TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 6-K
May 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

under the Securities Exchange Act of 1934

For the month of May 2016

Commission File Number 001-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Translation of registrant s name into English)

5 Basel Street, P.O. Box 3190

Petach Tikva 4951033 Israel

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

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

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Exhibits

Exhibit No.	Description
EX-101.INS	XBRL Taxonomy Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema Document
EX-101.CAL	XBRL Taxonomy Calculation Linkbase Document
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
EX-101.LAB	XBRL Taxonomy Label Linkbase Document
EX-101.PRE	XBRL Taxonomy Presentation Linkbase Document

USE OF CERTAIN TERMS

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in millions)

(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,964	$ 6,946
Accounts receivable	5,188	5,350
Inventories	3,963	3,966
Deferred income taxes	805	735
Other current assets	1,074	1,401
Total current assets	16,994	18,398
Other non-current assets	2,661	2,591
Property, plant and equipment, net	6,632	6,544
Identifiable intangible assets, net	8,566	7,675
Goodwill	20,273	19,025
Total assets	$ 55,126	$ 54,233
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	$ 1,581	$ 1,585
Sales reserves and allowances	6,443	6,601
Accounts payable and accruals	3,528	3,594
Other current liabilities	1,353	1,225
Total current liabilities	12,905	13,005
Long-term liabilities:		
Deferred income taxes	1,698	1,748
Other taxes and long-term liabilities	1,313	1,195
Senior notes and loans	8,619	8,358
Total long-term liabilities	11,630	11,301
Commitments and contingencies, see note 13		
Total liabilities	24,535	24,306
Equity:		
Teva shareholders equity:		

Preferred shares of NIS 0.10 par value per mandatory convertible preferred share; March 31, 2016 and December 31, 2015: authorized 5.0 million shares; issued 3.7 million shares and 3.4 million shares, respectively	3,620	3,291
Ordinary shares of NIS 0.10 par value per share; March 31, 2016 and December 31, 2015: authorized 2,500 million shares; issued 1,022 million shares and 1,016 million shares, respectively	52	52
Additional paid-in capital	18,096	17,757
Retained earnings	15,110	14,851
Accumulated other comprehensive loss	(2,236)	(1,955)
Treasury shares as of March 31, 2016 and December 31, 2015 108 million ordinary shares	(4,207)	(4,227)
	30,435	29,769
Non-controlling interests	156	158
Total equity	30,591	29,927
Total liabilities and equity	$ 55,126	$ 54,233

/s/ E. VIGODMAN
E.Vigodman
President and Chief Executive Officer

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

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Net revenues	$ 4,810	$ 4,982
Cost of sales	2,019	2,146
Gross profit	2,791	2,836
Research and development expenses	389	332
Selling and marketing expenses	839	922
General and administrative expenses	304	307
Impairments, restructuring and others	119	299
Legal settlements and loss contingencies	(25)	227
Operating income	1,165	749
Financial expenses net	298	192
Income before income taxes	867	557
Income taxes	228	104
Share in losses of associated companies net	6	9
Net income	633	444
Net loss attributable to non-controlling interests	(3)	(2)
Net income attributable to Teva	636	446
Dividends on preferred shares	66	
Net income attributable to ordinary shareholders	$ 570	$ 446
Earnings per share attributable to ordinary shareholders:		
Basic	$ 0.62	$ 0.52
Diluted	$ 0.62	$ 0.52
Weighted average number of shares (in millions):		
Basic	913	851
Diluted	920	859

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Net income	$ 633	$ 444
Other comprehensive (income) loss, net of tax:		
Currency translation adjustment	(255)	800
Unrealized (gain) loss from derivative financial instruments, net	336	(208)
Unrealized (gain) loss from available-for-sale securities, net	199	(11)
Unrealized gain on defined benefit plans		(3)
Total other comprehensive loss	280	578
Total comprehensive income (loss)	353	(134)
Comprehensive loss attributable to the non-controlling interests	(2)	(1)
Comprehensive income (loss) attributable to Teva	$ 355	$ (133)

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in millions)

(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Operating activities:		
Net income	$ 633	$ 444
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	305	335
Venezuela impairment of net monetary assets	246	
Net change in operating assets and liabilities	189	557
Deferred income taxes net and uncertain tax positions	(51)	(190)
Stock-based compensation	24	29
Impairment of long-lived assets	13	67
Research and development in process	10	
Other items	7	128
Net gain from sale of long-lived assets and investments		(16)
Net cash provided by operating activities	1,376	1,354
Investing activities:		
Acquisitions of subsidiaries, net of cash acquired	(2,236)	
Purchases of property, plant and equipment	(172)	(185)
Purchases of investments and other assets	(29)	(118)
Other investing activities	18	2
Proceeds from sales of long-lived assets and investments	2	82
Net cash used in investing activities	(2,417)	(219)
Financing activities:		
Proceeds from issuance of ordinary shares, net of issuance costs	329	
Proceeds from issuance of mandatory convertible preferred shares, net of issuance costs	329	
Dividends paid on ordinary shares	(307)	(290)
Dividends paid on preferred shares	(60)	
Repayment of long-term loans and other long-term liabilities	(41)	(1,458)
Net change in short-term debt	38	17
Other financing activities	(31)	(48)
Proceeds from exercise of options by employees	13	166
Proceeds from long-term loans and other long-term liabilities	(3)	2,145
Purchases of treasury shares		(439)

Net cash provided by financing activities	267	93
Translation adjustment on cash and cash equivalents	(208)	(58)
Net change in cash and cash equivalents	(982)	1,170
Balance of cash and cash equivalents at beginning of period	6,946	2,226
Balance of cash and cash equivalents at end of period	$ 5,964	$ 3,396

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

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TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 Basis of presentation:

The accompanying unaudited consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, the financial statements reflect all adjustments necessary to fairly state the financial position and results of operations of Teva Pharmaceutical Industries Limited (Teva or the Company). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company s audited financial statements included in its Annual Report on Form 20-F for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (SEC). Amounts at December 31, 2015 were derived from the audited balance sheet at that date, but not all disclosures required by accounting principles generally accepted in the United States are included. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 Recently adopted and issued accounting pronouncements:

In March 2016, the Financial Accounting Standards Board (FASB) issued guidance on stock compensation. The guidance is intended to simplify several aspects of the accounting for share-based payments, including income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within that year. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In February 2016, the FASB issued guidance on leases. The guidance requires entities to record lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The guidance will become effective for interim and annual periods beginning after December 15, 2018 (early adoption is permitted) and is required to be adopted at the earliest period presented using a modified retrospective approach. Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In January 2016, the FASB issued guidance which updates certain aspects of recognition, measurement, presentation and disclosure of equity investments. The guidance requires entities to recognize changes in fair value in net income rather than in accumulated other comprehensive income. The guidance is effective for interim and annual periods beginning after December 15, 2017 (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In November 2015, the FASB issued guidance on balance sheet classification of deferred taxes. The guidance requires entities to present all deferred tax assets and liabilities, along with any related valuation allowance, as non-current on the balance sheet. The guidance is effective for interim and annual periods beginning after December 15, 2016 (early adoption is permitted). Teva is currently evaluating the potential effect of the guidance on its consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to

determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. In March and April 2016, the FASB issued additional guidance regarding identifying performance obligations and licensing, and certain principal versus agent considerations. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The guidance permits the use of either a retrospective or cumulative effect transition method. Teva is currently evaluating the impact of the guidance on its consolidated financial statements.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 Certain transactions:

Japanese business venture:

On April 1, 2016, Teva and Takeda established Teva Takeda Yakuhin Ltd., a new business venture in Japan. The business venture combines Teva s Japanese generics business along with Takeda s portfolio of non-exclusive products. The business venture seeks to leverage Takeda s leading brand reputation and strong distribution presence in Japan with Teva s expertise in supply chain, operational network, infrastructure and R&D, to meet the wide-ranging needs of patients and growing importance of generics in Japan through the provision of off-patent medicines.

Teva assigned 49% in the business venture to Takeda in consideration of the contribution of its off-patented products business in Japan. The business venture will be consolidated in Teva s financial statements commencing April 1, 2016, and is expected to increase Teva s sales in the Japanese market. Takeda s interest in the business venture will be accounted for under net income (loss) attributable to non-controlling interests.

Rimsa acquisition:

On March 3, 2016, Teva completed the acquisition of Representaciones e Investigaciones Médicas, S.A. de C.V. (Rimsa), a leading pharmaceutical manufacturing and distribution company in Mexico, along with a portfolio of products and companies, intellectual property, assets and pharmaceutical patents in Latin America and Europe, for an amount of $2.3 billion, in a cash free, debt free set of transactions. Teva financed the transaction using cash on hand.

The table below summarizes the preliminary estimates of the fair value of the assets acquired and liabilities assumed and resulting goodwill. These preliminary estimates are subject to revision, which may result in adjustments to the preliminary values presented below, when the appraisals are finalized.

	U.S.$ in millions
Current assets	$ 113
Deferred taxes and other assets	590
Identifiable intangible assets:	
Product rights	781
Research and development in-process	177
Trade names / customer relationships	49
Goodwill	1,074
Total assets acquired	2,784

Current liabilities	56
Other liabilities	401
Total liabilities assumed	457
Net assets acquired	$ 2,327

Pro forma information giving effect to the acquisition has not been provided as the results would not be material.

Actavis Generics acquisition:

On July 27, 2015, Teva announced that it entered into a definitive agreement with Allergan plc to acquire Allergan s worldwide generic pharmaceutical business (Actavis Generics). Teva will pay total consideration of $33.75 billion in cash and approximately 100 million Teva shares, to be issued to Allergan at the closing of the transaction. At the time of the announcement, total consideration was estimated to be $40.5 billion. However, the final consideration will be based on the closing price of Teva s ordinary shares at the date of acquisition. Teva expects that closing will occur in June 2016, based upon its current estimate of the timing to obtain clearance from the U.S. Federal Trade Commission. Teva previously received regulatory approval from the European Commission for the acquisition, subject to certain divestitures.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Teva entered into a $22 billion bridge loan credit agreement and a separate $5 billion term loan facility with various banks, to finance a portion of the Actavis Generics acquisition. Any loan under the bridge facility would bear an interest rate of LIBOR plus a margin ranging from 0.30% to 1.65%, so long as Teva maintains an investment-grade credit rating. The term facility contemplates two tranches of $2.5 billion each, with the first tranche maturing in full after three years and bearing an interest rate of LIBOR plus a margin ranging from 1.000% to 1.375% based on Teva s credit rating from time to time and the second tranche maturing in five years with payment installments each year and bearing an interest rate of LIBOR plus a margin ranging from 1.125% to 1.5%, based on Teva s credit rating from time to time. To date, Teva has not drawn any funds under the bridge loan or the term facility. Teva expects to offer various tranches of debt securities, either in lieu of drawing under the bridge loan facility or to repay amounts borrowed thereunder.

NOTE 4 Inventories:

Inventories consisted of the following:

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Finished products	$ 2,010	$ 2,050
Raw and packaging materials	1,227	1,195
Products in process	525	535
Materials in transit and payments on account	201	186
	$ 3,963	$ 3,966

NOTE 5 Earnings per share:

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

In computing diluted earnings per share for the three months ended March 31, 2016 and 2015, basic earnings per share was adjusted to take into account the potential dilution that could occur upon the exercise of options and non-vested RSUs granted under employee stock compensation plans, and convertible senior debentures, using the treasury stock method.

Additionally, for the three months ended March 31, 2016, no account was taken of the potential dilution of the mandatory convertible preferred shares amounting to 59 million weighted average shares, since they had an

anti-dilutive effect on earnings per share.

NOTE 6 Revenue recognition:

The Company recognizes revenues from product sales, including sales to distributors when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable and collectability is reasonably assured. This generally occurs when products are shipped and title and risk and rewards for the products are transferred to the customer.

Revenues from product sales are recorded net of provisions for estimated chargebacks, rebates, returns, prompt pay discounts and other deductions, such as shelf stock adjustments, which can be reasonably estimated. When sales provisions are not considered reasonably estimable by Teva, the revenue is deferred to a future period when more information is available to evaluate the impact.

Provisions for chargebacks, rebates including Medicaid and other governmental program discounts and other promotional items, such as shelf stock adjustments, are included in sales reserves and allowances (SR&A) under current liabilities. These provisions are recognized concurrently with the sales of products. Prompt payment discounts are netted against accounts receivable.

Calculations for these deductions from sales are based on historical experience and the specific terms in the individual agreements. Chargebacks and rebates are the largest components of sales reserves and allowances. Provisions

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

for chargebacks are determined using historical chargeback experience, expected chargeback levels and wholesaler sales information for new products, which are compared to externally obtained distribution channel reports for reasonableness. Rebates are recognized based on contractual obligations in place at the time of sales with consideration given to relevant factors that may affect the payment as well as historical experience for estimated market activity. Shelf-stock adjustments are granted to customers based on the existing inventory of a customer following decreases in the invoice or contract price of the related product and are estimated based on expected market performance. Teva records a reserve for estimated sales returns by applying historical experience of customer returns to the amounts invoiced and the amount of returned products to be destroyed versus products that can be placed back in inventory for resale.

Revenue resulting from the achievement of milestone events stipulated in agreements is recognized when the milestone is achieved. Milestones are based upon the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.

Revenues from licensees, sales of licensed products and technology are recorded in accordance with the contract terms, when third-party sales can be reliably measured and collection of the funds is reasonably assured.

Sales reserves and allowances consisted of the following:

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Rebates	$ 3,194	$ 3,382
Medicaid	1,402	1,319
Chargebacks	1,023	1,091
Returns	608	598
Other	216	211
	$ 6,443	$ 6,601

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 7 Equity:

Accumulated other comprehensive loss

The following tables present the changes in the components of accumulated other comprehensive loss for the three months ended March 31, 2016 and 2015:

		Three months ended March 31, 2016				
Components of accumulated other comprehensive loss	**Description of the reclassification to the statement of income**	**Other comprehensive (income) loss before reclassifications**	**Amounts reclassified to the statement of income**	**Net other comprehensive (income) loss before tax**	**Corresponding income tax**	**Net other comprehensive (income) loss after tax**
		U.S.$ in millions				
Currency translation adjustment	Currency translation adjustment, reclassified to share in losses of associated companies-net	$ (253)	$ (3)	$ (256)	$ 1	$ (255)
Unrealized (gain) loss from available-for-sale securities		201		201	(2)	199
Unrealized (gain) loss from derivative financial instruments		336		336		336
Unrealized (gain) loss on defined benefit plans			*	*	*	*
Total accumulated other comprehensive (income) loss		$ 284	$ (3)	$ 281	$ (1)	$ 280

		Three months ended March 31, 2015				
Components of accumulated other	**Description of the reclassification to the**	**Other comprehensive (income)**	**Amounts reclassified to the statement**	**Net other comprehensive**	**Corresponding income tax**	**Net other comprehensive**

comprehensive loss	statement of income	loss before reclassifications	of income	(income) loss before tax		(income) loss after tax
		U.S.$ in millions				
Currency translation adjustment		$ 800	$	$ 800	$	$ 800
Unrealized (gain) loss from available-for-sale securities		(10)		(10)	(1)	(11)
Unrealized (gain) loss from derivative financial instruments	Loss on derivative financial instruments**	(192)	(16)	(208)		(208)
Unrealized (gain) loss on defined benefit plans	Loss on defined benefit plans, reclassified to various statement of income items***		(1)	(1)	(2)	(3)
Total accumulated other comprehensive (income) loss		$ 598	$ (17)	$ 581	$ (3)	$ 578

* Represents an amount less than $0.5 million.

** $26 million loss reclassified to financial expenses - net and $10 million gain reclassified to net revenues.

*** Reclassified to cost of sales, research and development expenses, selling and marketing expenses and general and administrative expenses.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Share repurchase program

In October 2014, Teva s board of directors authorized the Company to increase its share repurchase program to up to $3 billion of its ordinary shares and American Depositary Shares. As of March 31, 2016, $2.1 billion remained available for repurchases. This repurchase authorization has no time limit. Repurchases may be commenced or suspended at any time.

Teva did not repurchase any of its shares during the first quarter of 2016, and as of March 31, 2016 and December 31, 2015, Teva s treasury share balance amounted to 108 million shares.

The following table summarizes the shares repurchased and the amount Teva spent on these repurchases:

	Three months ended March 31,	
	2016	2015
	in millions	
Amount spent on shares repurchased	$	$ 439
Number of shares repurchased		7.7

NOTE 8 Debt obligations

Short-term debt is mainly comprised of current maturities of long-term liabilities and convertible debentures.

Long-term debt includes the following:

	Weighted average interest rate as of March 31, 2016	Maturity	March 31, 2016	December 31, 2015
	%		(U.S. $ in millions)	
Senior notes EUR 1,300 million	1.25%	2023	$ 1,462	$ 1,409
Senior notes EUR 1,000 million	2.88%	2019	1,132	1,092
Senior notes EUR 700 million	1.88%	2027	790	762
Senior notes USD 950 million	2.40%	2016	950	950
Senior notes USD 844 million	2.95%	2022	843	843

Senior notes USD 789 million	6.15%	2036	780	780
Senior notes USD 700 million	2.25%	2020	700	700
Senior notes USD 613 million	3.65%	2021	612	611
Senior notes USD 588 million	3.65%	2021	586	586
Senior notes CHF 450 million	1.50%	2018	466	455
Fair value hedge accounting adjustments			44	(10)
Total senior notes			8,365	8,178
Term loan JPY 65 billion	0.99%	2017	583	544
Term loan JPY 35 billion	1.42%	2019	311	290
Term loan JPY 35 billion	LIBOR +0.3%	2018	311	290
Other loans JPY 5 billion	1.67%	2016		39
Total loans			1,205	1,163
Debentures USD 15 million	7.20%	2018	15	15
Other	7.48%	2026	8	5
Total debentures and others			23	20
Less current maturities			(950)	(989)
Derivative instruments				11
Less debt issuance cost*			(24)	(25)
Total long-term debt			$ 8,619	$ 8,358

* In accordance with FASB guidance, effective January 1, 2016, some debt issuance costs are presented net of long-term debt. Prior periods were adjusted to conform with the guidance.

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 9 Fair value measurement:

Teva s financial instruments consist mainly of cash and cash equivalents, investment in securities, current and non-current receivables, short-term credit, accounts payable and accruals, long-term loans and other long-term senior notes and loans, convertible senior debentures and derivatives.

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

Financial instruments measured at fair value

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

Financial items carried at fair value as of March 31, 2016 and December 31, 2015 are classified in the tables below in one of the three categories described above:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			

Cash and cash equivalents:				
Money markets	$ 134	$	$	$ 134
Cash deposits and other	5,830			5,830
Investment in securities:				
Equity securities	1,150			1,150
Structured investment vehicles		95		95
Other	12		1	13
Derivatives:				
Asset derivatives - options and forward contracts		31		31
Asset derivatives - treasury locks, interest rate, cross currency and forward starting interest rate swaps		107		107
Liabilities derivatives - options and forward contracts		(16)		(16)
Liabilities derivatives - treasury locks, interest rate and forward starting interest rate swaps		(33)		(33)
Contingent consideration*			(824)	(824)
Total	$ 7,126	$ 184	$ (823)	$ 6,487

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Notes to Consolidated Financial Statements (Continued)

(Unaudited)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	U.S. $ in millions			
Cash and cash equivalents:				
Money markets	$ 162	$	$	$ 162
Cash deposits and other	6,784			6,784
Investment in securities:				
Equity securities	1,352			1,352
Structured investment vehicles		94		94
Other	11		1	12
Derivatives:				
Asset derivatives - options and forward contracts		25		25
Asset derivatives - interest rate, cross-currency and forward starting interest rate swaps		105		105
Liability derivatives - options and forward contracts		(11)		(11)
Liability derivatives - treasury locks, interest rate and forward starting interest rate swaps		(26)		(26)
Contingent consideration*			(812)	(812)
Total	$ 8,309	$ 187	$ (811)	$ 7,685

* Contingent consideration represents either liabilities or assets recorded at fair value in connection with acquisitions. Teva determined the fair value of the liability or asset for the contingent consideration based on a probability-weighted discounted cash flow analysis. This fair value measurement is based on significant unobservable inputs in the market and thus represents a Level 3 measurement within the fair value hierarchy. The fair value of the contingent consideration is based on several factors, such as: the cash flows projected from the success of unapproved product candidates; the probability of success for product candidates including risks associated with uncertainty regarding achievement and payment of milestone events; the time and resources needed to complete the development and approval of product candidates; the life of the potential commercialized products and associated risks of obtaining regulatory approvals in the U.S. and Europe and the risk adjusted discount rate for fair value measurement.

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.

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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, 2016	Year ended December 31, 2015
	U.S. $ in millions	
Fair value at the beginning of the period	$ (811)	$ (616)
Auction-rate securities realized		(13)
Additional contingent consideration resulting from:		
Eagle license		(128)
Gecko acquisition		(5)
Adjustments to provisions for contingent consideration:		
Labrys acquisition		(311)
Eagle license	(37)	(63)
MicroDose acquisition	(3)	(10)
Cephalon acquisition	(11)	(5)
NuPathe acquisition		(10)
Settlement of contingent consideration:		
Labrys acquisition	25	350
Eagle acquisition	15	
Adjustments to contingent considerations due to changes in purchase price allocations and others	(1)	
Fair value at the end of the period	$ (823)	$ (811)

Financial instruments not measured at fair value

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

	Estimated fair value*	
	March 31, 2016	December 31, 2015
	U.S. $ in millions	

Senior notes included under long-term liabilities	$ 7,659	$ 7,305
Senior notes and convertible senior debentures included under short-term liabilities	1,625	1,778
Total	$ 9,284	$ 9,083

* The fair value was estimated based on quoted market prices, where available.

Investment in securities

The fair value, amortized cost and gross unrealized holding gains and losses of such securities are presented in the below table:

	Fair value	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses
	U.S. $ in millions			
March 31, 2016	$ 1,392	$ 1,276	$ 151	$ 35
December 31, 2015	$ 1,620	$ 1,303	$ 338	$ 21

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Devaluation in Venezuela

Venezuela has experienced hyperinflation in recent years. The government of Venezuela currently has two official exchange rates: the DIPRO rate of 10 bolivars per U.S. dollar (which replaced the CENCOEX rate of 6.3 in March 2016) and the DICOM rate, which fluctuates and is currently approximately 200 bolivars per U.S. dollar (which replaced the SIMADI rate in March 2016; also in March 2016, the SICAD rate of 13.5 was eliminated). In addition, remittance of cash outside of Venezuela is limited.

Following the announcement of the Venezuelan Central Bank and the Ministry for Banking and Finance of FX Regulation 35, effective March 10, 2016, the DIPRO rate will be used to settle transactions involving the importation, manufacture and distribution of pharmaceutical products. Teva used the CENCOEX rate until March 2016 and then replaced it with the DIPRO rate to report its Venezuelan financial position, results of operations and cash flows, since it believes that the nature of its business operations in Venezuela, which include the importation, manufacture and distribution of pharmaceutical products, qualifies for the most preferential rates permitted by law.

As a result of the new regulation, Teva impaired its monetary balance sheet items as of March 31, 2016 using the new DIPRO rate (instead of the CENCOEX rate it previously used), with the net difference of $246 million recorded in financial expenses net.

In the event of an additional devaluation or if a less favorable exchange rate is used, Teva would be exposed to further potential impairments of net monetary assets in Venezuela, which, as of March 31, 2016, amounted to approximately $346 million.

NOTE 10 Derivative instruments and hedging activities:

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

	March 31, 2016	December 31, 2015
	U.S. $ in millions	
Forward starting interest rate swap - cash flow hedge	$ 3,750	$ 3,500
Treasury lock - cash flow hedge	1,500	500
Interest rate swap - fair value hedge	1,294	1,294
Cross-currency swap - cash flow hedge	588	588

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

	Fair value			
	Designated as hedging instruments		Not designated as hedging instruments	
Reported under	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	U.S. $ in millions			
Asset derivatives:				
Other current assets:				
Forward starting interest rate swap- cash flow hedge	$ 5	$ 26	$	$
Treasury locks - cash flow hedge	1			
Option and forward contracts			31	25
Other non-current assets:				
Cross-currency swaps - cash flow hedge	57	78		
Interest rate swaps - fair value hedge	44	1		
Liability derivatives:				
Other current liabilities:				
Forward starting interest rate swaps-cash flow hedge	(11)	(10)		
Treasury locks - cash flow hedge	(22)	(5)		
Option and forward contracts			(16)	(11)
Senior notes and loans:				
Interest rate swaps - fair value hedge		(11)		

Derivatives on foreign exchange contracts mainly hedge Teva s balance sheet items from currency exposure, but are not designated as hedging instruments for accounting purposes. With respect to such derivatives, gains of $14 million and $26 million were recognized under financial expenses-net for the three months ended March 31, 2016 and 2015, respectively. Such gains offset the revaluation of the balance sheet items also recorded under financial expenses-net.

With respect to the interest rate and cross-currency swap agreements, gains of $5 million and $9 million were recognized under financial expenses-net for the three months ended March 31, 2016 and 2015, respectively. Such gains mainly reflect the differences between the fixed interest rate and the floating interest rate.

In the second half of 2015 and the first quarter of 2016, Teva entered into forward starting interest rate swap and treasury lock agreements designated as cash flow hedges of future debt issuances, anticipated in connection with the Actavis Generics acquisition, with respect to $3.75 billion and $1.5 billion notional amounts, respectively. These

agreements hedge the variability in anticipated future interest payments due to possible changes in the benchmark interest rate between the date the agreements were entered into and the expected date of future debt issuances in 2016, at which time these agreements are intended to be settled. Upon completion of a debt issuance and settlement of the swap and treasury lock agreements, the change in fair value of these instruments recorded as part of other comprehensive income will be amortized under financial expenses-net over the life of the debt.

Certain of the forward starting interest rate swaps and treasury lock agreements matured during the first quarter of 2016, generating a loss of $275 million due to a decline in interest rates, and will be settled by June 30, 2016. This loss is recorded in other comprehensive income. In the first quarter of 2016, Teva entered into similar transactions designated as cash flow hedge to effectively continue the original cash flow hedge transactions.

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NOTE 11 Other expenses:

a. Impairments, restructuring and others consisted of the following:

	Three months ended March 31,	
	2016	2015
Contingent consideration	$ 51	$ 244
Acquisition expenses	24	1
Restructuring expenses	19	3
Impairments of long-lived assets	13	65
Integration expenses	13	
Other	(1)	(14)
Total	$ 119	$ 299

b. Possible impairment of Teva s in-process R&D:

As of March 31, 2016, the carrying value of Teva s in-process R&D asset Revascor® (mesenchymal precursor cells), which was in-licensed from Mesoblast Ltd., was $258 million. This drug candidate is in a phase 3 trial for congestive heart failure. Under Teva s agreement with Mesoblast, in the second quarter of 2016 Teva may have the right to terminate its participation in the development of Revascor®. If Teva chooses not to continue with the trial, a full impairment of the in-process R&D asset would be recorded in the second quarter of 2016. Such an event would likely lead Teva to reassess the carrying value of its equity interest in Mesoblast, which is currently $75 million, and the related balance in other comprehensive income related to currency translation of $72 million.

NOTE 12 Legal settlements and loss contingencies:

Legal settlements and loss contingencies for the three months ended March 31, 2016 amounted to income of $25 million, compared to expenses of $227 million for the three months ended March 31, 2015. The expenses in 2015 were mainly related to $282 million in additional reserves related to the settlement of the modafinil antitrust litigation, partially offset by insurance proceeds relating to the settlement of the pantoprazole patent litigation.

NOTE 13 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 believes that it has meritorious defenses to all actions brought against it and vigorously pursues the defense or settlement of each such action. Except as described below, Teva does not currently have a reasonable basis to estimate the loss, or range of loss, that is reasonably possible with respect to matters disclosed in this note.

Teva records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Based upon the status of these cases, 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.

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Based on currently available information, Teva believes that none of the proceedings brought against it described below is likely to have a material adverse effect on its financial condition. However, if one or more of such proceedings 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. 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. All third-party sales figures given below are based on IMS 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. This could be before any court decision is rendered or while an appeal of a lower court decision is 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.

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 be calculated based on the sales of Teva s generic product. The amount of lost profits would be based on the lost sales of the branded product. The launch of an authorized generic and other generic competition may be relevant to the damages calculation. In addition, the patentee may seek consequential damages as well as enhanced damages of up to three times the profits lost by the patent holder for willful infringement, although courts have typically awarded much lower multiples.

Teva is also involved in litigation regarding patents in other countries where it does business, particularly in Europe, where Teva has in recent years increased the number of launches of its generic versions of branded pharmaceuticals

prior to the expiration of the innovator s patents. The laws concerning generic pharmaceuticals and patents differ from country to country. Damages for patent infringement in Europe may include lost profits or a reasonable royalty, but enhanced damages for willful infringement are generally not available.

On April 28, 2015, Teva launched its 2 mg, 5 mg, 10 mg, 15 mg, 20 mg, and 30 mg aripiprazole tablets, which are the AB-rated versions of Otsuka s Abilify®, which had annual sales according to IMS of approximately $7.8 billion for the twelve months ending December 2014. Otsuka has sued Teva in New Jersey federal court for infringement of patents that expire in March 2023 and March 2027. On April 16, 2015, the court denied Otsuka s motion for a temporary restraining order based on one of the patents in suit. On January 20, 2016, the court issued an order granting summary judgment on the grounds that Teva s generic product does not infringe Otsuka s patent directed to using aripriprazole in combination with certain anti-depressants. Otsuka plans to seek interlocutory appeal of this decision. The court has not yet issued decisions on the other patents in suit. No trial date has been scheduled. Were Otsuka ultimately to be successful in its allegation of patent infringement, Teva could be required to pay damages relating to past sales of its aripiprazole products and enjoined from future sales until patent expiry. The amount of damages, if any, would be determined through a separate trial.

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Product Liability Litigation

Teva s business inherently exposes it to potential product liability claims, and in recent years the number of product liability claims asserted against Teva has increased. 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 insurance; in addition, it may be subject to claims for which insurance coverage is denied as well as claims that exceed its policy limits. Product liability coverage for pharmaceutical companies is becoming more expensive and increasingly difficult to obtain. As a result, Teva may not be able to obtain the type and amount of commercial insurance it desires, or any commercial insurance on reasonable terms, in all of its markets.

Teva and/or its subsidiaries have been named as defendants in approximately 4,000 product liability lawsuits brought against them and other manufacturers by approximately 4,400 plaintiffs claiming injuries (including allegations of neurological disorders, such as tardive dyskinesia) from the long-term use of metoclopramide (the generic form of Reglan®). Certain of these claims are covered by insurance. For over 20 years, the FDA-approved label for metoclopramide has contained warning language about the risk of tardive dyskinesia, and that the risk of developing the disorder increases with duration of treatment and total cumulative dose. In February 2009, the FDA announced that manufacturers of metoclopramide would be required to revise the label, including the addition of a black box warning about the risk of tardive dyskinesia resulting from long-term usage. The cases of approximately 500 of the plaintiffs have been dismissed or otherwise resolved to date. Teva expects to be dismissed from at least some of the remaining cases on the basis that some plaintiffs cannot demonstrate that they used a Teva product.

Approximately 40% of the plaintiffs are parties to cases against Teva that are part of a mass tort proceeding in the Philadelphia Court of Common Pleas. In addition, there are mass tort proceedings under way in state courts in California and New Jersey. The California litigation includes about half of the total plaintiffs. In the New Jersey proceeding, the trial court granted the defendants motion to dismiss, on federal preemption grounds, all claims other than those based on an alleged failure to timely update the label. The appellate court affirmed this dismissal. In addition, on April 11, 2016, the New Jersey Supreme Court heard oral argument on Teva s further appeal of the decision with respect to the update claims. All of the cases in the New Jersey proceeding with respect to the generic defendants have been stayed pending resolution of the appeal.

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. Occasionally, Teva and its subsidiaries have been named as defendants in cases that allege antitrust violations

arising from such settlement agreements. Teva believes that its settlement agreements are lawful and serve to increase competition, and intends to defend them vigorously. However, the plaintiffs in these cases typically allege (1) that Teva received something of value from the innovator in exchange for an agreement to delay generic entry, and (2) that they would have realized significant savings if there had been no settlement and competition had commenced earlier. These 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, trebled under the relevant statutes, plus attorneys fees and costs. The damages allegedly caused by the alleged delays in generic entry generally depend on the size of the branded market and the length of the alleged delay, and can be substantial, particularly where the alleged delays are lengthy or branded drugs with sales in the billions of dollars are involved.

On June 17, 2013, the United States Supreme Court held, in *Federal Trade Commission v. Actavis, Inc*. (the AndroGel case), that a rule of reason test should be applied in analyzing whether such settlements potentially violate the federal antitrust laws. The Supreme Court held that a trial court must analyze each agreement in its entirety in order to determine whether it violates the antitrust laws. This new test may lead to increased scrutiny of Teva s patent settlements, additional action by the Federal Trade Commission (FTC), and an increased risk of liability in Teva s currently pending antitrust litigations.

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In April 2006, certain subsidiaries of Teva were named in a class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania. The case alleges that the settlement agreements entered into between Cephalon, Inc., now a Teva subsidiary (Cephalon), and various generic pharmaceutical companies in late 2005 and early 2006 to resolve patent litigation involving certain finished modafinil products (marketed as Provigil®) were unlawful because they had the effect of excluding generic competition. The case also alleges that Cephalon improperly asserted its Provigil® patent against the generic pharmaceutical companies. The first lawsuit was brought by King Drug Company of Florence, Inc. on behalf of itself and as a proposed class action on behalf of any other person or entity that purchased Provigil® directly from Cephalon (the Direct Purchaser Class). Similar allegations have been made in a number of additional complaints, including those filed on behalf of a proposed class of end payors of Provigil (the End Payor Class), by certain individual end payors, by certain retail chain pharmacies and by Apotex, Inc. (collectively, these cases are referred to as the Philadelphia Modafinil Action). Separately, Apotex challenged Cephalon s Provigil® patent, and in October 2011, the Court found the patent to be invalid and unenforceable based on inequitable conduct. This decision was affirmed on appeal in April 2013. Teva has either settled or reached agreements in principle to settle with all of the plaintiffs in the Philadelphia Modafinil Action.

In February 2008, following an investigation, the FTC sued Cephalon only, alleging that Cephalon violated Section 5 of the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices in the marketplace, by unlawfully maintaining a monopoly in the sale of Provigil® and improperly excluding generic competition (the FTC Modafinil Action).

In addition to the Philadelphia Modafinil Action and the FTC Modafinil Action, the City of Providence, Rhode Island and the State of Louisiana have also filed lawsuits against Cephalon and other Teva subsidiaries. Cephalon and other Teva subsidiaries have also received notices of potential claims related to the Provigil® settlement agreements by certain other claimants. Annual sales of Provigil® were approximately $500 million at the time of the settlement agreements, and approximately $1 billion when the first generic modafinil product was launched in March 2012.

On May 28, 2015, Cephalon entered into a consent decree with the FTC under which the FTC dismissed its claims against Cephalon in the FTC Modafinil Action in exchange for payment of $1.2 billion (less set-offs for prior settlements) by Cephalon and Teva into a settlement fund. The net amount paid into the settlement fund may be used to settle certain other related cases, including the claims still pending in the litigation described above, as well as other government investigations. Under the consent decree, Teva also agreed to certain injunctive relief with respect to the types of settlement agreements Teva may enter into to resolve patent litigation in the United States for a period of ten years. If, at the end of the ten years, the entire settlement fund has not been fully disbursed, any amount remaining will be paid to the Treasurer of the United States. On July 16, 2015, Teva made a payment into the settlement fund for the difference of $1.2 billion less the amount of the agreed-upon settlements reached as of that date. Management recorded an additional charge of $398 million in the second quarter of 2015 as a result of the settlement with the FTC.

In April 2011, the European Commission opened a formal investigation against both Cephalon and Teva to assess whether the 2005 settlement agreement between the parties might have had the object or effect of hindering the entry of generic modafinil. The opening of proceedings indicates that the Commission will investigate the case as a matter

of priority, but does not mean that there has been a definitive finding of violation of law.

Barr Laboratories, Inc., a subsidiary of Teva (Barr), is a defendant in actions in California, Florida and Kansas alleging that a January 1997 patent litigation settlement agreement between Barr and Bayer Corporation was anticompetitive and violated state antitrust and consumer protection laws. In the California case, the trial court granted defendants summary judgment motions, and the California Court of Appeal affirmed in October 2011. While an appeal was pending before the California Supreme Court, the trial court approved a $74 million class settlement with Bayer. On May 7, 2015, the California Supreme Court reversed and remanded the case back to the trial court for a rule of reason inquiry as to the remaining defendants, including Barr. A trial has been scheduled for October 2016. Based on the plaintiffs expert testimony in a prior federal multidistrict litigation, estimated sales of ciprofloxacin in California were approximately $500 million during the alleged damages period.

Barr remains a party to both the California and Florida actions. In the Kansas action, the court granted preliminary approval of the settlement Bayer entered into with plaintiffs on June 5, 2015. On July 22, 2015, Barr and the remaining co-defendants also agreed to settle with the plaintiffs. The settlement has been submitted to the court for approval, following which the case will be dismissed.

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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. The plaintiffs claim that the settlement agreement between Wyeth and Teva unlawfully delayed generic entry. On October 7, 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 filed notices of appeal, and the Third Circuit has consolidated the appeal with a separate antitrust case in which Teva is not a party, *In re Lipitor Antitrust Litigation*, solely for purposes of disposition by the same appellate panel. Annual sales of Effexor® XR were approximately $2.6 billion at the time of settlement and at the time generic versions were launched in July 2010.

In February 2012, two purported classes of direct-purchaser plaintiffs sued GlaxoSmithKline (GSK) and Teva for alleged violations of the antitrust laws in connection with their settlement of patent litigation involving lamotrigine (generic Lamictal®) entered into in February 2005. In August 2012, a purported class of indirect purchaser plaintiffs filed a nearly identical complaint against GSK and Teva. The plaintiffs claim that the settlement agreement unlawfully delayed generic entry and seek unspecified damages. In December 2012, the District Court dismissed the cases. On January 24, 2014, the District Court denied the direct purchaser plaintiffs motion for reconsideration and affirmed its original dismissal of the cases. On June 26, 2015, the Third Circuit reversed and remanded for further proceedings. The defendants petitions for review by the full court were denied on September 23, 2015. On February 19, 2016, Teva and GSK filed a petition for a writ of certiorari in the United States Supreme Court. Litigation has resumed in the district court in both the direct purchaser and indirect purchaser actions. Teva and GSK filed a motion for judgment on the pleadings in the indirect purchaser action on December 28, 2015, which the District Court granted in part and denied in part on March 22, 2016. Annual sales of Lamictal® were approximately $950 million at the time of the settlement, and approximately $2.3 billion at the time generic competition commenced in July 2008.

On June 18, 2014, two groups of end payors sued AstraZeneca and Teva, as well as Ranbaxy and Dr. Reddy s, in the Philadelphia Court of Common Pleas for violating the antitrust laws by entering into settlement agreements to resolve the esomeprazole (generic Nexium®) patent litigation (the Philadelphia Esomeprazole Actions). These end payors had opted out of a class action that was filed in the Massachusetts federal court in September 2012 and resulted in a jury verdict in December 2014 in favor of AstraZeneca and Ranbaxy (the Massachusetts Action). Prior to the jury verdict, Teva settled with all plaintiffs for $24 million. The allegations in the Philadelphia Esomeprazole Actions are nearly identical to those in the Massachusetts Action. The Philadelphia Esomeprazole Actions are stayed pending resolution of the Massachusetts Action, which is currently on appeal to the First Circuit with respect to the claims against the non-settling defendants AstraZeneca and Ranbaxy.

In April 2013, purported classes of direct purchasers of, and end payors 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 United States District Court for the Eastern District of Pennsylvania. Teva and Abbott s motion to dismiss was denied on September 8, 2014. In March, April and December 2015 and in January 2016, several individual direct purchaser opt-out plaintiffs filed

complaints with allegations nearly identical to those of the direct purchaser class. Annual sales of Niaspan® were approximately $416 million at the time of the settlement and approximately $1.1 billion at the time generic competition commenced in September 2013.

Since July 2013, numerous lawsuits have been filed in several federal courts by purported classes of end payors for, and direct purchasers of, Solodyn® ER (minocycline hydrochloride) against Medicis, the innovator, and several generic manufacturers, including Teva. The lawsuits allege, among other things, that the settlement agreements between Medicis and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Medicis in March 2009. A multidistrict litigation has been established in the United States District Court for the District of Massachusetts. On September 12, 2014, plaintiffs filed an amended complaint that did not name Teva as a defendant. Annual sales of Solodyn® ER were approximately $380 million at the time Teva settled, and approximately $765 million at the time generic competition entered the market on a permanent basis in November 2011.

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Since November 2013, numerous lawsuits have been filed in several federal courts by purported classes of end payors for, and direct purchasers of, Aggrenox® (dipyridamole/aspirin tablets) against Boehringer Ingelheim (BI), the innovator, and several Teva subsidiaries. The lawsuits allege, among other things, that the settlement agreement between BI and Barr entered into in August 2008 violated the antitrust laws. A multidistrict litigation has been established in the United States District Court for the District of Connecticut. Teva and BI s motion to dismiss was denied on March 23, 2015. Defendants motion for certification for an immediate appeal of that decision was granted on July 21, 2015, but the Second Circuit denied hearing the appeal. Annual sales of Aggrenox® were approximately $340 million at the time of the settlement, and were approximately $455 million at the time generic competition began in July 2015. Teva launched a generic version of Aggrenox® in July 2015.

Since January 2014, numerous lawsuits have been filed in the United States District Court for the Southern District of New York by purported classes of end payors for and direct purchasers of ACTOS® and ACTO*plus* Met® (pioglitazone and pioglitazone plus metformin) against Takeda, the innovator, and several generic manufacturers, including Teva. The lawsuits allege, among other things, that the settlement agreements between Takeda and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Takeda in December 2010. Defendants motions to dismiss with respect to the end payor lawsuits were granted on September 23, 2015. On October 22, 2015, the end payors filed a notice of appeal of this ruling, and on March 22, 2016, a stipulation was filed dismissing Teva and the other generic defendants from the appeal. The lawsuits brought by the direct purchasers were stayed pending a ruling on the motions to dismiss the end payor lawsuits. Following the ruling on the motions to dismiss in the end payor lawsuits, the direct purchaser plaintiffs amended their complaint. Defendants have moved to dismiss that complaint. At the time of the settlement, annual sales of ACTOS® were approximately $3.7 billion and annual sales of ACTO*plus* Met® were approximately $500 million. At the time generic competition commenced in August 2012, annual sales of ACTOS® were approximately $2.8 billion and annual sales of ACTO*plus* Met® were approximately $430 million.

On September 8, 2014, the FTC sued AbbVie Inc. and certain of its affiliates (AbbVie) and Teva in the United States District Court for the Eastern District of Pennsylvania alleging that they violated the antitrust laws when they entered into a settlement agreement to resolve the AndroGel® patent litigation and a supply agreement under which AbbVie would supply authorized generic product for TriCor® to Teva. The FTC alleges that Teva agreed to delay the entry of its generic testosterone gel product in exchange for entering into the TriCor supply agreement. On May 6, 2015, the court granted Teva s motion to dismiss the FTC s claim as to Teva. The FTC s motions for reconsideration and for entry of partial final judgment to permit an immediate appeal were denied.

Since May 29, 2015, two lawsuits have been filed in the United States District Court for the Southern District of New York by a purported class of direct purchasers of, and a purported class of end payors for, Namenda IR® (memantine hydrochloride) against Forest Laboratories, LLC and Actavis PLC, the innovator, and several generic manufacturers, including Teva. The direct purchasers withdrew their complaint and filed an amended complaint that did not name Teva as a defendant. Defendants have moved to dismiss the claims made by the end payors. The lawsuits allege, among other things, that the settlement agreements between Forest and the generic manufacturers violated the antitrust laws. Teva entered into its agreement with Forest in November 2009. Annual sales of Namenda IR® at the time of the

settlement were approximately $1.1 billion, and are currently approximately $1.4 billion.

Government Investigations and Litigation Relating to Pricing and Marketing

Teva is involved in government investigations and litigation arising from the marketing and promotion of its specialty pharmaceutical products in the United States. Many of these investigations originate through what are known as *qui tam* complaints, in which the government reviews a complaint filed under seal by a whistleblower (a relator) that alleges violations of the federal False Claims Act. The government considers whether to investigate the allegations and will, in many cases, issue subpoenas requesting documents and other information, including conducting witness interviews. The government must decide whether to intervene and pursue the claims as the plaintiff. Once a decision is made by the government, the complaint is unsealed. If the government decides not to intervene, then the relator may decide to pursue the lawsuit on his own without the active participation of the government.

Under the federal False Claims Act, the government (or relators who pursue the claims without the participation of the government in the case) may seek to recover up to three times the amount of damages in addition to a civil penalty of $5,500 to $11,000 for each allegedly false claim submitted to the government for payment. Generally speaking, these

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cases take several years for the investigation to be completed and, ultimately, to be resolved (either through litigation or settlement) after the complaint is unsealed. In addition, some states have pursued investigations under state false claims statutes or consumer protection laws, either in conjunction with a government investigation or separately. There is often collateral litigation that arises from public disclosures of government investigations, including the filing of class action lawsuits by third party payors alleging fraud-based claims or by shareholders alleging violations of the securities laws.

A number of state attorneys general and others have filed various actions against Teva and/or certain of its subsidiaries in the United States relating to reimbursements or drug price reporting under Medicaid or other programs. Such price reporting is alleged to have caused governments and others to pay inflated reimbursements for covered drugs. Teva and its subsidiaries have reached settlements in most of these cases, and remain parties to litigation in Illinois. A provision for the cases has been included in the financial statements. Trial in the Illinois case concluded in the fourth quarter of 2013, and post-trial briefing has been submitted and is under consideration. The State of Illinois is seeking approximately $100 million in compensatory damages. Any such damages ultimately awarded by the court (which would be determined through a separate trial) are subject to automatic trebling. In addition, the state is seeking unspecified statutory penalties that could range, depending on the method used for calculation, from a de minimis amount to well over $100 million. Teva denies any liability, and will argue that even if the court finds liability, compensatory damages and penalties should be significantly less than the amount sought by the state.

Several *qui tam* complaints have been unsealed in recent years as a result of government decisions not to participate in the cases. The following is a summary of certain government investigations, *qui tam* actions and related matters.

In December 2009, the United States District Court for the District of Massachusetts unsealed a complaint alleging that numerous drug manufacturers, including certain Teva subsidiaries, violated the federal False Claims Act in connection with Medicaid reimbursement for certain vitamins, dietary supplements and DESI products that were allegedly ineligible for reimbursement. The Department of Justice declined to join in the matter. The defendants, including Teva, filed a motion to dismiss, which was granted on February 25, 2013. The plaintiffs deadline to appeal the dismissal has not yet expired.

In September 2013, the State of Louisiana filed a complaint seeking unspecified damages against 54 pharmaceutical companies, including several Teva subsidiaries. The complaint asserts that each of the defendants allegedly defrauded the state by falsely representing that its products were FDA-approved drugs, which allegedly caused the state Medicaid program to pay millions of dollars in reimbursement claims for products that it would not otherwise have covered. The case was dismissed without prejudice in September 2015, with the court finding that the state was not a proper plaintiff. The state has appealed this decision.

Cephalon has received and responded to subpoenas related to Treanda®, Nuvigil® and Fentora®. In March 2013, a federal False Claims Act complaint filed against Cephalon in the United States District Court for the Southern District of New York was unsealed. The case was transferred to the Eastern District of Pennsylvania. The complaint alleges off-label promotion of Treanda® and Fentora®. The court granted Cephalon s motion to dismiss the Fentora claims and

denied Cephalon s motion to dismiss the Treanda® claims. In January 2014, a separate federal False Claims Act complaint that had been filed in the United States District Court for the Eastern District of Pennsylvania was served on Cephalon. The complaint alleges off-label promotion of Fentora®, Nuvigil® and Provigil®. The court dismissed the Fentora® claims and denied Cephalon s motion to dismiss the Provigil® and Nuvigil® claims. On August 13, 2015, Cephalon submitted a motion to modify the court s order denying its motion to dismiss the relators Provigil® claims. On February 2, 2016, the District Court granted Cephalon s motion for judgment on the pleadings as to Provigil® claims that allegedly occurred prior to February 28, 2008. Relators motion for reconsideration is pending.

In May 2014, counsel for Santa Clara County and Orange County, purportedly on behalf of the People of California, filed a complaint in the Superior Court for Orange County, California against Teva and Cephalon, along with several other pharmaceutical companies, contending that defendants allegedly engaged in improper marketing of opioids, including Actiq® and Fentora®. In June 2014, the City of Chicago filed a similar complaint against Teva and Cephalon in the Circuit Court of Cook County, Illinois, which has been removed to the Northern District of Illinois. Both complaints assert claims under state law based upon alleged improper marketing of opioids, and both seek a variety of damages, including restitution, civil penalties, disgorgement of profits, treble damages, attorneys fees and injunctive relief. Neither complaint specifies the exact amount of damages at issue. Teva and Cephalon filed motions to dismiss in both the

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California and Chicago actions. In the California action, in August 2015, the Court granted the defendants demurrer, or motion to dismiss, on primary jurisdiction grounds and the case has been stayed. In the Chicago action, all claims against Teva and Cephalon were dismissed without prejudice. In August 2015, the City of Chicago filed a second amended complaint and defendants have filed motions to dismiss the second amended complaint. The City filed its opposition to the motion to dismiss on February 18, 2016, and the defendants replied on April 15, 2016.

In December 2015, the Mississippi Attorney General filed a lawsuit against Teva Pharmaceuticals USA, Inc. and Cephalon along with the same defendants named in the California and Chicago actions described above. The Mississippi complaint is similar to the California and Chicago complaints, asserts claims under Mississippi state law based upon alleged improper marketing of opioids, including Actiq® and Fentora®, and seeks a variety of damages including restitution, civil penalties, disgorgement of profits, treble damages, attorneys fees and injunctive relief. The complaint does not specify the exact amount of damages at issue. Teva Pharmaceuticals USA, Inc. and Cephalon, along with the co-defendants named in the action, filed joint and individual motions to dismiss on March 8, 2016.

On January 8, 2014, Teva received a civil investigative demand from the United States Attorney for the Southern District of New York seeking documents and information from January 1, 2006 related to sales, marketing and promotion of Copaxone® and Azilect®. The demand states that the government is investigating possible civil violations of the federal False Claims Act. On March 12, 2015, the docket in this matter and a False Claims Act civil *qui tam* complaint concerning this matter were unsealed by the court, which revealed that the United States Attorney had notified the court on November 18, 2014 that it had declined to intervene in and proceed with the lawsuit. The *qui tam* relators, however, are moving forward with the lawsuit. On June 5, 2015, Teva filed motions to dismiss the complaint. On February 22, 2016, the Court stayed its decision on the relators claims based on state and local laws, denied Teva s motions to dismiss the False Claims Act claims, and instructed the relators to amend their complaint with additional information. On March 23, 2016, the relators filed an amended complaint. On April 11, 2016, Teva filed an answer.

For several years, Teva has been conducting a voluntary worldwide investigation into business practices that may have implications under the U.S. Foreign Corrupt Practices Act (FCPA). Teva has engaged outside counsel to assist in its investigation, which was prompted by the receipt, beginning in 2012, of subpoenas and informal document requests from the SEC and the Department of Justice (DOJ) to produce documents with respect to compliance with the FCPA in certain countries. Teva has provided and will continue to provide documents and other information to the SEC and the DOJ, and is cooperating with these agencies in their investigations of these matters. In the course of its investigation, which is substantially complete, Teva has identified certain business practices and transactions in Russia, certain European countries, certain Latin American countries and other countries in which it conducts business, which likely constitute violations of the FCPA and/or local law. In connection with its investigation, Teva has also become aware that Teva affiliates in certain countries under investigation provided to local authorities inaccurate or altered information relating to marketing or promotional practices. Teva has brought and continues to bring these issues to the attention of the SEC and the DOJ. Teva cannot predict at this time the impact on the Company as a result of these matters, which may include material fines in amounts that are not currently estimable, limitations on the Company s conduct, the imposition of a compliance monitor and/or other civil and criminal

penalties.

Environmental Matters

Teva and some of its subsidiaries are party to a number of environmental proceedings, or has received claims, including some brought pursuant to the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the Superfund law) or other national, federal, provincial or state and local laws imposing liability for alleged noncompliance with various environmental laws and regulations 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 into the environment that impacted a site, to investigate and clean up the site or to pay for such activities, including for oversight by governmental authorities, the response costs associated with such oversight and any related damages to natural resources. Teva has received claims, or has been made a party to these proceedings, along with other potentially responsible parties, 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 that may have adversely impacted the environment.

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In many of these cases, the government or private litigants allege that the responsible parties are jointly and severally liable for the investigation and cleanup costs. Although the liability among the responsible parties, under certain circumstances, may be joint and several, these proceedings are frequently resolved so that the allocation of cleanup and other costs among the parties reflects the relative contributions of the parties to the site conditions and takes into account other pertinent factors. Teva s potential liability varies greatly at each of the sites in the proceedings or for which claims have been asserted; for some sites the costs of the investigation, cleanup and natural resource damages have not yet been determined, and for others Teva s allocable share of liability has not been determined. At other sites, Teva has been paying a share of the costs, the amounts of which have not been, and are not expected to be, material. Teva has taken an active role in identifying those costs, to the extent they are identifiable and estimable, which do not include reductions for potential recoveries of cleanup costs from insurers, indemnitors, former site owners or operators or other potentially responsible parties. In addition, enforcement proceedings relating to alleged federal, state, commonwealth or local regulatory violations at some of Teva s facilities have resulted, or 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 state or commonwealth costs and natural resource damages, and have required, or may require, that corrective measures and enhanced compliance measures be implemented.

NOTE 14 Segments:

Teva has two reportable segments: generic and specialty medicines. The generics segment develops, manufactures, sells and distributes generic or branded generic medicines as well as active pharmaceutical ingredients (API). The specialty segment engages in the development, manufacture, sale and distribution of branded specialty medicines such as those for central nervous system and respiratory indications, as well as those marketed in the women s health, oncology and other specialty businesses.

Teva s other activities include the over-the-counter (OTC) medicines business, distribution activity mainly in Israel and Hungary and medical devices. The OTC activity is primarily conducted through a joint venture with P&G, which combines Teva s production capabilities and market reach with P&G s marketing expertise and expansive global platform.

Teva s chief executive officer, 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 two identified reportable segments, namely generic and specialty medicines, and revenues by geographical markets.

The accounting policies of the individual segments are the same as those described in the summary of significant accounting policies in Note 1 to the annual consolidated financial statements included in Teva s Annual Report on Form 20-F for the year ended December 31, 2015.

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

Teva manages its assets on a total 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 chief executive officer reviews the Company s strategy and organizational structure on a continuing basis. Any changes in strategy may lead to a reevaluation of Teva s current segments and goodwill assignment.

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Segment information

The following tables present profit by segments and a reconciliation of Teva s segment profit to Teva s consolidated income before income taxes, for the three months ended March 31, 2016 and 2015:

	Generics		Specialty	
	Three months ended March 31,		Three months ended March 31,	
	2016	2015	2016	2015
	U.S.$ in millions		U.S.$ in millions	
Revenues	$ 2,170	$ 2,621	$ 2,152	$ 1,956
Gross profit	999	1,284	1,871	1,678
R&D expenses	136	111	229	215
S&M expenses	279	374	457	486
Segment profit	$ 584	$ 799	$ 1,185	$ 977

	Three months ended March 31,	
	2016	2015
	U.S.$ in millions	
Generic medicines profit	$ 584	$ 799
Specialty medicines profit	1,185	977
Total segment profit	1,769	1,776
Profit of other activities	51	50
Total profit	1,820	1,826
Amounts not allocated to segments:		
Amortization	189	220
General and administrative expenses	304	307
Impairments, restructuring and others	119	299
Legal settlements and loss contingencies	(25)	227
Other unallocated amounts	68	24
Consolidated operating income	1,165	749

Financial expenses - net	298	192
Consolidated income before income taxes	$ 867	$ 557

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Segment revenues by geographic area:

	Three months ended March 31,	
	2016	2015
	U.S.$ in millions	
Generic Medicines		
United States	$ 976	$ 1,439
Europe*	671	680
Rest of the World	523	502
Total Generic Medicines	2,170	2,621
Specialty Medicines		
United States	1,677	1,479
Europe*	394	405
Rest of the World	81	72
Total Specialty Medicines	2,152	1,956
Other Revenues		
United States	4	3
Europe*	170	182
Rest of the World	314	220
Total Other Revenues	488	405
Total Revenues	$ 4,810	$ 4,982

* All members of the European Union, Switzerland, Norway, Albania and the countries of former Yugoslavia.

Net revenues from specialty medicines:

	Three months ended March 31,	
	2016	2015

	U.S. $ in millions	
CNS	$ 1,323	$ 1,220
Copaxone®	1,006	924
Azilect®	113	107
Nuvigil®	103	85
Respiratory	366	265
ProAir®	173	124
QVAR®	134	98
Oncology	268	264
Treanda® and Bendeka	155	157
Women s health	110	129
Other Specialty	85	78
Total Specialty Medicines	$ 2,152	$ 1,956

A significant portion of Teva s revenues, and a higher proportion of the profits, come from the manufacture and sale of patent-protected pharmaceuticals. Many of Teva s specialty medicines are covered by several patents that expire at different times. Nevertheless, once patent protection has expired, or has been lost prior to the expiration date as a result of a legal challenge, Teva no longer have patent exclusivity on these products, and subject to regulatory approval, generic pharmaceutical manufacturers are able to produce similar (or purportedly similar) products and sell them for a lower

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price. The commencement of generic competition, even in the form of non-equivalent products, can result in a substantial decrease in revenues for a particular specialty medicine in a very short time. Any such expiration or loss of intellectual property rights could therefore significantly adversely affect Teva s results of operations and financial condition.

In particular, Teva relies heavily on sales of Copaxone®, its leading specialty medicine. A key element of Teva s business strategy for Copaxone® is maintaining patients on the three-times-a-week 40 mg/mL version introduced in 2014, and protecting our patents for the 40 mg/mL version. Any substantial reduction in the number of patients taking Copaxone®, whether due to increased use of oral medicines or other competing products, including competing 20 mg/mL generic products (with one generic version introduced in the U.S. in 2015 and one approved in Europe in 2016), would likely have a material adverse effect on Teva s financial results and cash flow.

Copaxone® 40 mg/mL is protected by three U.S. Orange Book patents that expire in 2030, which are being challenged in paragraph IV litigation and in patent office proceedings in the United States. A fourth U.S. Orange Book patent expiring in 2030 was issued in October 2015 and in March 2016 we received a notice of allowance on a fifth patent, which should issue within the next few months. It is also protected by one European patent expiring in 2030, the validity of which was confirmed by the European Patent Office in December 2015, which rejected all invalidity claims.

For the three months ended March 31, 2016, Copaxone® revenues in the United States, which include revenues from both Copaxone® 20 mg/mL and Copaxone® 40 mg/mL products, amounted to $821 million (approximately 31% of U.S. revenues) and Copaxone® revenues outside the United States amounted to $185 million (approximately 9% of non-U.S. revenues).

The profit of the multiple sclerosis franchise, which is comprised of Copaxone® products and laquinimod (a developmental compound for the treatment of multiple sclerosis), was $805 million for the three months ended March 31, 2016, compared to $657 million for the three months ended March 31, 2015. The profit of the multiple sclerosis franchise is comprised of Copaxone® revenues and cost of goods sold as well as S&M and R&D expenses related to the MS franchise. It does not include G&A expenses, amortization and non-recurring items. The profit of the multiple sclerosis franchise as a percentage of Copaxone® revenues was 80% for the three months ended March 31, 2016 and 71.1% for the three months ended March 31, 2015.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Forward-Looking Statements

The following discussion and analysis contains forward-looking statements, which are based on management s current beliefs and expectations and involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks relating to: our ability to develop and commercialize additional pharmaceutical products; competition for our specialty products, especially Copaxone® (including competition from orally-administered alternatives, as well as from generic equivalents) and our ability to continue to migrate users to our 40 mg/mL version and maintain patients on that version; our ability to identify and successfully bid for suitable acquisition targets or licensing opportunities, or to consummate and integrate acquisitions (such as our pending acquisition of Actavis Generics and the integration of Rimsa); the possibility of material fines, penalties and other sanctions and other adverse consequences arising out of our ongoing FCPA investigations and related matters; our ability to achieve expected results from the R&D efforts invested in our pipeline of specialty and other products; our ability to reduce operating expenses to the extent and during the timeframe intended by our cost reduction program; the extent to which any manufacturing or quality control problems damage our reputation for quality production and require costly remediation; increased government scrutiny in both the U.S. and Europe of our patent settlement agreements; our exposure to currency fluctuations and restrictions as well as credit risks; the effectiveness of our patents, confidentiality agreements and other measures to protect the intellectual property rights of our specialty medicines; the effects of reforms in healthcare regulation and pharmaceutical pricing, reimbursement and coverage; governmental investigations into sales and marketing practices, particularly for our specialty pharmaceutical products; adverse effects of political or economic instability, major hostilities or acts of terrorism on our significant worldwide operations; interruptions in our supply chain or problems with internal or third-party information technology systems that adversely affect our complex manufacturing processes; significant disruptions of our information technology systems or breaches of our data security; competition for our generic products, both from other pharmaceutical companies and as a result of increased governmental pricing pressures; competition for our specialty pharmaceutical businesses from companies with greater resources and capabilities; the impact of continuing consolidation of our distributors and customers; decreased opportunities to obtain U.S. market exclusivity for significant new generic products; potential liability in the U.S., Europe and other markets for sales of generic products prior to a final resolution of outstanding patent litigation; our potential exposure to product liability claims that are not covered by insurance; any failure to recruit or retain key personnel, or to attract additional executive and managerial talent; any failures to comply with complex Medicare and Medicaid reporting and payment obligations; significant impairment charges relating to intangible assets, goodwill and property, plant and equipment; the effects of increased leverage and our resulting reliance on access to the capital markets; potentially significant increases in tax liabilities; 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; variations in patent laws that may adversely affect our ability to manufacture our products in the most efficient manner; environmental risks; and other factors that are discussed in our Annual Report on Form 20-F for the year ended December 31, 2015 and in our other filings with the U.S. Securities and Exchange Commission (the SEC).

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 in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our reports to the SEC on Form 6-K. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2015. These are factors that we believe could cause our actual results to differ materially from expected results. Other factors besides those listed could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform

Act of 1995.

Introduction

Overview

We are a global pharmaceutical company, committed to increasing access to high-quality healthcare by developing, producing and marketing affordable generic medicines and a focused portfolio of specialty medicines. We operate in pharmaceutical markets worldwide, with major operations in the United States, Europe and other markets. As a world leading pharmaceutical company, we are strategically positioned to benefit from ongoing changes in the global healthcare environment.

We seek to address unmet patient needs while capitalizing on evolving market, economic and legislative dynamics in global healthcare. These dynamics include the aging population, increased spending on pharmaceuticals in emerging markets, economic pressure on governments and private payors to provide accessible healthcare solutions, legislative and regulatory reforms, an increase in patient awareness and the growing importance of over-the-counter (OTC) medicines.

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We believe that our dedicated leadership and employees, world-leading generics expertise and portfolio, focused specialty portfolio, global reach, robust R&D capabilities and global infrastructure and scale position us to take advantage of opportunities created by these dynamics.

Segments

We operate our business in two segments:

- **Generic medicines**, which include chemical and therapeutic equivalents of originator medicines in a variety of dosage forms, including tablets, capsules, injectables, inhalants, liquids, ointments and creams. We are the leading generic drug company in the United States and Europe, and we have a significant or growing presence in our ROW markets. We are also one of the world s leading manufacturers of Active Pharmaceutical Ingredients (APIs).

- **Specialty medicines**, which include several franchises, most significantly our core therapeutic areas of central nervous system (CNS) medicines such as Copaxone®, Azilect®, Nuvigil® and Zecuity® and of respiratory medicines such as ProAir® HFA and QVAR®. Our specialty medicines segment includes other therapeutic areas, such as oncology, women s health and selected other areas.

In addition to these two segments, we have other activities, primarily PGT Healthcare, our OTC joint venture with P&G.

Highlights

Significant highlights of the first quarter of 2016 included:

- Our revenues amounted to $4.8 billion, compared to $5.0 billion in the first quarter of 2015, down 3%, or 1% in local currency terms.

- Our generic medicines segment generated revenues of $2.2 billion and profit of $584 million. Revenues decreased 17%, or 15% in local currency terms, mainly due to lower U.S. sales. Profit decreased 27% compared to the first quarter of 2015. Our higher revenues and profit in the first quarter of 2015 were both due to significant launches in the U.S.

- Our specialty medicines segment generated revenues of $2.2 billion and profit of $1.2 billion. Revenues increased 10%, or 11% in local currency terms. Profit was up 21%, compared to the first quarter of 2015. The increase in profit was mainly due to higher revenues resulting in higher gross profit.

- Operating income amounted to $1.2 billion, compared to $0.7 billion in the first quarter of 2015. The increase was primarily due to lower legal settlements and loss contingencies, higher profit from our specialty medicines segment and lower impairments, restructuring and others, partially

offset by lower profit from our generic medicines segment.

Financial expenses amounted to $298 million, compared to $192 million in the first quarter of 2015. The increase was mainly due to an impairment of $246 million on our monetary assets in Venezuela, resulting from a devaluation in the first quarter of 2016, compared to $143 million in interest expense, which resulted from the debt tender offer and the termination of the related swap agreements, in the first quarter of 2015.

Net income attributable to Teva was $636 million in the first quarter of 2016, compared to $446 million in the first quarter of 2015.

Net income attributable to ordinary shareholders was $570 million in the first quarter of 2016.

Exchange rate differences between the first quarter of 2016 and the first quarter of 2015 had a negative impact of $107 million on revenues and a net negative impact of $30 million on operating income.

Cash flow generated from operating activities during the first quarter of 2016 amounted to $1.4 billion, similar to the first quarter of 2015.

Acquisition of Allergan s generics business:

On July 27, 2015, we announced that we entered into a definitive agreement with Allergan plc to acquire Allergan s worldwide generic pharmaceuticals business. We will pay total consideration of $33.75 billion in cash and approximately 100 million Teva shares, to be issued to Allergan at the closing of the transaction. At the time of the announcement, total consideration was estimated to be $40.5 billion. However, the final consideration will be based on the closing price of our ordinary shares at the date of acquisition. We expect that closing will occur in June 2016, based upon our current estimate of the timing to obtain clearance from the U.S. Federal Trade Commission. We previously received regulatory approval from the European Commission for the acquisition, subject to certain divestitures.

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Takeda business venture:

On April 1, 2016, we and Takeda established Teva Takeda Yakuhin Ltd., a new business venture in Japan. The business venture combines our Japanese generics business along with Takeda s portfolio of non-exclusive products. The business venture seeks to leverage Takeda s leading brand reputation and strong distribution presence in Japan with our expertise in supply chain, operational network, infrastructure and R&D, to meet the wide-ranging needs of patients and growing importance of generics in Japan through the provision of off-patent medicines.

We assigned 49% in the business venture to Takeda in consideration of the contribution of its off-patented products business in Japan. The business venture will be consolidated in our financial statements commencing April 1, 2016, and is expected to increase our sales in the Japanese market. Takeda s interest in the business venture will be accounted for under net income (loss) attributable to non-controlling interests.

Rimsa acquisition:

On March 3, 2016, we completed the acquisition of Rimsa, a leading pharmaceutical manufacturing and distribution company in Mexico, along with a portfolio of products and companies, intellectual property, assets and pharmaceutical patents in Latin America and Europe, for an aggregate of $2.3 billion, in a cash free, debt free set of transactions. The transaction was funded through cash on hand. With the completion of the acquisition, we are now one of the leading pharmaceutical companies in Mexico, the second largest market in Latin America and one of the top five emerging markets globally.

Results of Operations

Comparison of Three Months Ended March 31, 2016 to Three Months Ended March 31, 2015

The following table sets forth, for the periods indicated, certain financial data derived from our U.S. GAAP financial statements, presented as percentages of net revenues, and the percentage change for each item as compared to the previous period.

	Percentage of Net Revenues Three Months Ended March 31,		Percentage Change
	2016	2015	2016-2015
	%	%	%
Net revenues	100.0	100.0	(3)
Gross profit	58.0	56.9	(2)
Research and development expenses	8.1	6.7	17
Selling and marketing expenses	17.4	18.5	(9)
General and administrative expenses	6.3	6.1	(1)
Impairments, restructuring and others	2.5	6.0	(60)
Legal settlements and loss contingencies	(0.5)	4.6	n/a
Operating income	24.2	15.0	56
Financial expenses - net	6.2	3.8	55
Income before income taxes	18.0	11.2	56
Income taxes	4.7	2.1	119

Share in losses of associated companies - net	0.1	0.2	(33)
Net loss attributable to non-controlling interests	*	(0.1)	50
Net income attributable to Teva	13.2	9.0	43
Dividends on preferred shares	1.4		n/a
Net income attributable to ordinary shareholders	11.8	9.0	28

* Represents an amount less than 0.05%.

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Segment Information

Generic Medicines Segment

The following table presents revenues, expenses and profit for our generic medicines segment for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
	U.S.$ in millions / % of Segment Revenues			
Revenues	$ 2,170	100.0%	$ 2,621	100.0%
Gross profit	999	46.0%	1,284	49.0%
R&D expenses	136	6.3%	111	4.2%
S&M expenses	279	12.8%	374	14.3%
Segment profit*	$ 584	26.9%	$ 799	30.5%

* Segment profit is comprised of gross profit for the segment, less R&D and S&M expenses related to the segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 14 to our consolidated financial statements and Operating Income below for additional information.

Generic Medicines Revenues

Our generic medicines segment includes generic medicines as well as API sales to third parties. In the first quarter of 2016, revenues from our generic medicines segment amounted to $2.2 billion, a decrease of $451 million, or 17%, compared to the first quarter of 2015. In local currency terms, revenues decreased 15%.

Revenues of generic medicines in the United States, our largest generic market, amounted to $976 million in the first quarter of 2016, a decrease of 32% compared to the first quarter of 2015. Revenues of generic medicines in Europe amounted to $671 million, a decrease of 1% compared to the first quarter of 2015. In local currency terms, our European revenues increased 1% compared to the first quarter of 2015. In our ROW markets, revenues from generic medicines in the first quarter of 2016 amounted to $523 million, an increase of 4% compared to the first quarter of 2015. In local currency terms, ROW sales increased 13%.

API sales to third parties in the first quarter of 2016 amounted to $197 million, an increase of 25%, compared to the first quarter of 2015. In local currency terms, sales increased 26%, mainly due to an increase in sales in Europe and in the United States, partially offset by a decrease in our ROW markets.

The following table presents generic segment revenues by geographic area for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	Percentage Change

	2016	2015	2016 - 2015
	U.S. $ in millions		
United States	$ 976	$ 1,439	(32%)
Europe*	671	680	(1%)
Rest of the World	523	502	4%
Total Generic Medicines	$ 2,170	$ 2,621	(17%)

* All members of the European Union, Switzerland, Norway, Albania and the countries of former Yugoslavia.

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United States Generic Medicines Revenues

In the first quarter of 2016, we continued to lead the U.S. generic market in total prescriptions and new prescriptions, with approximately 463 million total prescriptions, representing 12.7% of total U.S. generic prescriptions. We seek to continue our U.S. market leadership based on our ability to introduce new generic equivalents for brand-name products on a timely basis, with a focus on complex generics and other high-barrier products that we believe will create more value for patients and customers, our strong emphasis on customer service, the breadth of our product line, our commitment to quality and regulatory compliance and our cost-effective production, including through our pending acquisition of Actavis Generics.

Revenues from generic medicines in the United States during the first quarter of 2016 amounted to $976 million, a decrease of 32% or of $463 million, compared to the first quarter of 2015. The decrease resulted mainly from a decline in sales of $427 million due to the loss of exclusivity on esomeprazole (the generic equivalent of Nexium®) and budesonide (the generic equivalent of Pulmicort®) as well as a decline in sales of omega-3-acid ethyl esters (the generic equivalent of Lovaza®) and capecitabine (the generic equivalent of Xeloda®) due to increased competition. These decreases were partially offset by sales of products sold in the first quarter of 2016 that were not sold in the first quarter of 2015, the most significant of which were aripiprazole (the generic equivalent of Abilify®) and aspirin/extended-release dipyridamole.

Among the most significant generic products we sold in the United States in the first quarter of 2016 were generic versions of Pulmicort® (budesonide inhalation), Abilify® (aripiprazole tablets), Adderall XR® (mixed amphetamine salts ER) and Xeloda® (capecitabine).

Launches. In the first quarter of 2016, we launched generic versions of the following branded products in the United States (listed by month of launch):

Generic Name	Brand Name	Month of Launch	Total Annual U.S. Market at Time of Launch $ millions (IMS)*
Docetaxel injection, USP 20 mg/mL, 20 mg & 20 mg/mL, 80 mg	Taxotere®	February	$ 62
Budesonide inhalation suspension 1 mg/2 mL	Pulimcort Respules®	February	$ 97
Acamprosate calcium delayed-release tablets 333 mg	Campral®	March	$ 14

* The figures given are for the twelve months ended in the calendar quarter closest to our launch.

We expect that our generic medicines revenues in the U.S. will continue to benefit from our strong generic pipeline, which, as of April 15, 2016, had 102 product registrations awaiting FDA approval, including 27 tentative approvals. Collectively, these 102 products had U.S. sales in the twelve months ended December 31, 2015 exceeding $73 billion. Of these applications, 71 were Paragraph IV applications challenging patents of branded products. We believe we are first to file with respect to 31 of these products, the branded versions of which had U.S. sales of more than $23 billion in the twelve months ended December 31, 2015. IMS 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 2016, we received tentative approval for generic equivalents of the products listed below. A tentative approval letter indicates that the FDA has substantially completed its review of an application and final approval is expected once the relevant patent expires, a court decision is reached, a 30-month regulatory stay lapses or a 180-day exclusivity period awarded to another manufacturer either expires or is forfeited.

Generic Name	Brand Name	Total U.S. Annual Branded Market $ millions (IMS)*
Pralatrexate injection 20 ml/mL 1 & 2 mL vials	Folotyn®	$ 25
Estradiol valerate/dienogest tablets	Natazia®	$ 29

* The figures given are for the twelve months ended in the calendar quarter closest to our launch.

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Europe Generic Medicines Revenues

We define our European region as the 28 countries in the European Union, Norway, Switzerland, Albania and the countries of the former Yugoslavia. It is a diverse region that has a population of over 500 million people.

Revenues from generic medicines in Europe in the first quarter of 2016 amounted to $671 million, a decrease of 1% compared to the first quarter of 2015. In local currency terms, revenues increased 1% compared to the first quarter of 2015, mainly as a result of our continued focus on sustainable and profitable business, with increases in API sales to third parties and in generic medicine sales in Italy largely offset by decreases in generic medicine sales in the United Kingdom, France, Spain and Switzerland.

As in previous years, European regulatory measures aimed at reducing healthcare and drug expenditures have led to slower growth in the generic medicines market, and have adversely affected our revenues in some markets. In Germany, Italy, France, Spain and Poland, governmental measures (such as tenders and price-referencing) have reduced prices. We have adjusted our strategy to address these changes, shifting from a market share-driven approach to a model emphasizing profitable and sustainable growth. The selective approach to our portfolio, as well as our strong focus on cost reduction, have contributed to significantly improved profit in the region.

Since the beginning of the year, we received 226 generic approvals in Europe relating to 28 compounds in 67 formulations. In addition, we had 1,677 marketing authorization applications pending approval in 31 European countries, relating to 165 compounds in 344 formulations.

Listed below are generic revenues highlights for the first quarter of 2016 in our main European markets:

Germany: Generic revenues in the first quarter of 2016 decreased 3%, or 1% in local currency terms, compared to the first quarter of 2015. The decrease in local currency terms was due to both reduced prices and lower volumes. We maintained our position as one of Germany s leading suppliers of medicines and our position as the second largest generic pharmaceutical company.

United Kingdom: Generic revenues in the first quarter of 2016 decreased 15%, or 10% in local currency terms, compared to the first quarter of 2015. The decrease in local currency terms was mainly due to reduced prices caused by increased competition. We maintained our position as one of the largest generic pharmaceutical companies in the U.K.

Italy: Generic revenues in the first quarter of 2016 increased 2%, or 4% in local currency terms, compared to the first quarter of 2015. The increase in local currency terms was mainly due to new product launches.

Switzerland: Generic revenues in the first quarter of 2016 decreased 8%, or 4% in local currency terms, compared to the first quarter of 2015, mainly due to lower volumes caused by wholesalers inventory management in the fourth quarter of 2015.

France: Generic revenues in the first quarter of 2016 decreased 10%, or 8% in local currency terms, compared to the first quarter of 2015, primarily due to increased competition.

Spain: Generic revenues in the first quarter of 2016 decreased 7%, or 5% in local currency terms, compared to the first quarter of 2015. The decrease was mainly due to the implementation of new commercial policies during 2015 to adapt to regulatory changes.

ROW Generic Medicines Revenues

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

In our ROW markets, generics revenues in the first quarter of 2016 amounted to $523 million, an increase of 4% compared to the first quarter of 2015. In local currency terms, revenues increased 13%, mainly due to higher revenues principally in Venezuela as well as in Canada, which were partially offset by lower revenues in Japan and Russia.

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Listed below are generic revenues highlights for the first quarter of 2016 in our main ROW markets:

Venezuela: Generic revenues in the first quarter of 2016 increased 64%, or 72% in local currency terms, compared to the first quarter of 2015. This increase is primarily due to inflation and higher volumes. Venezuela is a hyperinflationary economy with two official exchange rates: the DIPRO rate of 10 bolivars per U.S. dollar (which replaced the CENCOEX rate of 6.3 in March 2016) and the DICOM rate, which fluctuates and is currently approximately 200 bolivars per U.S. dollar (which replaced the SIMADI rate in March 2016; also in March 2016, the SICAD rate of 13.5 was eliminated). We used the CENCOEX rate until March 2016 and then replaced it with the DIPRO rate to report our Venezuelan financial position, results of operations and cash flows. In the event of an additional devaluation or if a less favorable exchange rate is used, our revenues in Venezuela would be substantially reduced. For further information, see below under Impact of Currency Fluctuations on Results of Operations.

Japan: Generic revenues in the first quarter of 2016 were flat compared to the first quarter of 2015. In local currency terms, revenues decreased 3%, compared to the first quarter of 2015. The decrease in local currency terms was mainly due to lower income from contract manufacturing services as well as lower sales in anticipation of the scheduled National Health Insurance April 2016 price revision, which reduced prices by approximately 8%. The Japanese generics market as a whole is expected to grow, bolstered by government incentives to increase generic penetration. Our new business venture with Takeda, Teva Takeda Yakuhin Ltd. commenced operations on April 1, 2016, and is expected to increase our sales in the Japanese market.

Canada: Generic revenues in the first quarter of 2016 decreased 2%, but increased 7% in local currency terms, compared to the first quarter of 2015. The increase in local currency terms was mainly due to higher volumes. We maintained our position as one of the two leading generic pharmaceutical companies in Canada.

Russia: Generic revenues in the first quarter of 2016 decreased 18%, or 3% in local currency terms, compared to the first quarter of 2015. We maintained our position as one of the leading generic pharmaceutical companies in Russia.

Generic Medicines Gross Profit

In the first quarter of 2016, gross profit from our generic medicines segment amounted to $999 million, a decrease of $285 million, or 22%, compared to the first quarter of 2015. In local currency terms, gross profit decreased 20%. The lower gross profit was mainly a result of lower sales of high gross profit products in the United States, higher production expenses and lower gross profit in our European markets. This decrease was partially offset by higher gross profit of our ROW markets and our API business.

Gross profit margin for our generic medicines segment in the first quarter of 2016 decreased to 46.0%, from 49.0% in the first quarter of 2015. This decrease of 3.0 points in gross margin was mainly a result of higher production expenses (4.6 points) and lower profitability of our U.S. market (0.9 points), partially offset by higher profitability our ROW markets (1.4 points), higher profitability of our European markets (0.5 points), and higher profitability of our API business (0.3 points).

Generic Medicines R&D Expenses

R&D expenses relating to our generic medicines segment for the first quarter of 2016 amounted to $136 million, compared to $111 million in the first quarter of 2015. Expenses increased 23% mainly due to increased development of complex generic products such as sterile and respiratory medicines. As a percentage of segment revenues, R&D expenses were 6.3% in the first quarter of 2016, compared to 4.2% in the first quarter of 2015.

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

Generic Medicines S&M Expenses

S&M expenses related to our generic medicines segment in the first quarter of 2016 amounted to $279 million, a decrease of 25% compared to $374 million in the first quarter of 2015. In local currency terms, S&M expenses decreased 21%, mainly due to reduced royalties related to our sales of budesonide (the generic equivalent of Pulmicort®) in the United States.

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As a percentage of segment revenues, S&M expenses decreased to 12.8% in the first quarter of 2016 compared to 14.3% in the first quarter of 2015.

Generic Medicines Profit

The profit of our generic medicines segment is comprised of the gross profit for the segment less S&M expenses and R&D expenses related to this segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 14 to our consolidated financial statements and Operating Income below for additional information.

Profit of our generic medicines segment amounted to $584 million in the first quarter of 2016, compared to $799 million in the first quarter of 2015. The decrease was mainly due to factors previously discussed, primarily lower gross profit, as well as higher R&D expenses, partially offset by lower S&M expenses.

Generic medicines profit as a percentage of generic medicines revenues was 26.9% in the first quarter of 2016, down from 30.5% in the first quarter of 2015. This decrease of 3.6 points was due to lower gross margin (3.0 points) and higher R&D expenses as a percentage of revenues (2.1 points), partially offset by lower S&M expenses as a percentage of revenues (1.5 points).

Specialty Medicines Segment

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

The following table presents revenues, expenses and profit for our specialty medicines segment for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,			
	2016		2015	
	U.S.$ in millions / % of Segment Revenues			
Revenues	$ 2,152	100.0%	$ 1,956	100.0%
Gross profit	1,871	86.9%	1,678	85.8%
R&D expenses	229	10.6%	215	11.0%
S&M expenses	457	21.2%	486	24.9%
Segment profit*	$ 1,185	55.1%	$ 977	49.9%

* Segment profit is comprised of gross profit for the segment, less R&D and S&M expenses related to the segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 14 to our consolidated financial statements and Operating Income below for additional information.

Specialty Medicines Revenues

Specialty medicines revenues in the first quarter of 2016 amounted to $2.2 billion, an increase of 10% compared to the first quarter of 2015. In local currency terms, revenues increased 11%. In the United States, our specialty medicines revenues amounted to $1.7 billion, an increase of 13% from the first quarter of 2015. Specialty medicines revenues in Europe amounted to $394 million, a decrease of 3% from the first quarter of 2015. In local currency terms, specialty medicines revenues in Europe were flat compared to first quarter of 2015. ROW revenues were $81 million, an increase of 13%, or 27% in local currency terms, compared to the first quarter of 2015.

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Specialty Medicines Revenues Breakdown

The following table presents revenues by therapeutic area and key products for our specialty medicines segment for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		Percentage Change
	2016	2015	2016 - 2015
	U.S. $ in millions		
CNS	$ 1,323	$ 1,220	8%
Copaxone®	1,006	924	9%
Azilect®	113	107	6%
Nuvigil®	103	85	21%
Respiratory	366	265	38%
ProAir®	173	124	40%
QVAR®	134	98	37%
Oncology	268	264	2%
Treanda® and Bendeka	155	157	(1%)
Women s Health	110	129	(15%)
Other Specialty	85	78	9%
Total Specialty Medicines	**$ 2,152**	**$ 1,956**	10%

Central Nervous System

Our CNS specialty product line includes Copaxone®, Azilect®, Nuvigil®, Fentora®, Amrix®, Zecuity® and several other medicines. In the first quarter of 2016, our CNS sales were $1.3 billion, an increase of 8% compared to the first quarter of 2015, primarily due to higher sales of Copaxone® in the United States and our ROW markets.

Copaxone® In the first quarter of 2016, Copaxone® (glatiramer acetate injection), continued to be the leading multiple sclerosis therapy in the United States and worldwide. Global sales of Copaxone® amounted to $1.0 billion, an increase of 9% compared to the first quarter of 2015. Over 81% of the total U.S. Copaxone® prescriptions are now filled with the 40 mg/mL version, driven by patient and physician choice of the 40 mg/mL version supported by payor access and patient support activities.

Copaxone® revenues in the United States in the first quarter of 2016 were $821 million, an increase of 12% compared to the first quarter of 2015. The increase was mainly due to higher net pricing, including a price increase of 7.9% in January 2016 on Copaxone® 20 mg/mL and 40 mg/mL. Our U.S. market shares in terms of new and total prescriptions were 28.1% and 29.8%, respectively, according to March 2016 IMS data.

Revenues in the United States accounted for 82% of global Copaxone® revenues in the first quarter of 2016, compared to 79% in the first quarter of 2015.

Our Copaxone® revenues outside the United States amounted to $185 million in the first quarter of 2016, a decrease of 4% but an increase of 2% in local currency terms, compared to the first quarter of 2015. The increase in local currency terms is mainly due to higher volumes in certain ROW markets, partially offset by lower volumes and pricing due to increased competition in certain European markets.

Copaxone® accounted for approximately 21% of our revenues in the first quarter of 2016, and a significantly higher percentage contribution to our profits and cash flow from operations during such period.

Our U.S. Orange Book patents covering Copaxone® 20 mg/mL expired in May 2014. Our patents on Copaxone® 20 mg/mL expired in May 2015 in most of the rest of the world.

Accordingly, a key part of our strategy has been the introduction of Copaxone® 40 mg/mL, a higher dose of Copaxone® with a three times a week dosing regimen for patients with relapsing-remitting multiple sclerosis, which was launched in the United States in January 2014. This formulation allows for a less frequent dosing regimen administered subcutaneously for patients with relapsing forms of MS. In December 2014, we received European Medicines Agency (EMA) approval in a decentralized procedure for Copaxone® 40 mg/mL in Europe. To date, we have launched Copaxone® 40mg/mL in 20 European countries, with several other European launches planned for the remainder of 2016. We received regulatory approval for Copaxone® 40 mg/mL in Russia in October 2015. We expect to receive marketing approvals in other ROW markets during 2016.

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Copaxone® 40 mg/mL is protected by three U.S. Orange Book patents that expire in 2030, which are being challenged in paragraph IV litigation and in patent office proceedings in the United States, and a fourth U.S. Orange Book patent expiring in 2030 that was issued in October 2015 and is also being challenged in paragraph IV litigation, but not in patent office proceedings. It is also protected by one European patent expiring in 2030, the validity of which was confirmed by the European Patent Office in December 2015, which rejected all invalidity claims.

The market for MS treatments continues to change as a result of new and emerging therapies as well as generic versions of Copaxone® 20 mg/mL. In particular, the increasing number of oral treatments, such as Tecfidera® by Biogen, Gilenya® by Novartis, and Aubagio® by Genzyme, continue to present significant and increasing competition. In June 2015, Sandoz launched its generic version of Copaxone® 20 mg/mL, Glatopa™, in the United States and in April 2016, Synthon received approval for its generic version of Copaxone® 20 mg/mL in Europe. Copaxone® also continues to face competition from existing injectable products, such as the four beta-interferons Avonex®, Betaseron®, Extavia® and Rebif®, as well as from the two monoclonal antibodies Tysabri® and Lemtrada®.

Azilect® (rasagiline tablets) is indicated as an initial monotherapy and as an adjunct to levodopa for the treatment of the signs and symptoms of Parkinson s disease, the second most common neurodegenerative disorder. We exclusively market Azilect® in the United States, but expect generic competition commencing in early 2017. In Europe, we shared marketing rights with Lundbeck until the end of 2015, when the initial period of our agreement with Lundbeck ended and all marketing rights reverted to us. We continue to share marketing rights with Lundbeck in certain of our ROW markets. Data exclusivity protection for Azilect® in the EU expired in 2015. In 2014, we signed an agreement with Takeda to market this product in Japan.

Global in-market sales in the first quarter of 2016, which represent sales by Teva and Lundbeck to third parties, amounted to $117 million, a decrease of 13% compared to the first quarter of 2015. The decrease was mainly due to generic competition in certain European markets. Our sales of Azilect® in the first quarter of 2016 amounted to $113 million, an increase of 6% compared to the first quarter of 2015. In local currency terms, our sales increased 7%.

Nuvigil® (armodafinil), the R-isomer of modafinil, is indicated for the treatment of excessive sleepiness associated with narcolepsy and certain other disorders. Global sales of Nuvigil® in the first quarter of 2016 amounted to $103 million, compared to $85 million in the first quarter of 2015, due to higher volume and pricing.

Pursuant to an agreement with us, Mylan has the ability to sell its generic version of Nuvigil® in the United States beginning in June 2016, or earlier under certain circumstances. We have entered into other agreements to permit the other generic filers to enter the market under license 180 days after Mylan s entry.

Respiratory

Our respiratory portfolio includes ProAir®, QVAR®, DuoResp Spiromax®, Qnasl® and Cinqair®. Revenues from our specialty respiratory products in the first quarter of 2016 amounted to $366 million, an increase of 38% compared to the first quarter of 2015.

ProAir® includes ProAir® hydrofluoroalkane (HFA) and ProAir® RespiClick®, both sold only in the United States. ProAir® HFA is an inhalation aerosol with dose counter (albuterol sulfate), and is indicated for patients four years of age and older for the treatment or prevention of bronchospasm with reversible obstructive airway disease and for the prevention of exercise-induced bronchospasm. ProAir® RespiClick® (albuterol sulfate) inhalation powder is a breath-actuated, multi-dose, dry-powder, short-acting beta-agonist inhaler for the treatment or prevention of bronchospasm with reversible obstructive airway disease and for the prevention of exercise-induced bronchospasm in patients 12 years of age and older. In April 2016, the FDA approved ProAir® RespiClick® for children 4 to 11 years of

age.

Total ProAir® revenues in the first quarter of 2016 amounted to $173 million, an increase of 40% compared to the first quarter of 2015, due to increased volume and pricing. ProAir® maintained its leadership in the short-acting beta-agonist market, with a market share of 52.1% in terms of total number of prescriptions during the first quarter of 2016, a decrease of 4.3 points compared to the first quarter of 2015.

QVAR® (beclomethasone dipropionate HFA) is indicated as a maintenance treatment for asthma as a prophylactic therapy in patients five years of age or older. QVAR® is also indicated for asthma patients who require systemic corticosteroid administration, where adding QVAR® may reduce or eliminate the need for systemic corticosteroids. QVAR® revenues in the first quarter of 2016 amounted to $134 million, an increase of 37% compared to the first quarter of 2015, mainly due to positive price effects. QVAR® maintained its second-place position in the inhaled corticosteroids category in the United States, with a market share of 38.6% in terms of total number of prescriptions during the first quarter of 2016, an increase of 1.0 point compared to the first quarter of 2015.

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In April 2016, we launched **Cinqair®** (reslizumab) injection, an interleukin 5 antagonist monoclonal antibody (IgG4 kappa) indicated for add-on maintenance treatment of patients with severe asthma aged 18 years and older, and with an eosinophilic phenotype. Cinqair® is administered by intravenous infusion at a weight-based dose of 3 mg/kg once every four weeks.

Oncology

Our oncology portfolio includes Treanda®/ Bendeka , Granix®, Trisenox® and Synribo® in the United States and Lonquex®, Myocet®, Eporatio®, Tevagrastim®/Ratiograstim® and Trisenox® outside the United States. Sales of our oncology products amounted to $268 million in the first quarter of 2016, compared to $264 million in the first quarter of 2015. The increase resulted primarily from higher sales of our G-CSF products, Granix® and Lonquex® in the United States and Europe, partially offset by lower sales of certain other products.

Treanda® (bendamustine hydrochloride injection) **/ Bendeka** (bendamustine hydrochloride injection) are both approved in the United States for the treatment of patients with chronic lymphocytic leukemia and patients with indolent B-cell non-Hodgkin s lymphoma that has progressed during or within six months of treatment with rituximab or a rituximab-containing regimen. Bendeka , which was launched in the United States in January 2016, is a liquid, low-volume (50 mL) and short-time 10-minute infusion formulation of bendamustine hydrochloride that we licensed from Eagle to complement our Treanda® franchise. At the end of March 2016, we suspended sales of the liquid formulation of Treanda®. On March 28, 2016, the FDA denied Eagle s request for seven years of orphan drug exclusivity in the United States for Bendeka. Bendeka is protected by six U.S. Orange Book patents extending from 2026 through 2033, with additional patent applications pending.

Treanda® and Bendeka combined sales in the first quarter of 2016 amounted to $155 million, compared to $157 million in the first quarter of 2015 (Treanda® only), a decrease of 1%, mainly due to net pricing declines, largely offset by higher volume.

Women s Health

Our women s health portfolio includes ParaGard®, Plan B One-Step® OTC/Rx (levonorgestrel), Zoely®, Seasonique® and Ovaleap® along with a number of other products that are marketed in various countries. Revenues from our global women s health products amounted to $110 million in the first quarter of 2016, a decrease of 15% compared to the first quarter of 2015, mainly due to lower sales in the United States.

Specialty Medicines Gross Profit

In the first quarter of 2016, gross profit from our specialty medicines segment amounted to $1.9 billion, an increase of $193 million compared to the first quarter of 2015. The higher gross profit was mainly a result of higher revenues.

Gross profit margin for our specialty medicines segment in the first quarter of 2016 was 86.9%, compared to 85.8% in the first quarter of 2015.

Specialty Medicines R&D Expenses

Our specialty R&D activities focus primarily on product candidates in the CNS and respiratory therapeutic areas, with additional activities in selected areas. R&D expenses relating to our specialty medicines segment in the first quarter of 2016 amounted to $229 million, an increase of 7% in both U.S. dollar and local currency terms, compared to $215 million in the first quarter of 2015. The increase was mainly due to development costs related to assets acquired

through the Labrys and Auspex transactions. As a percentage of segment revenues, R&D spending was 10.6% in the first quarter of 2016, compared to 11.0% in the first quarter of 2015.

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Specialty R&D expenditures include certain upfront and milestone payments for products in the development phase, the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, clinical trials and product registration costs and are reported net of contributions received from collaboration partners. Our specialty R&D spending takes place throughout the development process, including (a) early-stage projects in both discovery and preclinical phases; (b) middle-stage projects in clinical programs up to phase 3; (c) late-stage projects in phase 3 programs, including where an NDA is currently pending approval; and (d) life cycle management and post-approval studies for marketed products. Furthermore, our R&D activities in innovation using existing molecules are managed and reported as part of our specialty R&D expenses.

We incur 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. Our specialty segment R&D expenses include such unallocated expenses.

Specialty Medicines S&M Expenses

S&M expenses related to our specialty medicines segment in the first quarter of 2016 amounted to $457 million, a decrease of 6% compared to $486 million in the first quarter of 2015. In local currency terms, S&M expenses decreased 5%, mainly in the United States and Europe.

As a percentage of segment revenues, S&M expenses decreased to 21.2% in the first quarter of 2016 from 24.9% in the first quarter of 2015.

Specialty Medicines Profit

The profit of our specialty medicines segment is comprised of the gross profit for the segment, less S&M expenses and R&D expenses related to this segment. Segment profit does not include G&A expenses, amortization and certain other items. See note 14 to our consolidated financial statements and Operating Income below for additional information.

Profit of our specialty medicines segment amounted to $1.2 billion in the first quarter of 2016, an increase of 21% compared to the first quarter of 2015. This is a result of the factors discussed above, mainly higher revenues.

Specialty medicines profit as a percentage of segment revenues was 55.1% in the first quarter of 2016, up 5.2 points from 49.9% in the first quarter of 2015. The increase was mainly attributable to lower S&M expenses as a percentage of specialty medicines revenues (3.7 points) and higher gross profit as a percentage of specialty medicines revenues (1.1 points).

Our MS franchise includes our Copaxone® products and laquinimod (a developmental compound for the treatment of MS). The profit of our MS franchise is comprised of Copaxone® revenues and cost of goods sold and S&M and R&D expenses related to our MS franchise. It does not include G&A expenses, amortization and certain other items. Our MS franchise profit in the first quarter of 2016 amounted to $805 million, compared to $657 million in the first quarter of 2015, mainly due to higher revenues. Profit of our MS franchise as a percentage of Copaxone® revenues was 80% in the first quarter of 2016, compared to 71.1% in the first quarter of 2015.

Other Activities

In addition to our generic and specialty medicines segments, we have other activities, primarily PGT Healthcare, our OTC joint venture with P&G, distribution services, primarily in Israel and Hungary, and sales of medical devices.

OTC

Our revenues from OTC products in the first quarter of 2016 amounted to $288 million, an increase of 35% compared to $213 million in the first quarter of 2015. In local currency terms, revenues increased 47%, mainly due to inflation and higher volumes in Venezuela.

PGT s in-market sales in the first quarter of 2016 amounted to $411 million, an increase of $37 million compared to the first quarter of 2015. The increase was mainly due to inflation and higher volumes in Venezuela. PGT s in-market sales consist of sales of the combined OTC portfolios of Teva and P&G outside North America.

Others

Other sources of revenue include sales of third party products for which we act as distributors (mostly in Israel and Hungary) and medical products, as well as miscellaneous items.

Revenues in the first quarter of 2016 amounted to $200 million, an increase of 4%, in both U.S. dollar and local currency terms, compared to the first quarter of 2015.

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Teva Consolidated Results

Revenues

Revenues in the first quarter of 2016 amounted to $4.8 billion, a decrease of 3% compared to the first quarter of 2015, primarily due to lower revenues of our generic medicines, partially offset by higher revenues of our specialty medicines as well as higher revenues of other activities compared to the first quarter of 2015. See Generic Medicines Revenues, Specialty Medicines Revenues, and Other Activities above. Exchange rate movements during the first quarter of 2016 negatively impacted overall revenues by $107 million, compared to the first quarter of 2015. In local currency terms, revenues decreased 1%.

Gross Profit

In the first quarter of 2016, gross profit amounted to $2.8 billion, a decrease of 2% compared to the first quarter of 2015.

The lower gross profit was mainly the result of the lower gross profit of our generic medicines segment, partially offset by higher gross profit of our specialty medicines segment. See Generic Medicines Gross Profit and Specialty Medicines Gross Profit above and the reconciliation of our segment profit to our consolidated operating income under Operating Income below.

Gross profit as a percentage of revenues was 58.0% in the first quarter of 2016, compared to 56.9% in the first quarter of 2015. The increase in gross profit as a percentage of revenues primarily reflects the higher profitability of our specialty medicines segment (1.7 points), partially offset by lower profitability of our generic medicines segment (0.5 points) and lower profitability of other activities (0.1 points).

Research and Development (R&D) Expenses

Net R&D expenses for the first quarter of 2016 amounted to $389 million, an increase of 17% compared to the first quarter of 2015.

As a percentage of revenues, R&D spending was 8.1% in the first quarter of 2016, compared to 6.7% in the first quarter of 2015.

Our R&D expenses were primarily the result of the factors previously discussed under Generic Medicines R&D Expenses and Specialty Medicines R&D Expenses above as well as a milestone payment related to the commencement of a phase 3 study for TEV-48125.

R&D expenditures include upfront and milestone payments for products in the development phase, the costs of discovery research, preclinical development, early- and late-clinical development and drug formulation, clinical trials, product registration costs and other costs, and are reported net of contributions received from collaboration partners.

Selling and Marketing (S&M) Expenses

S&M expenses in the first quarter of 2016 amounted to $839 million, a decrease of 9% compared to the first quarter of 2015. The decrease was mainly due to lower S&M expenses related to our generic and specialty medicines segments. See Generic Medicines S&M Expenses and Specialty Medicines S&M Expenses above.

As a percentage of revenues, S&M expenses were 17.4% in the first quarter of 2016, compared to 18.5% in the first quarter of 2015.

General and Administrative (G&A) Expenses

G&A expenses in the first quarter of 2016 amounted to $304 million, compared to $307 million in the first quarter of 2015. As a percentage of revenues, G&A expenses were 6.3% in the first quarter of 2016, compared to 6.1% in the first quarter of 2015.

Impairments, Restructuring and Others

In the first quarter of 2016, we recorded expenses of $119 million for impairments, restructuring and others, compared to $299 million in the first quarter of 2015. These expenses mainly comprised contingent consideration expenses of $51 million, of which $37 million was related to the launch of Bendeka™, and $24 million in acquisition expenses, primarily related to the acquisition of Actavis Generics. The expenses in the first quarter of 2015 were mainly due to a $235 million increase in liability for contingent consideration following the positive phase 2b results of TEV-48125 in both chronic and episodic migraine prevention, as well as to certain impairments of assets.

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As of March 31, 2016, the carrying value of our in-process R&D asset Revascor® (mesenchymal precursor cells), which was in-licensed from Mesoblast Ltd., was $258 million. This drug candidate is in a phase 3 trial for congestive heart failure. Under our agreement with Mesoblast, in the second quarter of 2016 we may have the right to terminate our participation in the development of Revascor®. If we choose not to continue with the trial, a full impairment of the in-process R&D asset would be recorded in the second quarter of 2016. Such an event would likely lead us to reassess the carrying value of our equity interest in Mesoblast, which is currently $75 million, and the related balance in other comprehensive income related to currency translation of $72 million.

Legal Settlements and Loss Contingencies

In the first quarter of 2016, we recorded income of $25 million for legal settlements and loss contingencies, compared to an expense of $227 million in the first quarter of 2015. The expenses in 2015 consisted mainly of $282 million in additional reserves relating to the settlement of the modafinil antitrust litigation, partially offset by insurance proceeds relating to the settlement of the pantoprazole patent litigation.

Operating Income

Operating income was $1.2 billion in the first quarter of 2016, compared to $749 million in the first quarter of 2015. As a percentage of revenues, operating income was 24.2% in the first quarter of 2016 compared to 15.0% in the first quarter of 2015.

The increase in operating income was due to factors previously discussed, primarily income from legal settlements and loss contingencies in the first quarter of 2016, compared to expenses from legal settlements and loss contingencies in the first quarter of 2015, higher profit of our specialty medicines segment, lower impairments, restructuring and others and lower amortization expenses, partially offset by lower profit of our generic medicines segment, as well as higher other unallocated amounts.

The increase in operating income as a percentage of revenues was 9.2 points, mainly due to income from legal settlements in the first quarter of 2016, compared to expenses from legal settlements in the first quarter of 2015 (5.1 points), higher profit of our specialty medicines segment (5.0 points), lower impairments, restructuring and others (3.5 points) and lower amortization expenses (0.5 points), partially offset by lower profit of our generic segment (3.9 points) and higher other unallocated amounts (0.9 points).

The following table presents a reconciliation of our segment profit to our consolidated operating income for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	U.S.$ in millions	
Generic medicines profit	$ 584	$ 799
Specialty medicines profit	1,185	977
Total segment profit	1,769	1,776
Profit of other activities	51	50

Total profit	1,820	1,826
Amounts not allocated to segments:		
Amortization	189	220
General and administrative expenses	304	307
Legal settlements and loss contingencies	(25)	227
Impairments, restructuring and others	119	299
Other unallocated amounts	68	24
Consolidated operating income	1,165	749
Financial expenses - net	298	192
Consolidated income before income taxes	$ 867	$ 557

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Financial Expenses-Net

In the first quarter of 2016, financial expenses amounted to $298 million, compared to $192 million in the first quarter of 2015. The increase was mainly due to a $246 million impairment of our monetary assets in Venezuela this quarter, compared to $143 million interest expense in the first quarter of 2015, which resulted from the debt tender offer and the termination of the related swap agreements.

Venezuela has experienced hyperinflation in recent years and has two official exchange rates, which deviate significantly among themselves as well as from unofficial market rates. In addition, remittance of cash outside of Venezuela is limited. We currently prepare our financial statements using an official preferential industry exchange rate, which was devaluated in March 2016 from 6.3 to 10 bolivars per U.S. dollar. As a result of this devaluation, as of March 31, 2016, we impaired our monetary balance sheet items using the new rate, and recorded the net negative difference of $246 million in financial expenses net. In the event of an additional devaluation or if a less favorable exchange rate is used, we are exposed to a potential impairment of our net monetary assets in Venezuela, which, as of March 31, 2016, amounted to approximately $346 million using the current official preferential exchange rate.

Tax Rate

In the first quarter of 2016, income taxes amounted to $228 million, or 26%, on pre-tax income of $867 million. In the first quarter of 2015, income taxes amounted to $104 million, or 19%, on pre-tax income of $557 million.

The statutory Israeli corporate tax rate is 25% in 2016.

Our tax rate differs from the Israeli statutory tax rate mainly due to taxes generated in various jurisdictions, tax benefits and infrequent or nonrecurring items.

Net Income

Net income attributable to Teva in the first quarter of 2016 was $636 million, compared to $446 million in the first quarter of 2015. This increase was due to the factors previously discussed, primarily our higher operating income, partially offset by higher income tax and financial expenses.

Net income attributable to ordinary shareholders in the first quarter of 2016 amounted to $570 million. The difference from net income attributable to Teva is due to the $66 million dividend paid to holders of our mandatory convertible preferred shares in the first quarter of 2016.

Diluted Shares Outstanding and Earnings Per Share

On December 8, 2015, we issued 54 million ADSs at $62.50 per ADS and 3,375,000 of our 7.00% mandatory convertible preferred shares at $1,000 per share. In addition, on January 6, 2016, we issued an additional 5.4 million ADSs and 337,500 mandatory convertible preferred shares pursuant to the exercise of the underwriters over-allotment option. The net proceeds from the offerings were approximately $7.24 billion, after estimated underwriting discounts, commissions and offering expenses.

The average weighted diluted shares outstanding used for the fully diluted share calculation for the first quarter of 2016 and 2015 were 920 million and 859 million shares, respectively.

Diluted earnings per share for the three months ended March 31, 2016 and 2015 take into account the potential dilution that could occur upon the exercise of options and non-vested RSUs granted under employee stock compensation plans, and one series of convertible senior debentures, using the treasury stock method. Additionally, for the three months ended March 31, 2016, no account was taken of the potential dilution of the mandatory convertible preferred shares amounting to 59 million weighted average shares, since they had an anti-dilutive effect on earnings per share.

The increase in number of shares outstanding compared to the first quarter of 2015 was mainly due to the December 2015 and January 2016 ADS issuances mentioned above and the issuance of shares for employee options exercised and vested RSUs, partially offset by the impact of the shares repurchased pursuant to our share repurchase program during the first quarter of 2015.

Diluted earnings per share amounted to $0.62 in the first quarter of 2016, compared to $0.52 in the first quarter of 2015.

Share Count for Market Capitalization

As of March 31, 2016 and 2015, the fully diluted share count for purposes of calculating Teva s market capitalization was approximately 1,003 million and 886 million, respectively. Commencing with the fourth quarter of 2015, we calculate these share amounts, using the outstanding number of shares (i.e., not including treasury shares) plus shares that would be outstanding upon the exercise of options and vesting of RSUs and PSUs, as well as the conversion of our convertible senior debentures and mandatory convertible preferred shares, in each case at period end.

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For purposes of calculating Teva s market capitalization, the share count at March 31, 2015 was adjusted to be comparable to the fully diluted share count at March 31, 2016, as described above.

Impact of Currency Fluctuations on Results of Operations

In the first quarter of 2016, approximately 45% of our revenues came from sales outside of the United States. Because our results are reported in U.S. dollars, we are subject to significant foreign currency risks and accordingly, changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which we operate (primarily the euro, Israeli shekel, Russian ruble, Canadian dollar, British pound and Japanese yen) impact our results. In the first quarter of 2016, compared to the first quarter of 2015, most of the main currencies relevant to our operations decreased in value against the U.S. dollar: the euro by 2%, the Russian ruble by 16%, the Canadian dollar by 10% and the British pound by 5% while the Japanese yen increased by 3% and the Israeli shekel by 1% (all compared on a quarterly average basis).

As a result, exchange rate movements during the first quarter of 2016 in comparison with the first quarter of 2015, negatively impacted overall revenues by $107 million and negatively impacted our operating income by $30 million, both of which are net of profits from certain hedging transactions.

Venezuela. Our Venezuelan operations use the U.S. dollar as the functional currency due to the hyperinflationary state of the Venezuelan economy. Our revenues in Venezuela from generic medicines in the first quarter of 2016 were $126 million, compared to $77 million in the first quarter of 2015. Our revenues in Venezuela from OTC medicines in the first quarter of 2016 were $112 million, compared to $36 million in the first quarter of 2015. As our OTC business in Venezuela is part of the PGT joint venture, profits from the sales of OTC medicines in the country are shared 49%-51% between Teva and P&G.

The government of Venezuela currently has two official exchange rates: the DIPRO rate of 10 bolivars per U.S. dollar (which replaced the CENCOEX rate of 6.3 in March 2016) and the DICOM rate, which fluctuates and is currently approximately 200 bolivars per U.S. dollar (which replaced the SIMADI rate in March 2016; also in March 2016, the SICAD rate of 13.5 was eliminated). We used the CENCOEX rate until March 2016 and then replaced it with the DIPRO rate to report our Venezuelan financial position, results of operations and cash flows, since we believe that the nature of our business operations in Venezuela, which include the importation, manufacture and distribution of pharmaceutical products, qualifies for the most preferential rates permitted by law.

We impaired our monetary balance sheet items using the new DIPRO rate and recorded the net negative difference of $246 million in financial expenses net. In the event of an additional devaluation or a less favorable exchange rate is used, we are exposed to a potential impairment of our net monetary assets in Venezuela, which, as of March 31, 2016, amounted to approximately $346 million using the DIPRO rate. We are also exposed to a potential negative impact on our revenues and our profits in Venezuela.

We cannot predict whether there will be a further devaluation of the Venezuelan currency or whether our use of the DIPRO rate will continue to be supported by the facts and circumstances.

Liquidity and Capital Resources

Total balance sheet assets amounted to $55.1 billion as of March 31, 2016, compared to $54.2 billion as of December 31, 2015. The increase is mainly due to an increase of $2.1 billion in goodwill and other intangible assets related to the Rimsa acquisition, partially offset by $1.0 billion decline in cash and cash equivalents.

Inventory balances as of March 31, 2016 amounted to $4.0 billion, similar to December 31, 2015.

Accounts receivable as of March 31, 2016, net of sales reserves and allowances (SR&A), amounted to negative $1.3 billion, similar to December 31, 2015.

We monitor macro-economic risks in certain emerging markets that are experiencing economic stress, focusing on Eastern Europe and Latin America, and have taken action to limit our exposure in these regions.

Accounts payable and accruals amounted to $3.5 billion as of March 31, 2016, compared to $3.6 billion as of December 31, 2015.

Our working capital balance, which includes accounts receivable, inventories, deferred income taxes and other current assets net of SR&A, accounts payable and accruals and other current liabilities, was negative $0.3 billion as of March 31, 2016, compared to $32 million as of December 31, 2015. The decrease was mainly due to a decrease in other current assets and an increase in other current liabilities, partially offset by an increase in deferred income taxes and a decrease in accounts payable and accruals.

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Investment in property, plant and equipment in the first quarter of 2016 was approximately $172 million, compared to $185 million in the first quarter of 2015. Depreciation amounted to $108 million in the first quarter of 2016, compared to $113 million in the first quarter of 2015.

Cash and cash equivalents and short-term and long-term investments as of March 31, 2016 amounted to $7.2 billion, compared to $8.4 billion as of December 31, 2015. The decrease was mainly due to cash used for the Rimsa acquisition, the devaluation in Venezuela and a decline in the fair market value of our Mylan shares, partially offset by cash generated during the quarter and proceeds from the exercise of the underwriters over-allotment option for $0.7 billion of our ADSs and mandatory convertible preferred shares in January 2016.

As of March 31, 2016, we held net monetary assets of approximately $346 million in Venezuela, which were negatively affected by the devaluation following the replacement of the 6.3 bolivar preferential CENCOEX exchange rate with the 10 bolivar DIPRO exchange rate. This amount is at significant risk of further decrease in the event of an additional devaluation or a change in the official exchange rate used. Our ability to repatriate this amount is also significantly limited.

See - Commitments below regarding our funding of the Actavis Generics acquisition.

2016 Debt Movements

As of March 31, 2016, our debt was $10.2 billion, an increase of $0.3 billion compared to $9.9 billion as of December 31, 2015. The increase was mainly due to exchange rate fluctuations.

Aggregate Debt

Our debt as of March 31, 2016 was effectively denominated in the following currencies: U.S. dollar 44%, euro 39%, Japanese yen 13% and Swiss franc 4%.

The portion of total debt classified as short-term as of March 31, 2016 remained 16%, similar to December 31, 2015.

Our financial leverage was 25% as of March 31, 2016, similar to December 31, 2015.

Our average debt maturity was approximately 6.3 years as of March 31, 2016.

Commencing the third quarter of 2015, we entered into forward starting interest rate swap and treasury lock agreements designated as cash flow hedges of anticipated future debt issuance, with respect to $5.25 billion notional amount in multiple transactions. These agreements hedge the variability in anticipated future interest payments due to possible changes in the benchmark interest rate between the date the agreements were entered into and the expected date of future debt issuances in 2016 (in connection with the closing of the Actavis Generics acquisition), at which time these agreements are intended to be settled.

In November 2015, we entered into a $3 billion five-year unsecured credit facility (which will increase to $4.5 billion upon closing of the Actavis Generics acquisition), replacing the $3.0 billion unsecured credit facility entered into in 2012. As of March 31, 2016, the credit facility remained unutilized.

Shareholders Equity

Total shareholders equity was $30.6 billion as of March 31, 2016, compared to $29.9 billion as of December 31, 2015. The increase was mainly due to the exercise of the underwriters over-allotment option for $0.7 billion of our ADSs and mandatory convertible preferred shares following our December 2015 equity offerings, $0.6 billion of net income and $0.3 billion in exchange rate differences, partially offset by $0.4 billion in dividend payments, $0.3 billion unrealized loss from hedging and $0.2 billion loss on our Mylan shares.

Exchange rate fluctuations affected our balance sheet, as approximately 27% of our net assets in the first quarter of 2016 (including both non-monetary and monetary assets) were in currencies other than the U.S. dollar. When compared to December 31, 2015, changes in currency rates had a positive impact of $0.3 billion on our equity as of March 31, 2016, mainly due to the change in value against the U.S. dollar of: the Mexican peso by (1%), the euro by (4%), the Canadian dollar by (7%), the Chilean peso by (5%), the Polish zloty by (3%), the Russian ruble by (7%), the British pound by 3% and the Japanese yen by (7%). All comparisons are on a quarter-end to quarter-end basis.

Cash Flow

Cash flow generated from operating activities during the first quarter of 2016 amounted to $1.4 billion, similar to the first quarter of 2015.

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Cash flow generated from operating activities in the first quarter of 2016, net of cash used for capital investments, amounted to $1.2 billion, similar to the first quarter of 2015.

Dividends

We announced a dividend for the first quarter of 2016 of $0.34 per ordinary share. The dividend payment is expected to take place on June 7, 2016 to holders of record as of May 24, 2016.

On March 15, 2016, we paid a dividend of $71 million (including withholding taxes) to the holders of record of our mandatory convertible preferred shares as of March 1, 2016.

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 acquisitions, leases, royalty payments, contingent payments pursuant to acquisition agreements and participation in joint ventures associated with R&D activities.

On July 27, 2015, we announced that we entered into a definitive agreement with Allergan plc to acquire Actavis Generics. We will pay total consideration of $33.75 billion in cash and approximately 100 million Teva shares, to be issued to Allergan at the closing of the transaction. At the time of the announcement, total consideration was estimated to be $40.5 billion. However, the final consideration will be based on the closing price of our ordinary shares at the date of acquisition. Closing of the transaction is subject to certain conditions, including relevant regulatory approvals. Subject to satisfaction of the closing conditions, particularly clearance from the U.S. Federal Trade Commission, we expect the acquisition to close in June 2016.

We entered into a $22 billion bridge loan credit agreement and a separate $5 billion term loan facility with various banks, to finance a portion of the Actavis Generics acquisition. Any loan under the bridge facility would bear an interest rate of LIBOR plus a margin ranging from 0.30% to 1.65%, so long as we maintain an investment-grade credit rating. The term facility contemplates two tranches of $2.5 billion each, with the first tranche maturing in full after three years and bearing an interest rate of LIBOR plus a margin ranging from 1.000% to 1.375% based on our credit rating from time to time and the second tranche maturing in five years with payment installments each year and bearing an interest rate of LIBOR plus a margin ranging from 1.125% to 1.5% based on our credit rating from time to time. To date, we have not drawn any funds under the bridge loan or the term facility. We expect to offer various tranches of debt securities, either in lieu of drawing under the bridge loan facility or to repay amounts borrowed thereunder.

Commencing the third quarter of 2015, we entered into forward starting interest rate swaps and treasury lock agreements with various banks, to hedge part of the risk associated with possible changes in interest rates until the probable issuance of our senior notes, anticipated to take place in 2016 to finance the Actavis Generics acquisition. Certain of the forward starting interest rate swaps and treasury lock agreements matured during the first quarter of 2016, generating a loss of $275 million due to a decline in interest rates, and will be settled by June 30, 2016. This loss is recorded in other comprehensive income.

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 (1) infringement or violation of intellectual property or other rights of such third party; or (2) damages to users of the related products. Except as described in our financial statements, we are not aware of any material pending action that may result in the counterparties to these agreements claiming such indemnification.

Certain of our loan agreements and debentures contain restrictive covenants, mainly the requirement to maintain certain financial ratios. We are currently in compliance with all applicable financial ratios.

Our principal sources of short-term liquidity are our existing cash investments, liquid securities, and available credit facilities; primarily our $3 billion syndicated revolving line of credit (to increase to $4.5 billion following consummation of the Actavis Generics acquisition), which we have not utilized as of March 31, 2016, as well as internally generated funds, which we believe are sufficient to meet our on-going operating needs. Our cash on hand is generally invested in bank deposits as well as liquid securities that bear fixed and floating rates.

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Supplemental Non-GAAP Income Data

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

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

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

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

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

- amortization of purchased intangible assets;
- legal settlements and/or loss contingencies, due to the difficulty in predicting their timing and size;
- impairments of long-lived assets, including intangibles, property, plant and equipment and goodwill;

restructuring expenses, including severance, retention costs, contract cancellation costs and certain accelerated depreciation expenses primarily related to the rationalization of our plants, or to certain other strategic activities such as the realignment of R&D focus or other similar activities;

acquisition or divestment related items, including, contingent consideration, integration costs, banker and other professional fees, inventory step-up and in-process R&D acquired in development deals;

expenses related to our equity compensation;

significant one-time related financing costs or impairments of monetary assets due to changes in foreign currency exchange rates;

material tax and other awards or settlements, both amounts paid and received;

other exceptional items that we believe are sufficiently large that their exclusion is important to understanding trends in our financial results, such as impacts due to changes in accounting, significant costs for remediation of plants such as inventory write-offs or other consulting costs or other unusual events; and

tax effects of the foregoing items.

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

	Three Months Ended March 31,	
	2016	2015
	U.S $ in millions	
Amortization of purchased intangible assets	$ 189	$ 220
Legal settlements and loss contingencies	(25)	227
Impairment of long-lived assets	13	65
Restructuring expenses	19	3
Acquisition and related expenses	101	245
Financial expense	246	143
Equity compensation	24	27
Other non-GAAP items	43	(3)
Corresponding tax benefit	(74)	(208)

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		Three Months Ended March 31, 2016					Three Months Ended March 31, 2015			
		U.S. dollars and shares in millions (except per share amounts)								
		Non-GAAP	Adjustments	Dividends on Preferred Shares	Non-GAAP	% of Net Revenues	Non-GAAP	Adjustments	Non-GAAP	% of Net Revenues
	Gross profit (1)	2,791	225		3,016	63%	2,836	226	3,062	61%
	Operating income (1)(2)	1,165	361		1,526	32%	749	784	1,533	31%
	Net income attributable to ordinary shareholders (1)(2)(3)(4)	570	536	66	1,172	24%	446	719	1,165	23%
	Earnings per share attributable to ordinary shareholders - diluted (5)	0.62	0.58		1.20		0.52	0.84	1.36	
(1)	Amortization of purchased intangible assets		178					212		
	Equity compensation		3					3		
	Other COGS related adjustments		44					11		
	Gross profit adjustments		225					226		
(2)	Legal settlements and loss contingencies		(25)					227		
	Acquisition and related expenses		98					245		
	Equity compensation		21					24		
	Restructuring expenses		19					3		
	Impairment of long-lived assets		13					65		
	Amortization of purchased intangible assets		11					8		
	Other operating related adjustments		(1)					(14)		
			136					558		
	Operating income adjustments		361					784		
(3)	Financial expense		246					143		

Tax effect	(74)	(208)
Impairment of equity investment net	3	
Net income adjustments	536	719

(4) Dividends on the mandatory convertible preferred shares of $66 million for the three months ended March 31, 2016 are added back to non-GAAP net income attributable to ordinary shareholders, since such preferred shares had a dilutive effect on non-GAAP earnings per share, as described in the following footnote.

(5) The non-GAAP weighted average number of shares was 979 and 859 million for the three months ended March 31, 2016 and 2015, respectively. The non-GAAP weighted average number of shares for the three months ended March 31, 2016 takes into account the potential dilution of the mandatory convertible preferred shares (amounting to 59 million weighted average shares), which had a dilutive effect on non-GAAP earnings per share. Non-GAAP earnings per share can be reconciled with GAAP earnings per share by dividing each of the amounts included in footnotes 1-4 above by the applicable weighted average share number.

Non-GAAP Tax Rate

Non-GAAP income taxes for the first quarter of 2016 amounted to $302 million, or 21%, on pre-tax non-GAAP income of $1.5 billion. Non-GAAP income taxes in the comparable quarter of 2015 were $312 million, or 21%, on pre-tax non-GAAP income of $1.5 billion.

We expect our annual non-GAAP tax rate for 2016 to be similar to the annual non-GAAP tax rate of 21% for 2015.

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Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management s subjective judgments are described in our Annual Report on Form 20-F for the year ended December 31, 2015. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances. The most significant estimates that we make on an ongoing basis relate to revenue recognition, sales reserves and allowances, income taxes, contingencies, inventories, and valuation of intangible assets, marketable securities and long-lived assets, including reassessment of useful lives. Please refer to Note 1 to the Consolidated Financial Statements included in our Annual Report on Form 20-F for the year ended December 31, 2015 for a summary of our significant accounting policies.

Recently Adopted and Issued Accounting Pronouncements

See the notes to the consolidated financial statements included in this report.

RISK FACTORS

There are no material changes to the risk factors previously disclosed in our Annual Report on Form 20-F for the year ended December 31, 2015.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Item 11 Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 20-F for the year ended December 31, 2015.

LEGAL PROCEEDINGS

We are subject to various litigation and other legal proceedings. For a discussion of these matters, see Contingencies included in note 13 to the consolidated financial statements included in this report.

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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 9, 2016

By: /S/ EYAL DESHEH
Name: **Eyal Desheh**
Title: **Group Executive Vice President,**

Chief Financial Officer