



## **Board of Directors' Report**

**November 15, 2019**





**Dr. Sol J. Barer**

Chairman of the Board of Directors

I am pleased to provide our shareholders the following report that has been prepared at the Board's direction in connection with the opioid crisis in the United States.

As a veteran of the pharmaceutical industry, I am a true believer in the immeasurable contribution of medicines in improving the lives of patients. We at Teva are proud of the corporate values we have instilled in everything we do and the difference we make in people's lives. I am deeply troubled and concerned that recent events involving the opioid crisis have the potential to wrongly stigmatize and handicap our company and the important role it plays in the health and well-being of patients worldwide.

Teva recognizes the devastating impact to communities across the United States as a result of opioid abuse. Teva is committed to preventing prescription drug abuse and we remain focused on our future as a leader in creating access to lifesaving medications. We have taken a multifaceted approach to these complex issues, which includes: providing non-opioid treatments for people suffering from chronic pain, such as our migraine medicine AJOVY® and our development of fasinumab for osteoarthritis and lower back pain; developing opiate antagonists, such as our first generic naloxone spray, which is widely recognized as an essential lifesaving opioid overdose reversal drug; and many other important compliance measures, controls and initiatives.

Teva strongly believes in the importance of being a good corporate citizen everywhere we operate. We focus our efforts on contributing to healthy communities and leading a responsible business. We listen to and regularly engage with our stakeholders to meaningfully understand the important and challenging issues facing society, including the serious and tragic impact of the opioid crisis. We share these concerns and are eager to identify collaborative solutions to this national problem that will benefit and improve the lives of people everywhere. For example, we are taking steps in that direction with an agreement in principle with four states that we hope will settle potential and pending opioid claims in a global settlement framework. The main element of the framework is a product donation by Teva of critical opioid addiction treatment medication that we hope will significantly contribute to the care and treatment of people suffering from addiction and assist impacted communities.

We at Teva are committed to ensuring that we execute our strategy and do business the right way—ethically and transparently—by fostering a strong culture of good corporate governance and compliance, from the Board of Directors and our management through all levels of the organization. In this report, Teva's Board of Directors will elaborate on its oversight of opioid-related risks and the measures Teva takes to mitigate these risks.

Sincerely,

A handwritten signature in black ink, appearing to read "Sol J. Barer".

Dr. Sol J. Barer

November 15, 2019

## Introduction

Teva Pharmaceutical Industries Ltd., together with its subsidiaries (“**we**,” “**Teva**” or the “**Company**”), has been developing and producing medicines to improve people’s lives for more than a century.<sup>1</sup> We are a global leader in generic and specialty medicines with a portfolio consisting of over 3,500 different products in nearly every therapeutic area. We are committed to helping patients around the world access affordable medicines and benefit from innovations to improve their health. Around 200 million people around the world take a Teva medicine every day and are served by one of the largest and most complex supply chains in the pharmaceutical industry. Along with our established presence in generics, we have significant innovative research and operations supporting our specialty medicines business and our growing portfolio of biopharmaceutical products. Teva’s mission is to be a global leader in generics and biopharmaceuticals, improving the lives of patients.

The objective of this report is to provide information regarding the following matters to the shareholders of Teva:

- (i) the role of Teva’s Board of Directors (the “**Board**”) in overseeing risk management, including opioid-related risks;
- (ii) the measures the Company has taken to mitigate opioid-related risks;
- (iii) the Company’s executive compensation philosophy;
- (iv) the Company’s stakeholder engagement; and
- (v) the Company’s lobbying and political activities.

We believe all individuals have the right to healthcare that enables each person to enjoy the highest standard of health possible. We also understand that the abuse of opioids, whether illicit opioids or those available legally by prescription, is a public health crisis in the U.S. and other countries around the world. As a company with a significant U.S. presence, Teva is deeply concerned about the devastating impact to communities resulting from opioid abuse. We are fully committed to taking action to combat opioid abuse and support health authorities and other stakeholders in addressing the various aspects of this public health crisis.

Teva is committed to placing people at the center of our strategy and enabling as many people as possible to live better, healthier lives every day. We do this by developing, producing and marketing affordable, high-quality generic drugs, as well as innovative and specialty pharmaceuticals and active pharmaceutical ingredients.

Pain is one of the most significant healthcare problems we face today. It impacts hundreds of millions of people across the world, profoundly affecting their quality of life and costing society billions of dollars in treatment along with lost productivity. Teva remains committed to addressing the unmet need for innovative and affordable pain-relief medication. We believe that access to our diverse portfolio of non-opioid and opioid products improves health outcomes and enables patients to live with less pain and with dignity and respect.

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<sup>1</sup> This report is being made by the Board of Directors of Teva Pharmaceutical Industries Ltd. Any activities conducted by the Company related to the research and development, manufacture, promotion, marketing, distribution or sales of opioid prescription medications in the United States have been conducted by certain subsidiaries of Teva Pharmaceutical Industries Ltd.

Teva is working hard to address the impact of the opioid crisis, while at the same time trying to improve the quality of life for those patients living with pain. Teva's extensive pain care franchise includes a range of investigational, approved, and marketed treatments, including for migraine, cancer pain, and osteoarthritis. Across our specialty and generics portfolios, Teva provides an array of therapies that enable patients who suffer from chronic pain to live fuller lives. Furthermore, Teva is focused on its development of opiate antagonists, including generic Narcan<sup>®</sup> (naloxone) nasal spray and Cassipa<sup>®</sup> (buprenorphine and naloxone) sublingual film, to help vulnerable populations throughout the U.S. prevent opioid overdose and facilitate their journeys to recovery.

Teva is committed to providing solutions for pain sufferers in the U.S. and around the globe and to continuing to take all the steps necessary to mitigate the risks of opioid abuse.

In May 2019, subsidiaries of Teva resolved the opioid litigation brought by the Oklahoma Attorney General with an \$85 million settlement. In October 2019, subsidiaries of Teva resolved claims brought by two counties in Ohio, removing Teva from the Track 1 opioid litigation. Under the terms of the settlement, Teva will provide the two counties with the critical opioid treatment medication buprenorphine naloxone (sublingual tablets), known by the brand name Suboxone<sup>®</sup>, valued at \$25 million (at wholesale acquisition cost) and distributed over three years to help in the care and treatment of people suffering from addiction (to be allocated at each county's discretion) and a cash payment in the amount of \$20 million, to be paid over three years.

Teva has also reached an agreement in principle with a group of attorneys general from North Carolina, Pennsylvania, Tennessee and Texas, together with certain other defendants, for a global settlement framework. The framework is designed to provide a mechanism by which Teva attempts to seek resolution of remaining potential and pending opioid claims by both the states and political subdivisions. Under this agreement, Teva would donate buprenorphine naloxone (sublingual tablets), in quantities of up to the amount needed to meet the majority of the currently estimated U.S. patient need over the next 10 years, with a value of approximately \$23 billion (at wholesale acquisition cost). Buprenorphine naloxone is the primary drug used to treat opioid addiction. The Teva product donation will significantly contribute to the care and treatment of people suffering from addiction and assist impacted communities. Teva would also provide a cash payment of up to \$250 million over 10 years.

Teva is pleased to positively contribute to addressing the nationwide opioid epidemic. Teva has consistently committed to complying with all laws and regulations regarding its manufacture and sale of opioids. None of these settlements include an admission of liability.<sup>2</sup>

## **I. Board Oversight**

Teva's Board of Directors currently consists of eleven directors. All the directors that currently serve are independent, except for Kåre Schultz, our President and Chief Executive Officer. Additionally, the Board has at least three directors that qualify as financial and accounting experts. In recent years, Teva has strengthened its Board of Directors with the addition of new highly qualified and talented directors, adding expertise as well as diversity. Through these efforts, Teva has reduced the average tenure of its directors from 5.1 to 3.5 years of service, and the average age of its directors from 67 to 62.

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<sup>2</sup> For further information, see our periodic and current reports filed with the U.S. Securities and Exchange Commission referencing ongoing opioid-related litigation and settlements.

Teva maintains a robust enterprise risk management system. The Board oversees the Company's risk assessment and risk management. The Company's annual risk assessment process includes both a top-down review of strategic risks and a bottom-up review of operational risks, all of which are presented to the Board. The Board oversees risk management policies, including operational risks and risks relating to the Company's business strategy and transactions. Various committees of the Board assist the Board in this oversight responsibility, focusing on their respective areas of expertise. These committees regularly report to the full Board.

The Audit Committee assists the Board with the oversight of our financial reporting, independent auditors, internal controls, and internal audit function. It is charged with identifying any flaws in business management and recommending remedies, detecting fraud risks, and implementing anti-fraud measures.

The Compliance Committee oversees our policies and practices for legal, regulatory, and internal compliance (other than regarding financial reporting) and reviews policies and practices that may seriously impact our reputation. More specifically, the role of our Compliance Committee is to oversee our: (i) policies and practices for complying with laws, regulations and internal procedures; (ii) policies and practices regarding issues that have the potential to seriously impact our business and reputation; (iii) global public policy positions and government affairs activities; and (iv) social responsibility and community outreach. Compliance oversight by the committee includes review of high risk products, mitigation of promotional and off-label usage risks, and evaluation of alignment with our compliance obligations, compliance of our portfolio marketing efforts and other marketing and promotional practices. The Compliance Committee meets at least four times each year and regularly reports directly to the full Board on its actions. The Chairman of the Compliance Committee also engages in regular discussions with our Chief Compliance Officer regarding compliance-related matters outside of formal committee meetings.

Although the Board has overall responsibility for risk oversight, the Human Resources and Compensation Committee (the "**Compensation Committee**") regularly assesses risk in connection with executing its responsibilities. To that end, the Compensation Committee oversees and assesses the potential risks arising from, among other things, our compensation program, policies, and practices to ensure that the Company's compensation practices do not create undue pressure to take excessive risk, including by ensuring that incentives for sales and marketing personnel are appropriately determined. To do this, the Compensation Committee coordinates with our legal, human resources, and other departments, considers shareholder feedback and interests, and consults with its independent compensation consultant. In 2018, as in prior years, the Compensation Committee has evaluated Teva's compensation program, policies, and practices and determined that such arrangements do not create risks that are reasonably likely to have a material adverse effect on the Company, as publicly stated in our proxy statement.

The Corporate Governance and Nominating Committee oversees risks relating to our governance policies and initiatives.

With respect to the role of other standing committees in supporting board risk oversight efforts, the Science and Technology Committee oversees risks relating to our intellectual property and research and development activities, and the Finance and Investment Committee reviews our financial risk management policies, including our investment guidelines, financings and foreign exchange and currency hedging, as well as financial risk of certain transactions.

At Teva, we believe in full transparency between the Board and senior management and we encourage our directors to interact with our executive officers at any time. Executive officers also regularly provide presentations and other materials to the Board before and during Board meetings. The Board regularly receives detailed updates on the status of all material litigation, including opioid-related litigation. We also conduct special sessions with all relevant committee chairs to update them on issues related to opioid-related litigation and other risks. During these sessions, each director had an opportunity to question internal and external experts on all aspects relating to opioids. The directors also related their personal perspectives and the importance of a compassionate and targeted response by the Company, while defending the Company vigorously in all opioid-related cases and legal challenges.

## **II. Measures to Mitigate Risks**

### ***Compliance in General***

Compliance is at the foundation of Teva's conduct as a responsible business, and we strive to maintain a culture of responsibility, ethics, and transparency among all of our employees in 60 countries around the world. We believe compliance with all applicable laws, regulations, and other requirements that affect our business is fundamental to our corporate well-being. By striving for excellence in this area, we protect, enhance, and create value for our organization and stakeholders.

We have a robust global compliance function reporting to our Chief Executive Officer. Our Chief Compliance Officer is a permanent invitee to, and regularly attends and participates in, Compliance Committee meetings. Our Chief Compliance Officer also has unencumbered access to members of the Board. Our compliance function has an executive team aligned to support each of the Company's business units globally, as well as a companywide hotline reporting system, and compliance training programs.

We have a risk-based global compliance training and communications program. Every role at Teva is assigned a risk designation based on interactions with members of the healthcare community or government officials, and the personnel who serve in those roles receive relevant compliance training. We also have a Health Care Interactions portal in 14 languages that is available to all Teva employees. The portal provides information on the entire healthcare engagement lifecycle—from hiring healthcare professionals to funding healthcare organizations.

### ***Code of Conduct / Prevention of Corruption Policy***

Teva requires strict compliance with our [Code of Conduct](#), which sets forth how the Company's values are put into action. Each employee at Teva is provided a copy of the Code of Conduct at hiring and goes through extensive initial compliance training in addition to periodic refreshers and updates. We encourage our employees to report unethical behavior, and we have robust procedures to respond to and remediate inappropriate behavior, if it were to occur.

Our Code of Conduct and Policy on the [Prevention of Corruption](#) detail Teva's anti-corruption and anti-kickback approaches, and they guide how we collaborate and interact with other participants in the healthcare ecosystem, including governmental and non-governmental organizations, scientists, healthcare professionals, trade and industry associations, and patient groups. Our Code of Conduct and Policy on the Prevention of Corruption specifically prohibit bribing or offering, providing or promising anything of value (directly or indirectly) that is intended to improperly influence the action of government or private individuals.

### ***Responsible Marketing and Promotional Practices***

At all times, we operate within the laws and globally defined principles governing marketing and promotion of pharmaceutical products. Our teams at Teva are trained to not only compliant, but also ethical, honest, and fair practices. Accuracy of communications about our products is paramount at Teva. As a global pharmaceutical company, we support and apply the highest standards of responsible marketing and promotional practices, including:

- World Health Organization (WHO) – Ethical Criteria for Medicinal Drug Promotion.
- Pharmaceutical Research and Manufacturers of America (PhRMA) – Principles on Responsible Sharing of Information about Medicines with Healthcare Professionals and Payers.
- International Federation of Pharmaceutical Manufacturers Associations (IFPMA) – IFPMA Code of Pharmaceutical Marketing Practices.
- European Federation of Pharmaceutical Industries and Associations (EFPIA) – EFPIA Code on the Promotion of Medicines to Healthcare Professionals.
- World Self-Medication Industry (WSMI) – Advertising of Nonprescription Medicines.

For more information, please see our [Position on Marketing and Promotional Practices](#), which is published on our website.

### ***Specific Measures to Mitigate Opioid-Related Risks***

With regard to our opioid-based products specifically, Teva manufactures and distributes a variety of opioid products in the U.S. to allow access to pain medicines for patients who need them. As described further below, for these products, the Company has employed various measures, including, among other efforts: (i) ceasing promotion and marketing activities for our specialty opioid-based products, ACTIQ® and FENTORA®; (ii) prior to that, engaging in responsible marketing and promotional practices for our specialty opioid medications; (iii) developing a focused portfolio of pain-relief solutions, including non-opioid alternatives; (iv) implementing advanced anti-diversion programs for identifying, monitoring, preventing and reporting “suspicious orders” of opioid products; and (v) helping communities combat the opioid crisis.

As explained above, we strive to uphold the highest standard of responsible sales for all of our medications. With particular care with regard to our opioid-based products, we are committed to accurately communicating the addictive nature of these products, and accurately conveying their efficacy in treating pain. This approach specifically pertains to our previous marketing activity for our branded specialty products, ACTIQ and FENTORA. These products are prescribed to alleviate breakthrough cancer pain in patients who are already opioid tolerant. Both products were subject to a strict compliance program with oversight from the Office of the Inspector General in the U.S. Department of Health and Human Services when Teva acquired Cephalon. Although ACTIQ was no longer promoted after 2006, the successor product FENTORA was subject to this rigorous Compliance regime.

ACTIQ and FENTORA are subject to a strict Risk Evaluation and Mitigation strategy (REMS) program. This program educates patients, communities and healthcare providers about

appropriate use and prescription of these medicines. Wholesalers, distributors, prescribers, patients, and pharmacies are required to enroll in this program, with the goal of mitigating the risks of misuse, abuse, addiction, overdose, and serious complications.

Teva independently ceased promotion of ACTIQ in 2006. FENTORA, which launched in 2007, has had very limited promotion since 2016 and we ceased promotion of the product altogether in January 2018.

Teva does not promote its generic products, including opioid-based products, to providers or patients in the United States. Additionally, our disclosures with respect to the risks and benefits of those medicines are required by law to be the same as the disclosures approved by the FDA for their branded counterparts. The generic opioid products that we sell in the U.S. do not make up a significant fraction of the total products in our current portfolio.

We are developing a focused portfolio of solutions that looks across the spectrum of pain states, including chronic nociceptive pain, cancer pain, chronic neuropathic pain, and migraines. We are bringing greater relief to patients by enhancing our pain-relief treatments. At the same time, we are addressing some of the key challenges associated with opioid abuse disorder:

- We manufacture a sizeable portion of the U.S. market of drugs used to treat opioid dependence, such as buprenorphine and buprenorphine/naloxone (Suboxone®).
- We are also developing a variety of opioid-dependence treatment drugs, including generic versions of the following: Butrans®; Belbuca®; Bunavil®; Zubsolv®; Sublocade™.
- We recently received final approvals for the first generic Narcan® nasal spray (subject to an ongoing patent dispute on patents expiring in 2035), which is widely recognized as an essential lifesaving opioid overdose reversal drug, and Cassipa® for treatment of patients with opioid-use disorder.

In parallel, we continue to develop novel therapies for the treatment of pain, including non-opioid alternatives, such as fasinumab, which is a non-opioid pain product for osteoarthritis and lower back pain.

Our anti-diversion efforts involve a multifaceted approach. We maintain a robust and sophisticated system for identifying, monitoring, preventing and reporting “suspicious orders” of opioid products, as that term is understood in the industry and described by the U.S. Drug Enforcement Administration (“**DEA**”). This system includes computer analyses of all orders combined with manual procedure-driven analysis of all orders identified as potentially “suspicious” (which can result from, among other things, investigation of new customers for opioids, orders of unusual size, orders that deviate substantially from a normal ordering pattern, and/or orders of unusual frequency). Thereafter, if Teva determines that an order is in fact “suspicious,” Teva reports the order to the DEA and takes corrective action relative to the buyer based on the results of Teva’s review and investigation.

In October 2016, Teva acquired Anda, a third party distribution business of generic and other pharmaceutical products in the U.S. Anda is a secondary source of products for most of its wholesale customers, representing a proportionately small amount of total distribution volume. As such, Anda has less visibility into a customer’s business and ordering history compared to primary suppliers because of the nature of its relationships. Nonetheless, Anda, like the rest of Teva’s businesses, uses sophisticated and multifaceted systems aimed at detecting diversion of



products, including extensive screening and vetting of customers, real-time analysis of ordering patterns, and strict ordering limits.

Teva employs compliance teams responsible for DEA compliance for both our manufacturing and Anda distribution businesses. These teams maintain a sophisticated diversion control program to ensure the safety and security of our products. The teams are also audited by dedicated audit officers in the DEA compliance group and by our internal audit team, which is an independent function reporting to the Chief Executive Officer and the Board through our Chief Internal Auditor.

All of Teva's and Anda's opioid customers are licensed and registered with the DEA, which means they are authorized by the DEA to take possession of opioids from Teva.

On a broader scale, Teva supports the efforts of federal, state, and local regulatory and law enforcement agencies which play a critical role in ensuring appropriate prescribing and distribution of prescription opioids. At the federal level, this includes the DEA which establishes annual aggregate, manufacturing, and procurement quotas for opioid medications and prevents, detects, and investigates the diversion of controlled pharmaceuticals and listed chemicals from legitimate sources, while ensuring an adequate and uninterrupted supply for legitimate medical, commercial, and scientific needs. It also includes the FDA which is responsible for ensuring the safety, efficacy, and security of pharmaceutical products and regulates the marketing of FDA-approved pharmaceutical products, including establishing, approving, and overseeing risk evaluation and management strategy programs for opioid medicines. At the state level, this includes state licensing boards, licensing standards for physicians and pharmacists and prescription drug monitoring programs, which have proven successful in curbing abuse and diversion of prescription opioids. At the local level, law enforcement plays a critical role in identifying and stopping illegal activity that leads to the abuse of opioid medications, such as shutting down pill mills and prosecuting the people who run them.

Teva is subject to strict regulatory oversight of opioid sales in Europe and elsewhere around the world. We maintain ongoing reviews of these practices to ensure regulatory compliance and to be attentive to our social responsibility regarding opioid sales, while continuing to provide medications to patients in need around the world.

### **III. Executive Compensation**

As we consider the matters discussed in this report relating to the opioid crisis, we believe it is important to highlight several of the principles that our executive officer compensation philosophy seeks to value. These include:

- promotion of our goals and supporting our business strategy and work plan;
- paying executive officers equitably relative to one another based on their roles and responsibilities, educational background, skills, expertise, prior professional experience, achievements, seniority and location;
- embedding a culture of strong performance with high integrity; and
- encouraging good corporate governance and compliance practices.

Guided by these principles, the core objectives of our executive compensation program are to: (i) link pay to performance over both the short and long term; (ii) align executive officers' interests with those of Teva and its shareholders over the long term, including grants of Teva equity as a significant component in our executive compensation program; (iii) encourage balanced and effective risk management; and (iv) provide compensation opportunities that are generally comparable with those offered by our peers at median, in order to attract and retain highly talented professionals with necessary capabilities to, among other things, manage our complex business and worldwide operations.

As stated in our compensation philosophy, we are committed to transparent and ethical business practices. Maintaining high standards of corporate governance and legal compliance are key factors to our success. This allows us to create long-term value for our shareholders as well as all of our other stakeholders, including employees, customers, suppliers and, above all, patients worldwide. When we do not achieve Company and individual goals, our executive officers' compensation reflects that performance.

Our executive compensation is structured in a manner that creates an incentive to deliver high performance (both short- and long-term) while taking into account our compliance and risk management philosophy and avoiding undue pressure on executive officers to take excessive risks, thereby encouraging a balanced and effective approach to risk. Our compensation elements are designed with this in mind through the inclusion of mechanisms that reduce incentives to expose Teva to imprudent risks that may harm the Company or our shareholders in the short or long term. This is achieved by using tools such as: (i) placing maximum limits on short- and long-term incentives; (ii) measuring performance with key performance indicators that are designed to reduce incentives to take excessive risks; (iii) using compensation vehicles with diverse performance measures; (iv) granting a mix of equity-based compensation types that have long-term vesting schedules, which tie the awards to a longer performance cycle; and (v) requiring clawback of compensation payments in certain circumstances. In addition, individual performance measures for our executive officers include compliance-related goals.

The Compensation Committee and the Board design the executive compensation program with the intention of accomplishing these goals, taking into account our compensation, compliance and risk management philosophies. In determining executive compensation, the Compensation Committee also obtains input and advice from its independent compensation consultant, as applicable. While the Compensation Committee takes into consideration the review and recommendations of its independent advisors when making decisions about the Company's compensation practices and related topics within its ambit, the Compensation Committee ultimately makes its own independent decisions about these matters. The Compensation Committee and, if applicable, the Board, review and approve compensation and performance awards of the CEO and executive officers and consider factors the Compensation Committee (and, as applicable, the Board) deem relevant, including financial, operational, and share price performance to determine appropriate executive compensation parameters. The Compensation Committee also reviews recommendations from our CEO with respect to the performance and compensation of our other executive officers. In setting compensation for our CEO and executive officers, the Compensation Committee and the Board also consider comparative compensation information from a relevant group of peer companies as one point of reference.

The Compensation Committee and, if applicable, the Board, conducts an annual review to determine whether legal settlements should be excluded from performance metrics for executive incentive compensation by considering the following factors and principles: (i) if such exclusion is in-line with the Company's non-GAAP financial measures; (ii) the facts and

circumstances of the subject matter of the settlement; (iii) the timing of the settlement compared to the timing of the event giving rise to the dispute (including whether the same executive management at the time of the underlying event was in place at the time of the settlement); (iv) the magnitude of the settlement; and (v) other factors that the Compensation Committee may deem relevant and appropriate. The Compensation Committee recognizes that if it chooses to exclude legal settlements from its adjusted free cash flow performance metric for compensation purposes, the Company would provide appropriate explanatory disclosure regarding such determination in the proxy statement.

Further, due to Teva Pharmaceuticals Industries Ltd.'s unique position as an Israeli company with an extensive global footprint, we must comply with applicable Israeli law, including the requirement that Israeli publicly traded companies adopt a compensation policy which is brought to shareholders for approval at least once every three years and contains certain limits on compensation. Among other limitations, the Company's Compensation Policy permits the Compensation Committee to exercise negative discretion to reduce payouts on variable pay, when appropriate, notwithstanding the satisfaction of performance goals.

We also have a robust clawback policy. Our executive officers are required to return any compensation paid to them on the basis of results included in financial statements that turned out to be erroneous and were subsequently restated during the three-year period following filing thereof.

Further, in the event that it is discovered that an executive officer engaged in conduct that resulted in a material inaccuracy in Teva's financial statements or caused severe financial or reputational damage to Teva, or in the event that it is discovered that an executive officer breached confidentiality and/or non-compete obligations to Teva (as determined by the Compensation Committee), the Compensation Committee has broad remedial and disciplinary authority. Such disciplinary action or remedy would vary depending on the facts and circumstances, and may include, without limitation, (i) termination of employment, (ii) initiating an action for breach of fiduciary duty, and (iii) seeking reimbursement of performance-based or incentive compensation paid or awarded to the executive officer. The Compensation Committee will determine applicable terms to enforce repayment of clawback amounts and may modify this clawback policy in accordance with applicable law and regulations.

We are committed to publicly disclosing the general circumstances of any repayment or forfeiture of compensation from our executive officers under our clawback policy, and the aggregate amounts repaid or forfeited, if required by applicable law or regulation, or if we have previously disclosed the underlying event giving rise to the repayment or forfeiture, unless such disclosure would, as determined by our Compensation Committee or Board, raise legal or privacy concerns with respect to those individuals involved or would not be in the best interests of our shareholders.

#### **IV. Stakeholder Engagement**

Teva's stakeholders play an important role in the Company's ongoing effort to align its corporate resources and expertise with relevant areas of social need. Our stakeholders include our patients, caregivers, employees, regulators, the professional healthcare community and healthcare industry, non-profit organizations, customers, investors, and analysts. We maintain regular dialogue with all stakeholders across many different channels, from active participation in meetings, conferences, and industry association events, to social media conversations, and personal contact. These stakeholders help inform our approach to priority issues, collaborate

on the development and implementation of programs to address these issues, and support us in evaluating and refining our efforts. We publish a social impact report on an annual basis to summarize and consolidate our engagements with various stakeholder groups – [our latest report from 2018](#) has been recently published on the Company's corporate website.

Following our 2018 annual meeting of shareholders, the Board initiated a shareholder outreach effort, which was led by the Chairman of the Board and the Chair of the Compensation Committee, to deepen relationships with our shareholders and help inform discussions on a number of key issues. Teva contacted shareholders who represented approximately 50% of our outstanding shares to solicit feedback on, among other things, the Company's financial performance, corporate governance, and executive compensation program. The Chairman of the Board and the Chair of the Compensation Committee, in particular, participated in discussions with shareholders who represented approximately 37% of our outstanding shares. We also engaged with the research teams at proxy advisory firms Institutional Shareholder Services Inc. and Glass Lewis & Co. These interactions led us to make meaningful changes to our executive compensation program. They also helped us understand that opioid-related risks deserve greater attention from the entire healthcare industry, and they inspired our commitment to prepare and publicly release this report.

In line with Teva's commitment to helping patients around the world to access affordable medicines and benefit from innovations to improve their health, Teva has participated in the United Nations Global Compact since 2010, which encourages companies around the world to adhere to principles of responsible business. For Teva, this means actively engaging with shareholders and other key stakeholders on our environmental, social, and governance performance relative to our financial results. Teva's Board of Directors remains actively engaged on these issues, focusing its efforts specifically on contributing to healthy communities and leading a responsible business. As a global company that influences the health and safety of millions of people, Teva recognizes our responsibility to conduct our business with integrity. Operating in this manner helps ensure our long-term sustainability, allowing us to focus on what matters most—improving health.

## **V. Lobbying and Political Activities**

Teva engages in limited direct lobbying or political activity. As part of Teva's restructuring plan that commenced in 2017, its government affairs function was scaled back with the closing of Teva's offices in Washington D.C. and corresponding reduction in headcount. The Company has recently increased its reliance on industry lobbying groups to fill in the gap.

When we engage with governments and policymakers, we do so constructively to inform them on matters related to our business, the biopharmaceutical industry and the healthcare sector. As a general operating principle, Teva executives and representatives engage directly and transparently with relevant government officials and policymakers in addition to industry associations in the U.S., Europe, and other countries. The purpose of our engagement is to help advance public policy that will serve our patients and support healthcare systems by improving the accessibility, affordability, and safety of medicines.

In all cases, lobbying at Teva conforms to Teva's Code of Conduct, and the following guidelines:

- lobbying is informed by what Teva believes is in the best interests of patients and the sustainability of healthcare systems;

- lobbying is not party-political in nature and does not favor parties or party-affiliated candidates or officers;
- lobbying is always conducted ethically, responsibly, and in full compliance with any applicable laws, regulations and codes; and
- lobbying is approved by Teva's Government Affairs function as well as legal, compliance, and other relevant divisions of the organization.

Our Code of Conduct specifically requires all employees to obtain approval from Teva's Global Government Affairs and Public Policy Department before: (i) lobbying or meeting with a government official, whether individually or as part of a group (e.g., a trade association), (ii) engaging a lobbyist at any level of government or (iii) inviting a government official to a Teva facility. In the spirit of transparency, we have published our [Position on Government Affairs](#) on our website.

In addition, our Policy on the Prevention of Corruption prohibits political contributions for improper advantage and requires that all contributions to political parties or politicians be made for a legitimate purpose, and must comply with applicable laws and regulations.

With regard to the disclosure of lobbying and political activities, we believe we are in compliance with all federal, state, and local disclosure requirements. At the federal level, we duly submit quarterly reports on our federal lobbying to the U.S. House of Representatives and the U.S. Senate pursuant to the Lobbying Disclosure Act. Political contributions by the Teva Pharmaceuticals USA Inc. Political Action Committee are also publicly disclosed on the Federal Election Committee's website.