per share were 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, using the treasury stock method. No account was taken of the potential dilution by the convertible senior debentures, since they had an anti-dilutive effect on earnings per share.

In computing diluted loss per share for the three months ended March 31, 2019, no account was taken of the potential dilution by the assumed exercise of employee stock options and non-vested RSUs granted under employee stock compensation plans, and convertible senior debentures, since they had an anti-dilutive effect on loss per share.

Diluted earnings per share were $0.06 in the first quarter of 2020, compared to diluted loss per share of $0.10 in the first quarter of 2019.

**Share Count for Market Capitalization**

We calculate share amounts using the outstanding number of shares (i.e., excluding treasury shares) plus shares that would be outstanding upon the exercise of options and vesting of RSUs and performance share units ("PSUs") and the conversion of our convertible senior debentures, in each case, at period end.

As of March 31, 2020 and 2019, the fully diluted share count for purposes of calculating our market capitalization was approximately 1,118 million and 1,107 million, respectively.

**Impact of Currency Fluctuations on Results of Operations**

In the first quarter of 2020, approximately 50% of our revenues were denominated in currencies other than the U.S. dollar. Because our results are reported in U.S. dollars, we are subject to significant foreign currency risks. Accordingly, changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the euro, British pound, Japanese yen, new Israeli shekel, Canadian dollar and Russian ruble) impact our results.

During the first quarter of 2020, the following main currencies relevant to our operations decreased in value against the U.S. dollar (each on a quarterly average compared to quarterly average basis): Argentinian peso by 37%, euro by 3% and British pound by 2%. The following main currencies relevant to our operations increased in value against the U.S. dollar: new Israeli shekel by 4% and Japanese yen by 1%.

As a result, exchange rate movements during the first quarter of 2020, net of hedging, negatively impacted overall revenues by $3 million and positively impacted our operating income by $27 million, in comparison with the first quarter of 2019. In the first quarter of 2020, the positive hedging impact recognized under revenues was $60 million, partially offset by a $5 million negative impact recognized under cost of sales. Hedging transactions against future projected revenues and expenses are recognized on the balance sheet at their fair value on a quarterly basis, while the foreign exchange impact on the underlying revenues and expenses may occur in subsequent quarters. See note 8d to our consolidated financial statements.

Commencing in the third quarter of 2018, the cumulative inflation in Argentina exceeded 100% or more over a three-year period. Although this triggered highly inflationary accounting treatment, it did not have a material impact on our results of operations.

**Liquidity and Capital Resources**

Total balance sheet assets were $55,330 million as of March 31, 2020, compared to $57,470 million as of December 31, 2019.

Our working capital balance, which includes accounts receivables net of SR&A, inventories, prepaid expenses and other current assets, accounts payables, employee-related obligations, accrued expenses and other current liabilities, was $302 million as of March 31, 2020, compared to $74 million as of December 31, 2019.

Employee-related obligations, as of March 31, 2020, were $540 million, compared to $693 million as of December 31, 2019. The decrease in the first quarter of 2020 was mainly due to performance incentive payments to employees for 2019.

Cash investment in property, plant and equipment in the first quarter of 2020 was approximately $128 million, compared to $119 million in the fourth quarter of 2019. Depreciation in the first quarter of 2020 was $141 million, compared to $153 million in the fourth quarter of 2019.

Cash and cash equivalents and short-term and long-term investments as of March 31, 2020 were $1,850 million, compared to $2,033 million as of December 31, 2019.

The decrease in the first quarter of 2020 was mainly due to repayment at maturity of our $700 million 2.25% senior note in March 2020, partially offset by cash generated during the quarter.

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

Our principal sources of short-term liquidity are our cash on hand, existing cash investments, liquid securities and available credit facilities, primarily our $2.3 billion unsecured syndicated revolving credit facility entered into in April 2019 ("RCF").

The RCF agreement provides for two separate tranches, a $1.15 billion tranche A and a $1.15 billion tranche B. Loans and letters of credit will be available from time to time under each tranche for Teva's general corporate purposes. Tranche A has a maturity date of April 8, 2022, with two one-year extension options, of which $1.0 billion were extended to April 8, 2023. Tranche B has a maturity date of April 8, 2024.

The RCF contains certain covenants, including certain limitations on incurring liens and indebtedness and maintenance of certain financial ratios, including the requirement to maintain compliance with a net debt to EBITDA ratio, which becomes more restrictive over time. The net debt to EBITDA ratio limit is 6.0x in the first and second quarters of 2020 and declines to 5.75x in the third and fourth quarters of 2020, and continues to gradually decline over the remaining term of the RCF.

The RCF can be used for general corporate purposes, including repaying existing debt. As of March 31, 2020, no amounts were outstanding under the RCF. Based on current and forecasted results, we expect that we will not exceed the financial covenant thresholds set forth in the RCF within one year from the date the financial statements are issued.

Under specified circumstances, including non-compliance with any of the covenants described above and the unavailability of any waiver, amendment or other modification thereto, we will not be able to borrow under the RCF. Additionally, violations of the covenants, under the above-mentioned circumstances, would result in an event of default in all borrowings under the RCF and, when greater than a specified threshold amount as set forth in each series of senior notes is outstanding, could lead to an event of default under our senior notes due to cross acceleration provisions.

We expect that we will continue to have sufficient cash resources to support our debt service payments and all other financial obligations within one year from the date that the financial statements are issued.

**Debt Balance and Movements**

As of March 31, 2020, our debt was $26,103 million, compared to $26,908 million as of December 31, 2019. This decrease was mainly due to repayment at maturity of our $700 million 2.25% senior notes, as well as exchange rate fluctuations.

In March 2020, we repaid at maturity our $700 million 2.25% senior notes.

Our debt as of March 31, 2020 was effectively denominated in the following currencies: 64% in U.S. dollars, 33% in euros and 3% in Swiss francs.

The portion of total debt classified as short-term as of March 31, 2020 was 6%, compared to 9% as of December 31, 2019.

Our financial leverage was 64% as of March 31, 2020, similar to the financial leverage as of December 31, 2019.

Our average debt maturity was approximately 6.6 years as of March 31, 2020, compared to 6.4 years as of December 31, 2019.

**Total Equity**

Total equity was $14,588 million as of March 31, 2020, compared to $15,063 million as of December 31, 2019. This decrease was mainly due to a negative impact of $560 million from exchange rate fluctuations.

Exchange rate fluctuations affected our balance sheet, as approximately 36% of our net assets in the first quarter of 2020 (including both non-monetary and monetary assets) were in currencies other than the U.S. dollar. When compared to December 31, 2019, changes in currency rates had a negative impact of $560 million on our equity as of March 31, 2020, mainly due to the changes in value against the U.S. dollar of: the Mexican peso by 26%, the Russian ruble by 28%, the Canadian dollar by 8%, the Polish zloty by 8%, the British pound by 6%, Indian rupee by 6%, the Chilean peso by 4%, Croatian kuna by 4% and the euro by 2%. All comparisons are on a quarter-end to quarter-end basis.

**Cash Flow**

Cash flow generated from operating activities during the first quarter of 2020 was $305 million, compared to $112 million in the first quarter of 2019. The increase in the first quarter of 2020 was mainly due to higher operating profit in each of our three segments, as well as lower performance incentive payments to employees paid in the first quarter of 2020 compared to the amounts paid in the first quarter of 2019.

During the first quarter of 2020, we generated free cash flow of $551 million, which we define as comprising $305 million in cash flow generated from operating activities, $368 million in beneficial interest collected in exchange for securitized accounts receivables and $6 million in proceeds from sale of property, plant and equipment and intangible assets, partially offset by $128 million in cash used for capital investment. During the first quarter of 2019, we generated free cash flow of $360 million, comprising $112 million in cash flow generated from operating activities, $362 million in beneficial interest collected in exchange for securitized accounts receivables and $11 million in proceeds from sale of property, plant and equipment and intangible assets, partially offset by $125 million in cash used for capital investment. The increase in the first quarter of 2020 resulted mainly from higher cash flow generated from operating activities, including significant consumption of inventories.

**Dividends**

We have not paid dividends on our ordinary shares or ADSs since December 2017.

**Commitments**

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

In September 2016, we entered into an agreement to develop and commercialize Regeneron's pain medication product, fasinumab. We paid Regeneron $250 million upfront and will share equally with Regeneron in the global commercial benefits of this product, as well as ongoing associated R&D costs of approximately $1.0 billion. The agreement stipulates additional development milestone payments to Regeneron, as well as future royalties.

In October 2016, we entered into an exclusive partnership with Celltrion to commercialize two of Celltrion's biosimilar products in development for the U.S. and Canadian markets. We paid Celltrion $160 million, of which up to $60 million is refundable or creditable. We will share the profit from the commercialization of these products with Celltrion. These two products, TRUXIMA and HERZUMA, were approved by the FDA in November and December 2018, respectively, and were launched in the United States in November 2019 and March 2020, respectively.

In September 2017, we entered into a partnership agreement with Nuvelution for development of AUSTEDO for the treatment of Tourette syndrome in pediatric patients in the United States. There are no further plans in this indication following clinical trial results received in February 2020, which failed to meet their primary endpoints.

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

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

**2020 Aggregated Contractual Obligations**

There have not been any material changes in our assessment of material contractual obligations and commitments as set forth in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.

**Supplemental Non-GAAP Income Data**

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

- our management and Board of Directors use the non-GAAP measures to evaluate our operational performance, to compare against work plans and budgets, and ultimately to evaluate the performance of management;
- our annual budgets are prepared on a non-GAAP basis; and
- senior management's annual compensation is derived, in part, using these non-GAAP measures. While qualitative factors and judgment also affect annual bonuses, the principal quantitative element in the determination of such bonuses is performance targets tied to the work plan, which is based on the non-GAAP presentation set forth below.

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

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

In arriving at our non-GAAP presentation, we exclude items that either have a non-recurring impact on the income statement or which, in the judgment of our management, are items that, either as a result of their nature or size, could, were they not singled out, potentially cause investors to extrapolate future performance from an improper base. In addition, we also exclude equity compensation expenses to facilitate a better understanding of our financial results, since we believe that such exclusion is important for understanding the trends in our financial results and that these expenses do not affect our business operations. While not all inclusive, examples of these items include:

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

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

**The following table presents the GAAP measures, related non-GAAP adjustments and the corresponding non-GAAP amounts for the applicable periods:**

| | Three Months Ended March 31, 2020<br>U.S. $ and shares in millions (except per share amounts) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Excluded for non-GAAP measurement | | | | | | | | | | |
| | GAAP | Amortization of purchased intangible assets | Legal settlements and loss contingencies | Impairment of long lived assets | Other R&D expenses | Restructuring costs | Costs related to regulatory actions taken in facilities | Equity compensation | Contingent consideration | Other non-GAAP items | Other items | Non-GAAP |
| Cost of sales | 2,294 | 223 | | | | | 4 | 6 | | 15 | | 2,046 |
| R&D expenses | 221 | | | | (4) | | | 5 | | — | | 221 |
| S&M expenses | 613 | 35 | | | | | | 9 | | — | | 570 |
| G&A expenses | 304 | | | | | | | 10 | | 4 | | 290 |
| Other (income) expense | (13) | | | | | | | | | 0 | | (13) |
| Legal settlements and loss contingencies | (25) | | (25) | | | | | | | | | — |
| Other assets impairments, restructuring and other items | 121 | | | 75 | | 39 | | | 6 | 1 | | — |
| Intangible assets impairments | 649 | | | 649 | | | | | | | | — |
| Financial expenses, net | 224 | | | | | | | | | | 11 | 213 |
| Income taxes | (59) | | | | | | | | | | (234) | 175 |
| Share in losses of associated companies – net | 1 | | | | | | | | | | — | 1 |
| Net income (loss) attributable to non-controlling interests | (44) | | | | | | | | | | (63) | 20 |
| Total reconciled items | | 258 | (25) | 724 | (4) | 39 | 4 | 30 | 6 | 20 | (286) | |
| EPS - Basic | 0.06 | | | | | | | | | | 0.70 | 0.76 |
| EPS - Diluted | 0.06 | | | | | | | | | | 0.70 | 0.76 |

The non-GAAP diluted weighted average number of shares was 1,096 million for the three months ended March 31, 2020.

| | Three Months Ended March 31, 2019<br>U.S. $ and shares in millions (except per share amounts) | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Excluded for non-GAAP measurement | | | | | | | | | | | | | |
| | GAAP | Amortization of purchased intangible assets | Legal settlements and loss contingencies | Impairment of long lived assets | Acquisition, integration and related expenses | Restructuring costs | Costs related to regulatory actions taken in facilities | Equity compensation | Contingent consideration | Other non-GAAP items | Other items | Corresponding tax effect | Unusual tax item* | Non-GAAP |
| Cost of sales** | 2,293 | 248 | | | | | 4 | 7 | | 35 | | | | 1,999 |
| R&D expenses | 261 | | | | | | | 6 | | — | | | | 255 |
| S&M expenses | 648 | 35 | | | | | | 10 | | | | | | 602 |
| G&A expenses | 292 | | | | | | | 12 | | — | | | | 280 |
| Other (income) expense | (6) | | | | | | | | | | | | | (6) |
| Legal settlements and loss contingencies | 57 | | 57 | | | | | | | | | | | — |
| Other assets impairments, restructuring and other items | 1 | | | 20 | 2 | 32 | | | (71) | 19 | | | | — |
| Intangible assets impairments | 469 | | | 469 | | | | | | | | | | — |
| Financial expenses, net | 218 | | | | | | | | | | (2) | | | 220 |
| Income taxes | 9 | | | | | | | | | | | (177) | 61 | 125 |
| Share in losses of associated companies – net | 4 | | | | | | | | | | — | | | 4 |
| Net income (loss) attributable to non-controlling interests | 8 | | | | | | | | | | (8) | | | 16 |
| Total reconciled items | | 283 | 57 | 489 | 2 | 32 | 4 | 34 | (71) | 54 | (10) | (177) | 61 | |
| EPS - Basic | (0.10) | | | | | | | | | | | | 0.70 | 0.60 |
| EPS - Diluted | (0.10) | | | | | | | | | | | | 0.70 | 0.60 |

* Interest disallowance as a result of the U.S. Tax Cuts and Jobs Act.

** The data presented for prior periods have been revised to reflect a revision in the presentation of net revenues and cost of sales in the consolidated financial statements. See note 1c to our consolidated financial statements for additional information.

The non-GAAP diluted weighted average number of shares was 1,093 million for the three months ended March 31, 2019.

**Non-GAAP Tax Rate**

Non-GAAP income taxes for the first quarter of 2020 were $175 million or 17%, on pre-tax non-GAAP income of $1,030 million. Non-GAAP income taxes in the first quarter of 2019 were $125 million, or 16%, on pre-tax non-GAAP income of $799 million. Our non-GAAP tax rate for the first quarter of 2020 was mainly affected by the mix of products we sold and lower interest expense disallowance compared to the first quarter of 2019.

We expect our annual non-GAAP tax rate for 2020 to be 17%-18%, slightly lower than our non-GAAP tax rate for 2019, which was 18%. This is due to lower amounts of interest expense disallowance and other changes to tax positions and deductions.

**Off-Balance Sheet Arrangements**

Except for securitization transactions, which are disclosed in note 10(f) to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019, we do not have any material off-balance sheet arrangements.

**Critical Accounting Policies**

For a summary of our significant accounting policies, see note 1 to our consolidated financial statements and "Critical Accounting Policies" included in our Annual Report on Form 10-K for the year ended December 31, 2019.

**Recently Issued Accounting Pronouncements**

See note 1 to our consolidated financial statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has not been any material change in our assessment of market risk as set forth in Item 7A to our Annual Report on Form 10-K for the year ended December 31, 2019.

## ITEM 4. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures**

Teva maintains "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed in Teva's reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Teva's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

After evaluating the effectiveness of our disclosure controls and procedures as of March 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, Teva's disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

During the quarter ended March 31, 2020, there were no changes in internal control over financial reporting that materially affected or are reasonably likely to materially affect Teva's internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings. For a discussion of these matters, see "Commitments and Contingencies" included in note 10 to the consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

Except as set forth below, there are no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

***The widespread outbreak of an illness or any other communicable disease, or any other public health crisis, such as the COVID-19 pandemic, could adversely affect our business, results of operations and financial condition.***

The novel coronavirus outbreak, or COVID-19, has affected segments of the global economy and may materially affect our operations, including potentially interrupting our manufacturing, supply chain, clinical trial and pre-commercial launch activities.

COVID-19 originated in Wuhan, China, in December 2019 and was declared a pandemic by the World Health Organization in March 2020. The virus has since spread to multiple countries, including to the United States and Israel, where we currently manufacture most of our products and conduct our clinical trials. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, and created significant volatility and disruption of financial markets.

At present, we are not experiencing significant impact or delays from COVID-19 on our business operations. However, as we expect to be able to continue our operations and to satisfy the higher demand for our products, while protecting the health and safety of our employees and customers, the uncertainty surrounding the severity and continued spread of the coronavirus may result in a period of business disruption. COVID-19 may impact our operations, including potential delays in supply and manufacturing or material interruptions to supply chains, clinical trials and pre-commercial launch activities and regulatory reviews and approvals. COVID-19 may also affect our employees and employees and operations at third-party manufacturers or suppliers that may result in delays or disruptions in manufacturing and supply. Any COVID-19 related disruption could have a material adverse impact on our business and our results of operation and financial condition. Changes in patient behavior resulting in less visits to physicians and medical facilities, or increased layoffs in the U.S. employment market, which may affect healthcare benefits coverage, may cause a decline or slower growth in the number of patients diagnosed with diseases for which we produce treatments, and as a result our revenues could be adversely affected. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our shares.

Additionally, if the COVID-19 pandemic has a significant impact on our business and financial results for an extended period of time, our credit losses, liquidity and cash resources could be negatively impacted. We may be required to draw down funds from our RCF or pursue additional sources of financing to fund our operations. Capital and credit markets have been disrupted by the crisis and foreign exchanges have experienced increased volatility. As a result, access to additional financing may be challenging and is largely dependent upon evolving market conditions and other factors.

We have taken precautionary measures, and may take additional measures, intended to minimize the risk of COVID-19 to our employees and operations. The extent of the impact of COVID-19 on our operational and financial performance, including our ability to execute our business strategies in the expected time frame or at all, will depend on future developments, such as the duration and spread of the COVID-19 pandemic and related restrictions and implications, all of which are uncertain and cannot be predicted.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Unregistered Sales of Equity Securities**

There were no sales of unregistered equity securities during the three months ended March 31, 2020.

**Repurchase of Shares**

We did not repurchase any of our shares during the three months ended March 31, 2020 and currently cannot conduct share repurchases or pay dividends due to our accumulated deficit.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 * |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 * |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 * |
| 101.INS | XBRL Taxonomy Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Date: May 7, 2020

By: /s/ Eli Kalif

Name: **Eli Kalif**

Title: **Executive Vice President,**
**Chief Financial Officer**
(Duly Authorized Officer)

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Kåre Schultz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teva Pharmaceutical Industries Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 7, 2020

/s/ Kåre Schultz
Kåre Schultz
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Eli Kalif, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Teva Pharmaceutical Industries Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 7, 2020

/s/ Eli Kalif
Eli Kalif
Executive Vice President, Chief Financial Officer

**Exhibit 32**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

**PURSUANT TO 18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Teva Pharmaceutical Industries Limited (the "Company") on Form 10-Q for the period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kåre Schultz, President and Chief Executive Officer of the Company, and Eli Kalif, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

/s/ Kåre Schultz
Kåre Schultz
President and Chief Executive Officer

/s/ Eli Kalif
Eli Kalif
Executive Vice President, Chief Financial Officer