

Taro Pharmaceutical Industries Ltd.

Financial Statements as of March 31, 2026

Taro Pharmaceutical Industries Ltd.
Financial Statements as of March 31, 2026

In USD
For Income Tax Purposes

Contents

	<u>Page</u>
Report of the Independent Auditor	1
Statements of Financial Position	2-3
Statements of Comprehensive Income	4
Statements of Changes in Equity	5
Notes to the Financial Statements	6-22

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 - "Company") as of March 31, 2026 and March 31, 2025 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 1D, 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 omission of the information mentioned above and the matters relating to 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, 2026 and March 31, 2025, its operating results and changes in its equity for each of the years ended on said 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, May 14, 2026

ZIV Haft
Certified Public Accountants (Isr.)
BDO Member Firm

Tel Aviv	Jerusalem	Haifa	Beer Sheva	Bnei Brak	Kiryat Shmona	Petah Tikva	Modiin Ilit	Nazrat Ilit
03-6386868	02-6546200	04-8680600	077-7784100	073-7145300	077-5054906	077-7784180	08-9744111	04-6555888

Main office: Beit Amot BDO, 48 Menachem Begin Road, Tel Aviv, 6618001 **Email:** bdo@bdo.co.il **Website:** www.bdo.co.il

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Taro Pharmaceutical Industries Ltd.
For Income Tax Purposes

Statements of Financial Position

		As of March 31	
		2026	2025
	Note	USD thousands	
<u>Current assets</u>			
Cash and cash equivalents		35,112	73,779
Long-term deposits		-	9,281
Marketable securities		50,524	31,997
Trade receivables	3	58,000	6,075
Subsidiaries	4	-	4,231
Accounts receivable and debit balances	5	7,005	7,477
Inventory	6	65,838	69,448
		<u>216,479</u>	<u>202,288</u>
<u>Long-term investments and loans, net</u>	7	<u>1,666,408</u>	<u>1,558,556</u>
<u>Fixed assets</u>	8		
Cost		343,804	334,302
Less - Accumulated depreciation		<u>(250,589)</u>	<u>(237,675)</u>
		<u>93,215</u>	<u>96,627</u>
 Other assets		 <u>3,307</u>	 <u>3,307</u>
		<u>1,979,409</u>	<u>1,860,778</u>

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

Taro Pharmaceutical Industries Ltd.
For Income Tax Purposes

Statements of Financial Position

	Note	As of March 31	
		2026	2025
		USD thousands	
<u>Current liabilities</u>			
Subsidiaries	4	53,517	-
Liabilities to suppliers and service providers		16,619	15,322
Accounts payable and credit balances	9	25,221	24,234
		<u>95,357</u>	<u>39,556</u>
<u>Long-term liabilities</u>			
Long-term payables		<u>623</u>	<u>820</u>
<u>Engagements, contingent liabilities and liens</u>	11		
<u>Equity</u>	12	<u>1,883,429</u>	<u>1,820,402</u>
		<u>1,979,409</u>	<u>1,860,778</u>

May 11, 2026
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	
		2026	2025
		USD thousands	
Sales		175,122	146,848
Cost of sales		139,968	132,092
Gross profit		35,154	14,756
Research and development expenses	13	37,776	34,570
Sales and marketing expenses		8,957	9,376
Administrative and General Expenses	14	13,685	14,412
Settlements		78,687	20
Loss from ordinary activities		(103,951)	(43,622)
Financing revenues (expenses), net		3,245	9,775
Loss after financing revenue		(100,706)	(33,847)
Other income, net		294	260
Pre-tax profit (loss) on income		(100,412)	(33,587)
Income tax (expense)	15	(652)	(616)
Loss after income taxes		(101,064)	(34,203)
Company share in profits of subsidiaries, net		164,561	22,624
Net profit (loss)		63,497	(11,579)

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

Taro Pharmaceutical Industries Ltd.
For Income Tax Purposes

Statements of Changes in Equity

	Capital Share Capital	Share premium	Treasury stock	Fund Capital	Surpluses	Total
	USD thousands					
<u>Balance as of March 31, 2024</u>	680	262,445	(771,405)	(159,014)	2,498,970	1,831,676
Merge with parent company	3	280	-	-	-	283
Differences from translation of financial statements of subsidiaries prepared in foreign currency	-	-	-	22	-	22
Net loss	-	-	-	-	(11,579)	(11,579)
<u>Balance as of March 31, 2025</u>	683	262,725	(771,405)	(158,992)	2,487,391	1,820,402
Differences from translation of financial statements of subsidiaries prepared in foreign currency	-	-	-	(470)	-	(470)
Net profit	-	-	-	-	63,497	63,497
<u>Balance as of March 31, 2026</u>	<u>683</u>	<u>262,725</u>	<u>(771,405)</u>	<u>(159,462)</u>	<u>2,550,888</u>	<u>1,883,429</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 ordinary shares of the Company were listed for trading in the United States until June 24, 2024.

- 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 March 29, 2014, the ownership in Alkaloida Chemical Company Exclusive Group changed (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.
- D. 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 zero value, 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.
- E. 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.
- F. On January 17, 2024, the Company announced that it had entered into a merger agreement with Sun Pharmaceutical Industries Ltd. (hereinafter: "Sun Pharma"). The merger with Sun Pharma became effective on June 24, 2024. As a result of the merger, the Company became a private company wholly owned by Sun (through its subsidiaries), and as of that date, all of the Company's issued shares, other than those held by Sun Pharma and its subsidiaries, were annulled in exchange for the right to receive \$43 per ordinary share in cash, without interest. As a result of the merger, the Company's shares ceased trading on the New York Stock Exchange prior to the opening of trading on June 24, 2024, and the Company discontinued its remaining reporting obligations under the applicable laws.

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.

Notes to the Financial Statements

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.

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.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

3. Exchange rates

The following are data regarding USD exchange rates:

<u>As of</u>	<u>Representative exchange rate of the USD NIS</u>
March 31, 2026	3.165
March 31, 2025	3.718
March 31, 2024	3.681
<u>Rate of change in the year ended</u>	<u>%</u>
31.03.2026	(14.87)
31.03.2025	1

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.

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.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

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:

	%
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.
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.

Notes to the Financial Statements

Note 2: - Significant Accounting Policies (continued)

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	
	2026	2025
	USD thousands	
Related parties	48,704	-
(1) Open debts	9,296	6,075
	<u>58,000</u>	<u>6,075</u>
(1) Less - provision for doubtful debts	<u>10</u>	<u>3</u>

Note 4: - Subsidiaries

The current account balance is linked to the USD exchange rate

Note 5: - Accounts receivable and debit balances

	March 31	
	2026	2025
	USD thousands	
Institutions	3,180	3,584
Prepaid expenses	2,150	1,626
Advance payments to suppliers	854	464
Interest receivable	246	243
Related parties	1	946
Others	574	614
	<u>7,005</u>	<u>7,477</u>

Note 6: - Inventory

	March 31	
	2026	2025
	USD thousands	
Finished goods	9,294	6,674
In-progress goods	22,482	29,045
Raw materials and packaging	28,300	28,547
	<u>60,076</u>	<u>64,266</u>
Basic Inventory	<u>5,762</u>	<u>5,182</u>
	<u>65,838</u>	<u>69,448</u>

Notes to the Financial Statements

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

A. Composition

	March 31	
	2026	2025
	USD thousands	
Equity value of subsidiaries, net (see B below)	1,650,187	1,486,131
Long-term prepaid expenses (1)	11,870	12,100
Original difference	3,608	3,608
Investment in securities	-	55,079
Other	743	1,638
	<u>1,666,408</u>	<u>1,558,556</u>

- (1) Comprised primarily of prepaid expenses in respect of land leased from the Israel Land Authority (see Note 2E'). This amount is depreciated over the term of the lease (including the option period).

B. Equity value of subsidiaries

	Rate of holding	March 31	
		2026	2025
	%	USD thousands	
Taro Pharmaceuticals U.S.A., Inc. (hereinafter - "Taro USA") (1)	100	(558,500)	(655,740)
Taro Pharmaceuticals Inc. (hereinafter - "Taro Canada") (2)	100	2,146,606	2,084,397
TARO PHARMACEUTICALS NORTH AMERICA, INC. (hereinafter - "Taro North America") (2)	100	(38)	(15)
Taro International Ltd.	100	41,354	35,956
Alchemee Group (3)	100	20,765	21,498
Taro Pharmaceuticals Europe B.V. (hereinafter - "Taro Holland")	100	-	35
		<u>1,650,187</u>	<u>1,486,131</u>

- (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. During 2002, 84.4% of the shares of Taro USA, entitled to profits from Taro North America, were transferred to the Company pursuant to section 104C of the Income Tax Ordinance, by way of 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	
	Balance at beginning of period	Additions during the period	Disposals during the period	Balance at end of period	Balance at beginning of 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	121,401	1,661	-	123,062	77,538	4,918	82,456	43,863
Facilities, machinery and equipment	183,291	7,465	-	190,756	139,529	6,041	145,570	43,762
Furniture, office equipment and computers	23,453	376	-	23,829	20,608	1,955	22,563	2,845
	<u>334,302</u>	<u>9,502</u>	<u>-</u>	<u>343,804</u>	<u>237,675</u>	<u>12,914</u>	<u>250,589</u>	<u>96,627</u>

Notes to the Financial Statements

Note 9: - Accounts Payable and Credit Balances

	March 31	
	2026	2025
	USD thousands	
Expenses payable	4,597	3,898
Employees and institutions in respect of wages	9,629	9,700
Provision for vacation and convalescence	5,316	4,302
Advance payments from customers	1,066	322
Provision for returns	164	147
Suppliers in respect of fixed assets	1,237	981
Other	3,212	4,884
	<u>25,221</u>	<u>24,234</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 amounting to 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, 2025, the accumulated theoretical liability to the Chief Scientist amounted to USD 16,705 thousand (USD 15,588 thousand as of March 31, 2024).

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).

Notes to the Financial Statements

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

C. Liens

As of March 31, 2026, the Company has no liens.

D. Lawsuits

Anti-trust lawsuit in the United States

On July 23, 2020, the subsidiary "Taro USA" reached an agreement on behalf of the Group companies with the Antitrust Division and the Civil Division of the United States Department of Justice (hereinafter: the "U.S. Authorities"). The agreement is in the context of a multi-year investigation conducted by the US Authorities regarding the generic drug industry. The agreement concerns the business conduct in 2013-2015. Under the agreement, Taro USA paid the amount of USD 205.7 million in a settlement to remove the antitrust lawsuit. In addition, the amount of USD 213.3 million was paid in an arrangement to settle the Civil Affairs Division lawsuits in connection with federal health programs. The settlement was made in respect of allegations against the Company and the Group companies regarding the coordinating of prices and tenders. Part of the amount of USD 213.3 million, in the amount of USD 118.9 million, is identified as a recovery of amounts resulting from the purchase of Taro USA products owned by the Company ("Taro Israel") and subsidiary "Taro Canada". The Company's share of the recovered amounts is estimated at approx. USD 40 million.

Class-action lawsuits in the United States

In the United States, there are several civil lawsuits filed by various plaintiffs (both private and state) against the Company, its subsidiaries, or officials therein (the "Civil Claims").

All class actions and state claims are settled under a consolidated proceeding (hereinafter - the "Consolidated Proceeding").

In the consolidated proceeding, the court in the United States ordered a preliminary investigation of some of the proceedings, in a procedure known as "Bellwether trials". This preliminary investigation has been conducted for the class actions of the DPP Group and the EPP Group, as well as for the June 2020 lawsuit of all states (the "2020 States Claim").

On April 8, 2022, a settlement agreement was signed with the DPP group, a class primarily consisting of U.S. wholesale distributors and marketers who purchased generic drugs from manufacturers. The settlement was approved by the court on March 10, 2023. The settlement was in respect of alleged allegations against the Company for conspiring with competitors to coordinate prices, market distribution, etc., regarding certain products. According to the settlement, which was approved by the court on March 10, 2023, Taro USA paid approx. USD 59 million.

Part of the amount of approx. USD 32 million is identified as a refund to the representative group of amounts resulting from sales of the Company's products by Taro USA, and recorded in the Company's books in the year ended March 2022.

On July 23, 2025, a settlement was executed with the EPP Group (End Payer Plaintiff Class), in respect of the claims against the Company described above. The settlement received preliminary approval by the Court on September 23, 2025 (an additional hearing for final approval was scheduled for January 15, 2026). This settlement was executed without any admission of guilt or violation of the law. Pursuant to the settlement, Taro USA paid approximately USD 200 million. Part of the aforesaid amount, totaling approximately USD 78 million, was identified as reimbursement to the class action group of amounts arising from sales of the Company's products by Taro USA, and was recorded in the books of the Company in the year ended March 2026.

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

D. Lawsuits (continued)

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

On June 22, 2020 and September 17, 2020, requests for a disclosure of documents were filed against the Company and Taro USA prior to filing a derivative claim under Section 198a of the Companies Law, the first by Moshe Hayat, and the second by Yehuda Shenhav, who claim they are shareholders of the Company. The applications have been consolidated into a single application filed on February 16, 2021 (hereinafter - the "Consolidated Application"). In the consolidated application, the applicants request internal documents from the Company and from Taro USA in connection with an alleged violation of US competition laws, and in connection with the submission of allegedly misleading reports to the US Authorities under the Medicaid program, from 2009 to 2014, in order to consider the filing of an application for the approval of a derivative action against officers in the Company and in Taro USA.

The proceeding is in the preliminary presentation stage and is periodically delayed. The Parties are expected to commence mediation proceedings in order to examine the possibility of resolving the proceeding.

Class Action 30316-06-24: Hait v. Taro Pharmaceutical Industries Ltd. et al.

On June 10, 2024, a motion to certify a class action was filed in the Haifa District Court (Commercial Division) by a former shareholder of Taro Pharmaceutical Industries Ltd. ("the Applicant" and "Taro," respectively).

The Applicant raises various claims regarding unfair consideration for Taro's minority shareholders in connection with the "going private" transaction, pursuant to which Sun acquired Taro's publicly traded shares and converted it into a private company.

The Applicant is seeking damages in an amount currently estimated by him at USD 245 million. The Company believes that the motion for certification is without merit and intends to vigorously defend itself against the motion to certify the class action. The Parties are expected to commence mediation proceedings in order to examine the possibility of resolving the proceeding.

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 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 and leakage of pollutants, which are known to cause these diseases.

At this stage, the court has been motioned to certify the petitioner's claim against the respondents as a class action in accordance with the Class Action Law, 5766-2006 and to determine that the facts described in this motion 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 other respondents submitted their briefs for the preliminary stage described above in June 2024 and are awaiting the court's decision in this matter. 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					
	2026	2025	2026	2025	2026	2025
	Registered		Issued		Paid-up	
	Number of shares					
Foundation shares NIS 0.00001 PV each (1)	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>	<u>2,600</u>
Ordinary shares NIS 0.0001 PV each	<u>200,000,000</u>	<u>200,000,000</u>	<u>45,116,262</u>	<u>45,116,262</u>	<u>29,497,813</u>	<u>29,497,813</u>

(1) These shares together will, at any time, be one-third of the votes of the Company shareholders.

Additional information regarding statement of profit and loss items

Note 13: - Research and Development Expenses

	For the year ended March 31	
	2026	2025
	USD thousands	
Wages, salaries and related expenses in connection with employees	21,873	17,655
Subcontractors, consumption of consumable materials and tools	10,407	10,321
Rent, electricity and maintenance	2,215	1,970
Depreciation	1,665	1,766
Travel and vehicle maintenance	293	278
Foreign travel	128	242
Participation of foreign companies	(1,197)	(447)
Miscellaneous	<u>2,392</u>	<u>2,785</u>
	<u>37,776</u>	<u>34,570</u>

Notes to the Financial Statements

Note 14: - Administrative and General Expenses

	For the year ended	
	March 31	
	2026	2025
	USD thousands	
Salaries and related expenses	7,265	5,599
Professional services	717	2,205
Depreciation	1,494	1,879
Insurance	119	378
Legal expenses	2,428	2,754
Communications and computers	194	164
Rent, electricity and municipal taxes	1,045	820
Miscellaneous	423	613
	<u>13,685</u>	<u>14,412</u>

Note 15: - 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.

Notes to the Financial Statements

Note 15: - Taxes on Income (continued)

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), 5779-2019, an extension of the definition of "beneficiary intangible asset" in the Encouragement of Capital Investment Law was established to also include pharmaceutical 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.

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 regarding the years 2016-2021, which is currently still underway and has been expanded to include 2022 as well. 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, 5719-1959. In respect of said 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 proceedings with the competent authority in Israel in order to ensure that the Taro Group companies are not taxed twice for the same revenue. Moreover, on September 22, 2024, the court approved the Company's request to stay proceedings relating to the 2016 tax year, in light of ongoing mutual agreement procedures (MAP) concerning that year.

On May 27, 2024, the Company received a tax assessment by order for the 2017 tax year, which includes an additional tax liability based on issues similar to those raised in the 2016 assessment. The Company filed an appeal with the court regarding the aforesaid Order, and through its subsidiaries also initiated mutual agreement proceedings with the competent authorities in Canada and the United States, in order to ensure that Taro Group companies are not subject to double taxation on the same income. Additionally, on August 4, 2024, the court approved the Company's request to stay proceedings relating to the 2018 tax year, in light of the ongoing mutual agreement proceedings related to that year.

On March 31, 2025, a best judgment assessment was issued to the Company for the tax years 2019-2022. In respect of the aforesaid assessment, the Company filed an objection on June 29, 2025.

Notes to the Financial Statements

Note 15: - Taxes on Income (continued)

E. Income tax expenses (income)

	For the year ended March 31	
	2026	2025
	USD thousands	
Current taxes	655	(25)
Taxes - previous year	(3)	641
	<u>652</u>	<u>616</u>

Notes to the Financial Statements

Note 16: - Transactions with Related Parties -

	For the year ended March 31	
	2026	2025
	USD thousands	
<u>Sales</u>		
Sales to Taro Canada	23,329	24,091
Sales to Taro USA	1,648	79,665
Sales to the Sun Group	113,077	4,815
Revenue from royalties	239	256
	<u>138,293</u>	<u>108,827</u>
<u>Cost of Sales</u>		
Participation of Taro International Ltd. in the Company's expenses	(685)	(511)
Purchase of finished goods from Taro Canada	12,158	15,260
Purchase of raw materials	1,467	633
Royalties expenses	285	436
	<u>13,225</u>	<u>15,818</u>
<u>Research and development expenses (revenues)</u>		
Share in research and development expenses in Canada	277	258
Related companies' share in research and development expenses	(1,189)	(75)
Research and development consulting service from the parent company	40	46
	<u>(872)</u>	<u>229</u>
<u>Sales expenses</u>		
Taro International Ltd.'s share in sales expenses	<u>(2,997)</u>	<u>(2,585)</u>
<u>Administrative and general expenses</u>		
Taro International Ltd.'s share in the Company's salaries and related expenses	(401)	(402)
Research and development consulting service from the parent company	-	366
	<u>(401)</u>	<u>(36)</u>
Settlements	78,686	-