

Taro Pharmaceutical Industries Ltd.
Financial Statements as of March 31, 2024

Taro Pharmaceutical Industries Ltd.
Financial Statements as of March 31, 2024

In USD
For Income Tax Purposes

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For Income Tax Purposes**Report of the Independent Auditor****To the Shareholders of Taro Pharmaceutical Industries Ltd.**

We have audited the accompanying Statements of Financial Position of Taro Pharmaceutical Industries Ltd. (hereinafter - the "Company") as of March 31, 2024 and March 31, 2023 and the related Statements of Comprehensive Income and Changes in Equity for each of the years ended on those dates. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audit in accordance with generally accepted auditing standards in Israel, including standards set in the Auditor's Regulations (Auditor's Mode of Performance), 1973. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company's board of directors and management, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

No consolidated financial statements of the Company with its subsidiaries have been prepared. Statements of Cash Flows have not been included in these financial statements.

As stated in Note 1F, in the Company's financial statements, an intangible asset received from a subsidiary was recognized as a dividend in kind based on its cost in the subsidiary and not at fair value as required in accordance with Israeli GAAP. It should be noted that the recognition has no effect on the Company's tax expenses.

In our opinion, except for the exclusion of the aforementioned information and the recognition of an intangible asset not at fair value, the financial statements referred to above adequately reflect, in all material respects, the financial position of the Company as of March 31, 2024 and March 31, 2023, the results of its operations and changes in its equity for each of the years ended on those dates, in accordance with generally accepted accounting principles in Israel (Israeli GAAP).

As explained in Note 2, the above financial statements are presented in USD.

Tel Aviv, June 25, 2024

Ziv Haft
Certified Public Accountants

Statements of Financial Position

	Note	As of March 31	
		2024	2023
		USD thousands	
<u>Current assets</u>			
Cash and cash equivalents		17,775	6,650
Long-term deposits		19,000	38,000
Marketable securities		66,387	72,713
Customers	3	7,825	4,565
Subsidiaries	4	22,899	15,027
Accounts receivable and debit balances	5	11,940	15,334
Inventory	6	70,772	70,648
		<u>216,598</u>	<u>222,937</u>
<u>Long-term investments and loans, net</u>	7	<u>1,555,715</u>	<u>1,482,803</u>
<u>Fixed assets</u>	8		
Cost		323,574	310,245
Less - Accumulated depreciation		<u>(224,785)</u>	<u>(212,337)</u>
		<u>98,789</u>	<u>97,908</u>
Other assets		<u>3,307</u>	<u>3,307</u>
		<u><u>1,874,409</u></u>	<u><u>1,806,955</u></u>

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

Statements of Financial Position

	<u>Note</u>	As of March 31	
		2024	2023
		USD thousands	
<u>Current liabilities</u>			
Liabilities to suppliers and service providers		11,834	15,751
Accounts payable and credit balances	9	29,929	23,635
		41,763	39,386
<u>Long-term liabilities</u>			
Long-term payables		972	1,129
<u>Engagements, contingent liabilities and liens</u>	11		
<u>Equity</u>	12	1,831,674	1,766,440
		1,874,409	1,806,955

June 25, 2024
Financial Statements Date of
Approval

CFO
Shlomi Mor

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

Taro Pharmaceutical Industries Ltd.
For Income Tax Purposes

Statements of Comprehensive Income

	Note	For the year ended March 31	
		2024	2023
		USD thousands	
Sales		190,322	144,357
Cost of sales		<u>133,700</u>	<u>126,993</u>
Gross profit		56,622	17,364
Research and development expenses	13	33,108	30,632
Sales and marketing expenses		8,743	10,176
Administrative and general expenses	14	<u>20,390</u>	<u>15,229</u>
Operating loss		(5,619)	(38,673)
Financing (expenses) income, net		<u>6,979</u>	<u>(2,141)</u>
Loss after financing income		1,360	(40,814)
Other income, net	15	<u>1,986</u>	<u>211</u>
Loss before taxes on income		3,346	(40,603)
Income tax income (expense)	16	<u>1,137</u>	<u>(1,616)</u>
Loss after taxes on income		4,483	(42,219)
Company share in profits of subsidiaries, net		<u>61,563</u>	<u>61,963</u>
Net profit		<u>66,046</u>	<u>19,744</u>

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

Statements of Changes in Equity

	<u>Share capital</u>	<u>Share premium</u>	<u>Treasury stock</u>	<u>Capital reserve</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>USD thousands</u>					
<u>Balance as of March 31, 2022</u>	680	262,445	(771,405)	(157,507)	2,413,178	1,747,391
Differences from translation of financial statements of subsidiaries prepared in foreign currency	-	-	-	(689)	-	(689)
Revaluation of employee benefits (IAS-19)	-	-	-	(6)	-	(6)
Net profit	-	-	-	-	19,744	19,744
<u>Balance as of March 31, 2023</u>	680	262,445	(771,405)	(158,202)	2,432,922	1,766,440
Differences from translation of financial statements of subsidiaries prepared in foreign currency	-	-	-	(817)	-	(817)
Revaluation of employee benefits (IAS-19)	-	-	-	5	-	5
Net profit	-	-	-	-	66,046	66,046
<u>Balance as of March 31, 2024</u>	<u>680</u>	<u>262,445</u>	<u>(771,405)</u>	<u>(159,014)</u>	<u>2,498,968</u>	<u>1,831,674</u>

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

Notes to the Financial Statements

Note 1: - General

A. Description of the Company

The Company is an Israeli company. The Company carries out its activities by itself and through subsidiaries in Israel, the United States and Canada, which operate independently and autonomously.

The Group's area of activity is the manufacture, research and development and marketing of pharmaceutical products. The Company's ordinary shares are listed for trading in the United States.

- B. On December 31, 2012, the Israeli Tax Authority approved the merger of the Company with a subsidiary, Taro Research Institute Ltd., with the merger scheduled for March 31, 2012.
- C. On December 23, 2013, the Company completed a tender offer using the Dutch tender method, in which the Company repurchased a total of 1,959,514 ordinary shares, at a maximum purchase price of USD 97.5 per share at a total cost of approx. USD 193 million (including fees and expenses related to the tender offer).
- D. On March 29, 2014, the ownership changed in Alkaloida Chemical Company Exclusive Group (within the Sun Pharmaceutical Industries Ltd. Group), which holds shares in Taro Pharmaceutical Industries.

The change was approved as part of the tax decision dated August 21, 2014.

- E. On March 15, 2016, the Company announced that the members of the Board of Directors approved a buyback of ordinary shares in the amount of USD 250,000 thousand. On August 18, 2016, the Company completed the buyback plan. On November 23, 2016, the Company announced that the members of the Board of Directors approved a buyback of ordinary shares in the amount of USD 250,000 thousand. On January 11, 2019, the Company completed the buyback plan. A buyback may be carried out from time to time, at the Company's discretion, based on an assessment of the capital needs of the Company's business, the share price and other general market conditions. The buyback plan allowed the Company to purchase the ordinary shares on the market, through negotiation, including a predetermined plan subject to U.S. SEC Regulations. During 2018, the Company purchased 888,719 shares for a total amount of approx. USD 84 million (as part of the November 2016 buyback plans). On November 4, 2019, the Company announced that the members of the Board of Directors approved a buyback of ordinary shares in the amount of USD 300,000 thousand. As part of this, on November 15, 2019, the Company announced its intention to purchase ordinary shares in a total amount of USD 225,000 thousand using the Dutch tender method, valid until December 16, 2019. Finally the Company agreed to purchase 280,719 ordinary shares at a total cost of approx. USD 27 million (including fees and expenses related to the tender offer). In 2020, as part of the same Board Resolution, the Company purchased another 332,033 ordinary shares at a total cost of approx. USD 25 million. In 2021, the Company purchased another 341,413 ordinary shares at a total cost of approx. USD 25 million.
- F. As part of the tax decision in the agreement, which resulted from the tax assessment agreement for the years 2010-2014 signed between the Haifa Assessor and the Company on March 12, 2018, it was determined that from the beginning of the 2017 tax year, the intellectual property assets transferred from Taro North America (TNA) to Israel will be considered as retroactively held by the Company. In the absence of an explicit provision in the taxation decision to carry out a valuation of the transferred assets, they were transferred at a value of zero, while they may have a value that should have been expressed in the Company's financial statements in accordance with accounting principles. It should be noted that the recognition has no effect on the Company's tax expenses.
- G. On July 9, 2020, a tax decision was adopted in an agreement from the Israeli Tax Authority confirming the transfer of the full rights from Taro Canada to the Company, with no tax liability, in accordance with the provisions of Section 104c of the Income Tax Ordinance. The date of the structural change, according to the tax decision in the agreement, is October 7, 2020.

Notes to the Financial Statements

Note 1: - General (continued)

- H. On June 1, 2021, the Company sold the share capital of the subsidiary Taro USA to Taro Canada.
- T. On February 28, 2022, the Company purchased 100% of the shares of the following companies (hereinafter - the "Alchemee Group") from a third party through Taro USA:
1. "Proactiv YK" and its subsidiary "Proactiv KK" - Japan resident companies
 2. "Galderma Inc." and its subsidiary "Alchemee LLC" - US resident companies
 3. "Proactiv Company Corporation" - Canada resident company
- The Alchemee Group specializes in the development, manufacture and marketing of dermatology products.

Definitions

- The Company - Taro Pharmaceutical Industries Ltd.
- Subsidiaries - Companies controlled by the Company (as defined in Opinion 57 of the Institute of Certified Public Accountants in Israel).
- The Group - the Company and its subsidiaries.
- Related Companies - as defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.

Note 2: - Significant Accounting Policies

- A. The main accounting policies that have been consistently applied in the preparation of the financial statements are as follows:

Financial statements in USD and termination of the adjustment of financial statements

In 2001, the Israel Accounting Standards Board published Accounting Standard 12, regarding the termination of the adjustment of financial statements, and Accounting Standard 13 regarding the effect of changes in foreign currency exchange rates (hereinafter - "Standard 13"). According to Standard 12 (as amended by Accounting Standard 17), the adjustment of financial statements to inflation should be discontinued as of January 1, 2003. The Company implemented the provisions of the standard and accordingly the adjustment for inflation (according to changes in the USD exchange rate) was discontinued as of January 1, 2003. The Company prepares its financial statements in USD in accordance with Standard 13.

1. Starting point for the preparation of the financial statements

The Company has prepared its financial statements in the past based on the historical cost convention, adjusted for changes in the general purchasing power of the Israeli currency as measured by changes in the exchange rate of the USD in relation to the NIS. The adjusted amounts, as mentioned above, included in the financial statements as of December 31, 2002 (the transition date) served as the starting point for the financial reporting in USD as of January 1, 2003.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

2. Financial statements in USD

Non-USD amounts have been translated as follows:

Monetary items - according to the exchange rate as of the balance sheet date.

Non-monetary items - according to the historical exchange rate at the time of the transaction.

Income and expenses - according to the exchange rates on the dates of the related transactions, not including items stemming from non-monetary items (mainly depreciation), which were translated according to the exchange rate relating to the non-monetary item. Differences resulting from such translation were included in the net financing item.

3. Exchange rates

The following are data regarding USD exchange rates:

<u>As of</u>	Representative exchange rate of the USD <hr/> NIS
March 31, 2024	3.681
March 31, 2023	3.615
March 31, 2022	3.176
<u>Rate of change in the year ended</u>	<hr/> %
March 31, 2024	1.83
March 31, 2023	13.82

B. Cash equivalents

Cash equivalents are considered by the Company to be highly liquid investments, including short-term bank deposits, which do not exceed three months from the date of investment and which are not limited by encumbrance.

C. Inventory

Inventory is presented according to the cost or market value, whichever is lower. The cost is determined as follows:

Raw materials, packaging and purchased products - based on the products' actual cost.

In-progress and finished goods:

Raw materials and packaging - based on actual cost.

Indirect labor and expenses - on an average basis.

Inventory is presented net of a provision for impairment of slow-moving and dead inventory, as assessed by management.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

D. Investment in subsidiaries

1. The investment in subsidiaries is included according to the equity method. Profits from intercompany sales that have not yet been realized have been cancelled.
2. For the inclusion of subsidiaries, according to the equity method, whose reports are prepared in foreign currency, the amounts (in foreign currency terms) included in the financial statements of these companies, whose activities are independent-autonomous, have been translated into USD according to the exchange rate on the balance sheet date.
The difference in the Company's balance sheet between the adjustment of the Company's investment in subsidiaries according to the USD and the adjustment of the equity of the investees according to the changes in another exchange rate, is recorded to a capital reserve within equity.

E. Land on lease from the Israel Land Administration

The Company leases several land reserves from the Israel Land Administration. The lease periods end from 2018 to 2060, and the Company has the right to extend the lease term for another 49 years. The prepaid lease amounts are classified in the financial statements as long-term investments.

F. Fixed assets

1. Fixed assets are presented at cost, net of accumulated depreciation.
2. Financing expenses in the period prior to the operation of fixed assets are recorded to the cost of these assets.
3. Depreciation is calculated according to the straight-line method, based on the estimated useful life of the assets. Annual depreciation rates are as follows:

	<u>%</u>
Buildings	2.5-4
Facilities, machinery and equipment	5-10
Furniture, office equipment and computers	6-33

G. Amortization of other assets

Other assets include know-how and trademarks.

H. Deferred taxes

1. Deferred taxes are calculated in respect of temporary differences between the amounts included in the adjusted statements and the amounts for tax purposes. Reasons for which deferred taxes are calculated are as follows:

Differences between the value of land and fixed assets in the adjusted statements and their value for tax purposes (considering the determinations in Opinion 40 of the Institute of Certified Public Accountants in Israel), provision for vacation, net liabilities for severance pay, provision for doubtful debts and deferred revenue.

Deferred tax balances are calculated according to the tax rate expected to apply when these taxes are recognized in the statement of profit and loss, based on the tax laws in effect on the balance sheet date. The amount of deferred taxes in the statement of profit and loss expresses the changes in the aforementioned balances in the reporting year.

2. In the calculation of deferred taxes, the taxes that would have been applicable in the event of the realization of investments in investees are not taken into account, as long as it is most likely that the sale of investments in investees is not expected in the foreseeable future.
In addition, no deferred taxes were taken into account for the distribution of profits by investees as dividends due to the Company's policy of not initiating a dividend distribution that entails an additional tax liability.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

H. Deferred taxes (continued)

3. Classification of deferred taxes - Amendment to Accounting Standard 34 - The amendment determines that deferred tax assets and deferred tax liabilities will be fully classified as non-current assets or non-current liabilities in order to simplify the presentation of financial statements.

I. Revenue recognition

The company recognizes its revenue from the sale of its products to external customers upon delivery to the customer according to the terms of delivery with the customer. The Company presents sales net of discounts to the HMOs. The basis for calculating discounts is the difference between the "full" price (according to a supervised price list) and the price list of each HMO. In addition, the Company deducts from the total sales the expected returns from those sales.

J. Research and development expenses

Expenses for research and development, net of participations, are recorded to the statement of profit and loss as incurred.

K. Provision for doubtful debts

The provision for doubtful debts is mainly calculated specifically for debts whose collection, in the opinion of the Company's management, is doubtful.

L. Use of estimates

In the preparation of financial statements, management is required to use, in accordance with generally accepted accounting principles, estimates and valuations that affect the reported data regarding assets and liabilities (including the data regarding contingent assets and liabilities, which are given disclosure in the financial statements), as well as income and expense data in the reporting period. The actual results may differ from these estimates.

M. Fair value of financial instruments

The book amount of customers, receivables and debit balances, short and long term credit from banking corporations and others, liabilities to suppliers and service providers and payables and credit balances are equal to or close to their fair value.

N. Marketable securities

The Company classifies marketable securities as current investments, which are measured each period at their market value, which is the stock exchange value at the end of the reporting period, net of expenses associated with their realization. Changes in the market value were recognized in profit or loss.

Notes to the Financial Statements

Note 3: - Customers

	March 31	
	2024	2023
	USD thousands	
Open debts (1)	7,825	4,565
(1) Less - provision for doubtful debts	10	10

Note 4: - Subsidiaries

The current account balance is linked to the USD exchange rate

Note 5: - Accounts receivable and debit balances

	March 31	
	2024	2023
	USD thousands	
Institutions	5,182	10,023
Prepaid expenses	3,896	3,453
Financial Instruments	60	7
Advance payments to suppliers	405	352
Interest receivable	197	527
Related parties	1,680	546
Others	520	426
	11,940	15,334

Note 6: - Inventory

	March 31	
	2024	2023
	USD thousands	
Finished goods	11,031	7,799
In-progress goods	29,009	31,465
Raw materials and packaging	26,019	27,059
	66,059	66,323
Basic Inventory	4,713	4,325
	70,772	70,648

Notes to the Financial Statements

Note 7: - **Long-term Investments and Loans, Net**

A. **Composition**

	March 31	
	2024	2023
	USD thousands	
Equity value of subsidiaries, net (see B below)	1,463,485	1,402,739
Long-term prepaid expenses (1)	12,330	12,560
Original difference	3,608	3,608
Investment in securities	74,744	63,230
Other	1,548	666
	1,555,715	1,482,803

B. **Equity value of subsidiaries**

	Rate of holding %	March 31	
		2024	2023
		USD thousands	
Taro Pharmaceuticals U.S.A., Inc. (hereinafter - "Taro USA") (1)	100	(555,341)	(510,502)
Taro Pharmaceuticals Inc. (hereinafter - "Taro Canada") (2)	100	1,964,296	1,861,823
Taro Pharmaceuticals North America Inc. (hereinafter - "Taro North America") (2)	100	28	28
Taro International Ltd.	100	33,872	33,375
Alchemee Group (3)	100	20,598	17,986
Taro Pharmaceuticals Europe B.V. (hereinafter - "Taro Holland")	100	32	29
		1,463,485	1,402,739

- (1) The Company holds 100%, directly and indirectly, of the rights to profits and in voting rights through the subsidiary Taro Canada.
- (2) In October 2020, Taro North America transferred its holdings in Taro Canada to the Company for no consideration.
- (3) On February 28, 2022, the Company acquired 100% of the Alchemee Group.

Notes to the Financial Statements

Note 7: - Long-term Investments and Loans, Net (continued)

C. Loans to subsidiaries

On March 31, 2015, the Company entered into an agreement with its subsidiary, Taro USA, for the provision of a loan in the amount of USD 175 million. During 2019, several repayments were made in a total amount of USD 62 million. In 2020, the loan was increased by a total amount of USD 50 million to pay for the DOJ lawsuit in the United States (see also Note 11D). During 2021, several repayments were made in a total amount of approx. USD 82 million. The loan bears average annual interest at a rate of approx. 7.38% and 6.68% in 2022 and 2021, respectively. This rate is based on an average 10-year Libor interest rate plus five per cent. Interest was paid on a quarterly basis. On May 24, 2022, the balance of the loan was repaid.

- D. During 2002, 84.4% of the Taro USA shares entitled to profits were transferred to the Company, in accordance with Section 104c of the Income Tax Ordinance, by way of a dividend distribution. As determined by the Income Tax Authority, in the event that Taro USA distributes a dividend to shareholders, a proportional part of the USD 5.2 million profit retained earnings on the date of the distribution will not qualify for the tax benefits under the US-Israel Tax Convention.

Notes to the Financial Statements

Note 8: - Fixed Fixed assets

A. Composition:

	Cost			Accumulated depreciation				Depreciated cost	Depreciated cost	
	Balance at beginning of period	Additions during the period	Disposals during the period	Balance at end of period	Balance at beginning of period	Additions during the period	Disposals during the period	Balance at end of period	Balance at beginning of period	
	USD thousands									
Land	6,157	-	-	6,157	-	-	-	-	6,157	6,157
Buildings	118,810	1,215	-	120,025	67,402	5,127	-	72,529	47,496	51,408
Facilities, machinery and equipment	163,931	11,270	(4)	175,197	128,641	5,386	(4)	134,023	41,174	35,290
Furniture, office equipment and computers	21,347	848	-	22,195	16,294	1,939	-	18,233	3,962	5,053
	<u>310,245</u>	<u>13,330</u>	<u>(4)</u>	<u>323,574</u>	<u>212,337</u>	<u>12,452</u>	<u>(4)</u>	<u>224,785</u>	<u>98,789</u>	<u>97,908</u>

Notes to the Financial Statements

Note 9: - Accounts Payable and Credit Balances

	March 31	
	2024	2023
	USD thousands	
Accrual Expenses	8,563	5,285
Employees and institutions in respect of wages	9,265	6,730
Financial instruments	1,318	3,548
Suppliers in respect of fixed assets	1,210	763
Provision for vacation and convalescence	4,189	3,822
Provision for returns	195	232
Advance payments from customers	444	359
Marketable Securities payable	245	-
Other	4,500	2,896
	<u>29,929</u>	<u>23,635</u>

Note 10: - Liabilities for Severance Pay, Net

- A. According to labor laws and labor agreements in Israel, the Company is required to pay compensation to employees who are dismissed or who retire from their jobs under certain circumstances.
- B. The Company's liability for compensation payments in respect of employees for whom the obligation is under Article 14 of the Severance Pay Law is covered by ongoing deposits in defined deposit plans. The amounts deposited as stated are not included in the financial statements.
- C. The Company has a liability for compensation payments to several employees who are not subject to Article 14 of the Severance Pay Law. In respect of this liability, there are compensation reserves and executive insurance policies in which the Company deposits funds. The amount of the net liability for severance pay included in the financial statements reflects the gap between the liability for compensation payments and the assets in the compensation plans.

Note 11: - Engagements, Contingent Liabilities and Liens

A. Engagements

1. Rental agreements and leases

The Company has lease agreements regarding its vehicle fleet in which the lease period of the vehicles is 3 years.

2. Royalties to the Chief Scientist

The Company received grants from the Chief Scientist for participation in research and development and in return, it undertook to pay royalties in the amount of 3%-3.5% of the sales of products resulting from the research and development that were financed, up to the amount of the grants received. As of March 31, 2024, the cumulative theoretical debt to the Chief Scientist is USD 15,588 thousand (USD 15,062 thousand as of March 31, 2023).

B. Contingent Liabilities

The Company gave an unlimited guarantee to the banks for its wholly controlled subsidiary in Israel to guarantee its liabilities (as of the balance sheet date, no subsidiaries have liabilities to the banks).

C. Liens

As of March 31, 2024, the Company has no liens.

Notes to the Financial Statements

Note 11: - Engagements, Contingent Liabilities and Liens (continued)

D. Lawsuits

Antitrust – Gx Drug Price Fixing Litigation

SPIINC, Taro Pharmaceutical Industries Ltd. (“Taro Industries”) and its subsidiaries, along with more than 70 other pharmaceutical companies and individuals, are named as defendants in lawsuits brought by several putative classes, state Attorneys Generals, municipalities, and individual company purchasers and payors, alleging violations of the antitrust and related laws in the U.S. and Canada. The U.S.-filed cases were filed in or were transferred to the U.S. District Court for the Eastern District of Pennsylvania for coordinated pre-trial proceedings. The court designated five complaints, including one Attorneys General complaint and four complaints filed by two putative classes, as “bellwethers” to begin the sequencing of proceedings; discovery is complete as to the bellwethers and the parties are now in expert discovery and class certification proceedings. In May 2023 and March 2024, the court issued orders revising prior deadlines and setting schedules as to the class and Attorney General bellwethers, respectively, across 2023 and 2024, including related to discovery and motions practice. In April 2024, the Attorneys General bellwether complaint and two other Attorneys General complaints were transferred from the Eastern District of Pennsylvania to the District of Connecticut in which the complaints were originally filed; the Attorneys General cases are proceeding in parallel to the cases remaining in the Eastern District of Pennsylvania.

On April 08, 2022, our U.S. subsidiaries, Taro U.S.A. and SPIINC, each entered into settlement agreements that resolve the above-referenced civil antitrust matter with the Direct Purchaser Plaintiffs class (“DPPs”) without any admission of guilt or violation of any statute, law, rule or regulation, or of any liability or wrongdoing, pursuant to which Taro U.S.A. paid USD 59.7 Million, and SPIINC paid USD 15.3 Million (equivalent to ₹ 1,151.8 Million). These amounts do not include class members that opted out of the settlement. Both Taro’s and SPIINC’s settlements with the DPPs were approved by the Court on March 10, 2023, and both payments were timely made. Discovery in the End Payor and state Attorneys General cases is ongoing. There also is a case arising from the same alleged antitrust conduct pending in Canada, brought against SPIINC and its affiliates. After being dormant for some time, in 2023, plaintiffs filed their certification application. Defendants’ responding materials are due in July 2024.

Requests for disclosure of documents submitted to the Haifa District Court:

On June 22, 2020, a motion seeking documents before filing a shareholder derivative action was filed by a single shareholder against Taro Industries and Taro U.S.A. in the Haifa District Court related to alleged U.S. antitrust violations. On September 22, 2020, a subsequent motion seeking documents was filed by a single shareholder against Taro Industries related to alleged misreporting to U.S. Medicaid and three prior state settlements. Both motions were consolidated on February 16, 2021, and remain pending before the Haifa District Court. The Proceedings against Taro Industries and Taro U.S.A. have been stayed by the Haifa District Court thus far, pending the parties providing required status updates regarding the related U.S. litigation to the Haifa District Court at upcoming scheduled status hearings.

Notes to the Financial Statements

Note 11: - Engagements, Contingent Liabilities and Liens (continued)

D. Lawsuits (continued)

Class Action Lawsuit - Environment

During July 2019, an application for approval of a class action lawsuit was filed against the Company and 29 other companies (hereinafter - the "Respondents") in the Haifa District .

The application deals with alleged excess morbidity, in the Haifa district, lung cancer and NHL, in which the applicant claims that the morbidity is the result of the respondents' many years of activity, involving the emission of pollutants, which are known to cause these diseases.

At this stage, the court has been requested to confirm the applicant's claim against the respondents as a class action in accordance with the Class Action Law, 2006 and to determine that the facts described in this application establish grounds for the members of the group to claim negligence in accordance with various sections of the Tort Ordinance and in violation of the Clean Air Law.

The Company and the additional respondents expect to submit the summaries of the preliminary stage described above by June 30, 2024. In view of the preliminary stage of the proceedings, the applicant has not yet specified the amount of compensation demanded.

Notes to the Financial Statements

Note 12: - Share Capital

	March 31					
	2024	2023	2024	2023	2024	2023
	Registered		Issued		Paid-up	
	Number of shares					
Foundation shares NIS 0.00001 PV each (1)	2,600	2,600	2,600	2,600	2,600	2,600
Ordinary shares NIS 0.0001 PV each (2)	200,000,000	200,000,000	45,116,262	45,116,262	37,584,631	37,584,631

- (1) These shares together will, at any time, be one-third of the votes of the Company shareholders.
(2) Listed for trading in the United States on the NYSE.

Additional information regarding statement of profit and loss items

Note 13: - Research and Development Expenses

	For the year ended March 31	
	2024	2023
	USD thousands	
Wages, salaries and related expenses in connection with employees	17,561	17,369
Subcontractors, consumption of consumable materials and tools	9,433	7,135
Rent, electricity and maintenance	2,122	2,081
Depreciation	1,846	1,862
Travel and vehicle maintenance	294	308
Foreign travel	164	180
Participation of foreign companies	(552)	(739)
Miscellaneous	2,240	2,436
	<u>33,108</u>	<u>30,632</u>

Notes to the Financial Statements

Note 14: - Administrative and General Expenses

	For the year ended March 31	
	2024	2023
	USD thousands	
Salaries and related expenses	6,775	6,171
Professional services	6,833	1,570
Depreciation	1,416	1,526
Insurance	1,085	1,495
Legal expenses	1,458	2,068
Communications and computers	486	559
Rent, electricity and municipal taxes	1,154	908
Miscellaneous	1,183	932
	<u>20,390</u>	<u>15,229</u>

Note 15: - Other income, net

	For the year ended March 31	
	2024	2023
	USD thousands	
Capital loss from fixed realization	(5)	-
Other income, net	(1,981)	(211)
	<u>(1,986)</u>	<u>(211)</u>

Notes to the Financial Statements

Note 16: - Taxes on Income

A. Tax laws applicable to the companies

Since 2003, the Company has been preparing the tax reconciliation statement in accordance with the rules regarding the bookkeeping of foreign invested companies and of certain partnerships and the determination of their taxable income, 1986. Under these rules, results for tax purposes are measured on a reported basis in USD.

The corporate tax rate as of 2018 is 23%.

The Company's capital gains are taxable at the ordinary corporate tax rate in the tax year.

B. Encouragement of Industry (Taxes) Law, 1969

The company is an "industrial company" within the meaning of the above law. According to this law and under published regulations, the Company is entitled to claim depreciation at increased rates.

C. Tax benefits under the Encouragement of Capital Investment Law, 1959

Prior to the application of the provisions of the Special Technological Preferred Enterprise Directives by the Company (as detailed below), some of the Company's establishments were granted "Approved Enterprise" status in accordance with the Encouragement of Capital Investment Law, 1959 (hereinafter in this subsection - the "Law"). In addition, the Company had a beneficiary enterprise program for the 2010 selection year.

As part of the Economic Efficiency Law (Legislative Amendments to Achieve Budget Goals for the 2017 and 2018 Budget Years), 2016, which was published in Reshumot, the official gazette, on December 29, 2016, the Encouragement of Capital Investment Law was also amended (hereinafter - "Amendment no. 73 of the Law"). The Amendment no. 73 of the Law is effective January 1, 2017. In Amendment no. 73 of the Law, it was determined that from 2017 onwards, the tax rate on the income of companies whose enterprises are located in Development Area A will be 7.5%. Amendment no. 73 of the Law also established new benefit tracks, in addition to the existing tracks in the Encouragement of Capital Investment Law prior to the amendment. In accordance with the established plan, a company that will be entitled to either the "Technological Preferred Enterprise" or the "Special Technological Preferred Enterprise" status can benefit from a tax rate of 7.5% on the income of a company whose operations are located in Development Area A in respect of intellectual property developed in Israel (12% outside Development Area A) or 6% on such revenues, respectively.

In addition, in the Encouragement of Capital Investments Order (Determination of Beneficiary Intangible Assets), 2019, an extension of the definition of "beneficiary intangible asset" in the Encouragement of Capital Investment Law was determined to include medical products for which no patent has been registered (generic drugs). The Order states that a registered right for generic drugs in the Medical Preparations Register in Israel, or a drug that has been approved by the US Food and Drug Administration (FDA) or a competent authority of the European Union, will be considered a "beneficiary intangible asset" and, accordingly, the income of a technological enterprise from this asset will also be eligible for the tax benefits in the technological track.

Notes to the Financial Statements

Note 16: - Taxes on Income (Continued)

C. Tax benefits under the Encouragement of Capital Investment Law, 1959 (Continued)

As of 2020, the Company has chosen to apply the provisions of the Special Technological Preferred Enterprise status to its income from intellectual property.

On October 4, 2021, the Company received approval under Section 51x of the Encouragement Law, which states that the Company is in compliance with the conditions set out in Paragraph 2 of the provisions indicating that the Company's enterprise is an "innovation promoting enterprise" in the 2019-2021 tax years. On December 14, 2023, the approval was extended to the 2022-2024 tax years.

D. Tax assessments

As of the date of signing the financial statements, the Company has final tax assessments up to and including 2015.

In 2019, an assessment hearing began for the Company for the years 2016-2021, which is currently still underway.

On May 24, 2023, an assessment was issued to the Company by order in respect of the 2016 tax year. The assessment order determines that revenues from the Company's foreign subsidiaries must be diverted to Israel and that various financing revenues of the Company are not integral to its ongoing business activities and that the Company is therefore not entitled to the reduced tax rates under the Encouragement of Capital Investment Law, 1959. In respect of the order, the Company appealed to the Court and the competent authorities in Canada and the United States were contacted by the subsidiaries to initiate mutual agreement procedures with the competent authority in Israel in order to ensure that the Taro Group companies are not taxed twice for the same revenue.

On March 30, 2023, a best judgment assessment was issued to the Company for the 2017 tax year. In respect of the assessment, the Company filed an objection on May 29, 2023.

E. Income tax expenses (income)

	For the year ended	
	March 31	
	2024	2023
	<u>USD thousands</u>	
Current taxes	(328)	330
Deferred taxes	-	1,247
Taxes - previous year	(809)	39
	<u>(1,137)</u>	<u>1,616</u>

Notes to the Financial Statements

Note 17: - Transactions with Related Parties

	For the year ended March 31	
	2024	2023
	USD thousands	
<u>Sales</u>		
Sales to Taro Canada	23,819	26,423
Sales to Taro USA	120,863	82,964
Sales to the Sun Group	5,108	2,633
Revenue from royalties	237	187
	150,027	112,207
<u>Cost of sales</u>		
Participation of Taro International Ltd. in the Company's expenses	(427)	(429)
Purchase of finished goods and raw materials from Taro Canada	17,623	15,175
Royalties expenses	473	457
	17,669	15,203
<u>Research and development expenses (revenues)</u>		
Participation in research and development expenses in Canada	275	138
Company's participation in research and development expenses, net	400	248
Related companies' participation in research and development expenses	(93)	(61)
Research and development consulting service from the parent company	46	37
	628	362
<u>Sales expenses</u>		
Taro International Ltd.'s participation in sales expenses	(1,833)	(2,267)
<u>Administrative and general expenses</u>		
Taro International Ltd.'s participation in the Company's salaries and related expenses	(288)	(406)
Legal consulting service from the parent company	366	370
	78	(36)
<u>Financing income, net</u>		
Financing income in respect of long-term loans	-	(110)