UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended March 31, 2021

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 001-35463

TARO PHARMACEUTICAL INDUSTRIES LTD.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

14 Hakitor Street, Haifa Bay 2624761, Israel
(Address of principal executive offices)

Daphne Huang
Chief Financial Officer
Taro Pharmaceutical Industries Ltd.
c/o Taro Pharmaceuticals U.S.A., Inc.
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Tel: 914-345-9000
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Email: Daphne.Huang@Taro.com
(Name, telephone, email and/or facsimile number and address of Company contact person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 0.0001 nominal (par) value per share	**TARO**	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

37,926,044 Ordinary Shares, NIS 0.0001 nominal (par) value per share, and 2,600 Founders' Shares NIS 0.00001 nominal (par) value per share outstanding as of March 31, 2021

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☑ No

Note—checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

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

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

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

Large accelerated filer: ☑ Accelerated filer: ☐ Non-accelerated filer: ☐ Emerging growth company ☐

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

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☑ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an Annual Report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☑ No

INTRODUCTION

We, among other business activities, develop, manufacture and market prescription ("Rx") and over-the-counter ("OTC") pharmaceutical products, primarily in the United States (the "U.S."), Canada and Israel. We also develop and manufacture active pharmaceutical ingredients ("APIs"), primarily for use in our finished dosage form products. We were incorporated in 1959 under the laws of the State of Israel. In 1961, we completed the initial public offering of our ordinary shares in the United States. Our ordinary shares have been listed on the New York Stock Exchange (the "NYSE") under the symbol "TARO," since March 22, 2012.

As used in this Annual Report on Form 20-F for the fiscal year ended March 31, 2021 (the "2021 Annual Report"), the terms "we," "us," "our," "Taro" and the "Company" mean Taro Pharmaceutical Industries Ltd. ("Taro Israel") and its subsidiaries, unless otherwise indicated.

This 2021 Annual Report is being filed in respect of the fiscal year ended March 31, 2021, and contains the audited consolidated financial statements for the year then ended.

FORWARD-LOOKING STATEMENTS

Except for the historical information contained in this 2021 Annual Report, the statements contained herein, in particular with respect to our business, financial condition and results of operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in "*Item 3D – Risk Factors*" and elsewhere in this 2021 Annual Report. We urge you to consider that statements which use the terms *"believe," "expect," "plan," "intend," "estimate," "anticipate," "should," "will," "may," "hope"* and similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties. Except as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements appearing in this 2021 Annual Report are reported in U.S. dollars in thousands, unless otherwise indicated, and are prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Totals presented in this 2021 Annual Report may not total correctly due to rounding of numbers.

All references in this 2021 Annual Report to "dollars," "USD," or "$," are to U.S. dollars, all references to "NIS" are to New Israeli Shekel, and all references to "CAD" are to Canadian dollars. The published (1) representative exchange rate between the NIS and the dollar for March 31, 2021, was NIS 3.33 per $1.00. The published (2) representative exchange rate between the CAD and the dollar for March 31, 2021, was CAD 1.26 per $1.00. No representation is made that the NIS amounts or CAD amounts could have been, or could be, converted into dollars at rates specified herein or any other rate.

(1) As published by The Bank of Israel.
(2) As published by J.P. Morgan Chase.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We have derived the following selected consolidated financial data for the years ended March 31, 2021, 2020 and 2019, and as of March 31, 2021 and 2020, from our audited consolidated financial statements set forth elsewhere in this 2021 Annual Report, which have been prepared in accordance with U.S. GAAP. We have derived the consolidated selected financial data for the years ended March 31, 2018 and 2017, and the Consolidated Balance Sheet financial data as of March 31, 2019, from our audited consolidated financial statements not included in this Annual Report. You should read the selected consolidated financial data together with *"Item 5 – Operating and Financial Review and Prospects"* and our consolidated financial statements, related notes and other financial information included elsewhere in this 2021 Annual Report.

	Year Ended March 31,				
	2021	2020	2019	2018	2017
	U.S. dollars and shares in thousands (except per share data)				
Consolidated Statements of Operations Data:					
Sales, net	$ 548,970	$ 644,769	$ 669,893	$ 661,913	$ 879,387
Cost of sales	252,314	245,044	224,169	198,405	207,860
Impairment	—	—	—	—	276
Gross profit	296,656	399,725	445,724	463,508	671,251
Operating expenses:					
Research and development	60,152	59,777	63,238	70,418	70,644
Selling, marketing, general and administrative	91,355	93,413	89,971	88,196	85,656
Settlements and loss contingencies	558,924	—	(3,678)	1,884	—
	710,431	153,190	149,531	160,498	156,300
Operating (loss) income	(413,775)	246,535	296,193	303,010	514,951
Financial (income) expenses, net	(19,809)	(48,482)	(58,851)	12,531	(34,636)
Other gain, net	2,893	3,018	1,810	1,889	11,211
(Loss) income before income taxes	(391,073)	298,035	356,854	292,368	560,798
Tax expense	9,667	53,485	74,732	81,954	103,780
(Loss) income from continuing operations	(400,740)	244,550	282,122	210,414	457,018
Net loss from discontinued operations attributable to Taro	—	—	—	(335)	(352)
Net (loss) income	(400,740)	244,550	282,122	210,079	456,666
Net (loss) income attributable to non-controlling interest	(14,087)	309	345	(1,071)	310
Net (loss) income attributable to Taro	$ (386,653)	$ 244,241	$ 281,777	$ 211,150	$ 456,356
Net (loss) income from continuing operations attributable to Taro	$ (386,653)	$ 244,241	$ 281,777	$ 211,485	$ 456,708
Net loss from discontinued operations attributable to Taro	—	—	—	(335)	(352)
Net (loss) income attributable to Taro	$ (386,653)	$ 244,241	$ 281,777	$ 211,150	$ 456,356
Net (loss) income per ordinary share from continuing operations attributable to Taro:					
Basic and Diluted	$ (10.12)	$ 6.35	$ 7.23	$ 5.27	$ 11.06
Net loss per ordinary share from discontinued operations attributable to Taro:					
Basic and Diluted	$ —	$ —	$ —	$ (0.01)	$ (0.01)
Net (loss) income per ordinary share attributable to Taro:					
Basic and Diluted	$ (10.12)	$ 6.35	$ 7.23	$ 5.26	$ 11.05
Weighted-average number of ordinary shares used to compute net (loss) income per share:					
Basic and Diluted	38,210	38,460	38,990	40,155	41,301

	As of March 31,				
	2021	2020	2019	2018	2017
	U.S. dollars in thousands				
Consolidated Balance Sheet Data:					
Working capital	$ 794,534	$ 1,309,867	$ 1,265,899	$ 1,680,879	$ 1,789,187
Property, plant and equipment, net	$ 205,508	$ 209,961	$ 206,242	$ 193,727	$ 180,085
Total assets	$ 2,406,873	$ 2,341,252	$ 2,135,326	$ 2,433,210	$ 2,289,753
Shareholders' equity	$ 1,695,457	$ 2,109,759	$ 1,911,122	$ 2,210,399	$ 2,073,806

Dividends

We had never paid cash dividends until Fiscal Year 2019. On November 5, 2018, the Board of Directors declared a $500 million special cash dividend on Taro ordinary shares. The special dividend of $12.86 per share was paid on December 28, 2018, to shareholders of record at the close of business on December 11, 2018. Our dividend policy is set forth below in *"Item 8.A. – Consolidated Statements and Other Financial Information."*

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Our business, operating results and financial condition may be seriously harmed due to any of the following risks, among others. If we do not successfully address the risks facing us, we may experience a material adverse change in our business, results of operations and financial condition and our share price may decline. We cannot assure you that we will successfully address any of these risks.

Risks Relating to Our Industry

The pharmaceutical industry in which we operate is intensely competitive. We are particularly subject to the risks of competition. For example, the competition we encounter may have a negative impact upon the prices we charge for our products, the market share of our products and our revenue and profitability.

The pharmaceutical industry in which we operate is intensely competitive. The competition which we encounter has an effect on our product prices, market share, revenue and profitability. Depending upon how we respond to this competition, it may have a material adverse effect on us. We compete with:

- generic manufacturers of our brand-name drugs;
- the original manufacturers of the brand-name equivalents of our generic products;
- drug manufacturers (including brand-name companies that also manufacture generic drugs);
- generic drug manufacturers; and
- manufacturers of new drugs that may compete with our generic drugs and proprietary products.

Most of the products that we sell are either generic drugs or drugs for which related patents have expired. Most of these products do not benefit from patent protection and are therefore subject to an increased risk of competition. In addition, because many of our competitors have substantially greater financial, production and research and development resources, substantially larger sales and marketing organizations and substantially greater name recognition than we have, we are particularly subject to the risks inherent in competing with them. For example, many of our competitors may be able to develop products and processes competitive with, or superior to, our own. Furthermore, we may not be able to differentiate our products from those of our competitors, successfully develop or introduce new products that are less costly or offer better performance than those of our competitors or offer purchasers of our products payment and other commercial terms as favorable as those offered by our competitors.

Other pharmaceutical companies frequently take actions to prevent or discourage the use of generic drug products such as ours.

Other pharmaceutical companies have increasingly taken actions, including the use of state and federal legislative and regulatory mechanisms, to prevent, delay or discourage the use of generic equivalents to their products, including generic products that we manufacture or market. If these efforts to delay or prevent generic competition are successful, our ability to sell our generic versions of products may be limited or prevented. This could have a material adverse effect on our future results of operations. These efforts have included, among others:

- filing new patents or extensions of existing patents on products whose original patent protection is about to expire, which could extend patent protection for the product and delay launch of generic equivalents;
- developing patented controlled-release products or other product improvements;
- developing and marketing branded products as Rx and OTC products;
- pursuing pediatric exclusivity for brand-name products;
- submitting citizen petitions to request that the Commissioner of the U.S. Food and Drug Administration ("FDA") take administrative action with respect to an abbreviated new drug application ("ANDA") approval;
- attaching special patent extension amendments to unrelated federal legislation;
- engaging in state-by-state initiatives to enact legislation that restricts the substitution of some brand-name drugs with generic drugs;
- making arrangements with managed care companies and insurers to reduce the economic incentives to purchase generic pharmaceuticals;
- introducing authorized generics or their own generic equivalents to the marketplace; and
- setting the price of brand-name drugs at or below the price of generic equivalents.

Generally, no additional regulatory approvals are required for brand-name manufacturers to sell directly or through a third party to the generic market. Brand-name products that are licensed to third parties and are marketed under their generic names at discounted prices are known as authorized generics. Such licensing facilitates the sale of generic equivalents of a company's own brand-name products. Because many brand-name companies are substantially larger than we are and have substantially greater resources than we have, we are particularly subject to the risks of their undertaking to prevent or discourage the use of our products that compete with theirs. Moreover, the introduction of authorized generics may make competition in the generic market more intense. It may also reduce the likelihood that a generic company that obtains the first ANDA approval for a particular product will be the first-to-market and/or the only generic alternative offered to the market and thus may diminish the economic benefit associated with this position.

We may experience declines in the sales volume and prices of our products as the result of the continuing trend of consolidation of certain customer groups, such as the wholesale drug distribution and retail pharmacy industries, as well as the emergence of large buying groups.

We make a significant portion of our sales to a relatively small number of wholesalers, retail drug chains, food chains and mass merchandisers. If demand decreases significantly, our profitability could be negatively impacted. Also, these customers constitute an essential part of the distribution chain for generic pharmaceutical products and continue to undergo significant consolidation. This consolidation may result in these groups gaining additional purchasing leverage and consequently increasing product pricing pressures facing us. In addition, the emergence of large buying groups representing independent retail pharmacies and the prevalence and influence of managed care organizations and similar institutions, potentially enables those groups to negotiate price discounts on our products.

Our net sales and quarterly growth comparisons may also be affected by fluctuations in the buying patterns of retail chains, major distributors and other trade buyers, whether resulting from seasonality, pricing, wholesaler buying decisions or other factors. In addition, since such a significant portion of our U.S. revenue is derived from relatively few customers, any financial difficulties experienced by a single customer, or any delay in receiving payments from a single customer could have a material adverse effect on our business, financial position and results of operations, and could cause the market value of our ordinary shares to decline.

New developments by others could make our products or technologies non-competitive or obsolete.

The markets in which we compete and intend to compete continue to undergo rapid and significant technological change. Our competitors may succeed in developing products and technologies that are more effective or less costly than any that we are developing, or that would render our products obsolete and non-competitive.

We anticipate that we will face increased competition and product price erosion in the future as new companies enter the market and novel or advanced technologies emerge. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Many of our competitors have significantly greater research and development, financial, sales and marketing, manufacturing and other resources than we have. As a result, they may be able to devote greater resources to the development, manufacture, marketing or sale of their products, initiate or withstand substantial price competition, or more readily take advantage of acquisitions or other opportunities.

Our ability to market products successfully depends, in part, upon the acceptance of our products not only by consumers, but also by independent third parties.

Our ability to market generic or proprietary pharmaceutical products successfully depends, in part, on the acceptance of the products by independent third parties (including physicians, pharmacies, government formularies, managed care providers, insurance companies and retailers), as well as patients. In addition, unanticipated side effects or unfavorable publicity concerning any of our products, or any brand-name product of which our generic product is the equivalent, could have an adverse effect on our ability to achieve acceptance by prescribing physicians, managed care providers, pharmacies and other retailers, customers and patients.

Reductions in pharmaceutical pricing may adversely affect our business.

Pharmaceutical pricing, through the current U.S. administration, political, social, and other pressure, has been subjected to increased scrutiny. Our pricing and profitability may be affected, which may have a material adverse effect on our business, financial condition and results of operation.

Our future profitability depends upon our ability to continue monitoring our inventory levels in the distribution channel.

Our future profitability depends, in part, upon our ability to continue monitoring our inventory levels in the distribution channel. We obtain reports of the amount of our products held in inventory by our wholesaler customers. We use these reports as part of our process for monitoring inventory levels in our distribution channel and our exposure to product returns. If we lose access to these reports, we may not be able to adequately monitor our inventory levels in the distribution channel. The loss of our visibility into the distribution channel could cause inventory levels to build, exceeding market demand and resulting in us incurring significant and unanticipated expenditures to reimburse these wholesaler customers for product returns, which could materially affect our profitability and cash flows in an adverse manner.

Our future profitability depends upon our ability to introduce new generic or innovative products on a timely basis.

Our future profitability depends, to a significant extent, upon our ability to introduce, on a timely basis, new generic or innovative products for which we either are the first-to-market (or among the first-to-market) or can otherwise gain significant market share. Our ability to achieve any of these objectives is dependent upon, among other things, the timing of regulatory approval of these products and the number and timing of regulatory approvals of competing products. Inasmuch as this timing is not within our control, we may not be able to develop and introduce new generic and innovative products on a timely basis, if at all.

To the extent that we succeed in being the first-to-market generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity for the U.S. market provided under the Drug Price Competition and Patent Term Restoration Act of 1984 (the “Hatch-Waxman Act”), our sales, profits and profitability may be substantially increased in the period following the introduction of such product and prior to a competitor’s introduction of an equivalent product. However, after the end of the 180-day exclusivity period, these sales, along with the profits therefrom, may diminish precipitously.

Our revenue and profits from individual generic pharmaceutical products typically decline as our competitors introduce their own generic equivalents.

Revenue and gross profit derived from generic pharmaceutical products tend to follow a pattern based on regulatory and competitive factors unique to the generic pharmaceutical industry. As the patents for a brand-name product and the related exclusivity periods expire, the first generic manufacturer to receive regulatory approval for a generic equivalent of the product is often able to capture a substantial share of the market. However, as other generic manufacturers receive regulatory approvals for competing products, or brand-name manufacturers introduce authorized generics, that market share and the price of that product typically decline. Our overall profitability depends on, among other things, our ability to continuously, and on a timely basis, introduce new products.

We may be unable to take advantage of the increasing number of high-value biosimilar opportunities.

Biosimilar products are expected to make up an increasing proportion of the high-value generic opportunities in upcoming years. The development, manufacture and commercialization of biosimilar products require specialized expertise and are very costly and subject to complex regulation, which is still evolving. We will require significant investments and collaborations with third parties to take advantage of these opportunities. We cannot assure you that any future investments and collaborations regarding biosimilar products will be successful.

Risks Relating to Regulatory Matters

We are subject to extensive government regulation that increases our costs and could delay or prevent us from marketing or selling our products.

We are subject to extensive regulation by the United States, Canada, Israel and other jurisdictions. These jurisdictions regulate, among other things, the approval, testing, manufacture, labeling, marketing, sale, import and export of pharmaceutical products. For example, approval by the FDA is generally required before any new drug or the generic equivalent to any previously approved drug may be marketed in the United States. In order to receive approval from the FDA for each new drug product we wish to market, we must demonstrate, through rigorous pre-clinical and clinical trials, that the new drug product is safe and effective for its intended use and that our manufacturing process for that product candidate complies with current Good Manufacturing Practices ("cGMP"). We cannot provide an assurance that the FDA will, in a timely manner, or ever, approve our applications for new drug products. The FDA may require substantial additional clinical testing or find that our drug product does not satisfy the standards for approval. In addition, in order to obtain approval for our product candidates that are generic versions of brand-name drugs, we must demonstrate to the FDA that each generic product candidate is bioequivalent to a drug previously approved by the FDA through the new drug approval process, known as an innovator, or brand-name reference drug. In addition to bioequivalence testing, the generic product must also have the same dosage form, strength, route of administration and intended use as the innovator drug product. If the FDA determines that an ANDA for a generic drug product is not adequate to support approval, it could deny our application or request additional information, including clinical trials, which could delay approval of the product and impair our ability to compete with other versions of the generic drug product.

If our product candidates receive FDA approval, the labeling claims and marketing statements that we can make for our products are limited by statutes and regulations and, with respect to our generic drugs, by the claims approved by the FDA for the brand-name product. In addition, if the FDA and/or a foreign regulatory authority approves any of our products, the labeling, packaging, adverse event reporting, storage conditions, advertising and promotion for the product will be subject to extensive and ongoing regulatory requirements. Further, as a manufacturer of pharmaceutical products distributed in the United States, we must also continue to comply with cGMP regulations, which include requirements related to production processes, quality control and quality assurance and recordkeeping. Products that we manufacture and distribute in foreign jurisdictions may be regulated under comparable laws and regulations in those jurisdictions. The facilities of Taro Pharmaceuticals U.S.A., Inc. ("Taro U.S.A."), our manufacturing facilities and procedures and those of our suppliers are subject to periodic inspection by the FDA and foreign regulatory agencies. Any material deviations from cGMPs or other applicable standards identified during such inspections may result in enforcement actions, including delaying or preventing new product approvals, a delay or suspension in manufacturing operations, warning or untitled letters, consent decrees or civil or criminal penalties. Taro shares common ownership with Ranbaxy Inc. ("Ranbaxy") through acquisitions made by Sun Pharmaceutical Industries Ltd. (Reuters: SUN.BO, Bloomberg: SUNP IN, NSE: SUNPHARMA, BSE: 524715) ("Sun Pharma" and its affiliates, "Sun"). In 2012, Ranbaxy entered into a Consent Decree of Permanent Injunction with the FDA which decree gives the FDA authority to impose its terms and obligations on any "subsidiary" or "affiliate" of Ranbaxy Inc. Also, if such deviations occurred, it is unclear if the FDA could extend the existing Consent Decree of Permanent Injunction, applicable to Ranbaxy to a facility owned or operated by Taro in light of the companies' common ownership by Sun. Further, discovery of previously unknown problems with a product or manufacturer may result in restrictions or sanctions with respect to the product, including withdrawal of the product from the market.

In addition, because we market drugs that are classified as controlled substances in the United States, Israel and Canada, we must meet the requirements of the federal Controlled Substances Act in the United States, state laws and equivalent laws in Israel and Canada, as well as the regulations promulgated thereunder in each country and/or state. These regulations include stringent requirements for handling and receipt of controlled substances including import, export, manufacture, storage, distribution and dispensing. These requirements include registration/licensing, manufacturing controls (e.g., quotas), import permits/declarations, inventory, recordkeeping, monitoring, reporting, disposal and security to prevent diversion of, or unauthorized access to, the controlled substances at each stage of the production and distribution process. The United States Drug Enforcement Administration ("DEA"), state agencies and comparable regulatory authorities in Israel and Canada may periodically inspect our facilities for compliance with the Controlled Substances Act, state laws and their equivalents in Israel and Canada. Any failure to comply with these laws and regulations could lead to a variety of sanctions, including restrictions, revocation, or a denial of renewal, of our DEA registration or state license (or Israeli or Canadian equivalent), injunctions, or civil or criminal penalties.

Furthermore, all of the products that we manufacture, and most of the products we distribute, are manufactured outside the United States and must be imported into the United States. Importation of drugs, including controlled substances, is subject to additional restrictions and review by the FDA and the DEA. The FDA and the DEA, in conjunction with the United States Customs and Border Protection, have the authority and discretion to scrutinize and potentially prohibit the importation of foreign goods into the United States that extend beyond authority related to distribution of products manufactured and distributed in the United States.

Although we devote significant time, effort and expense into addressing the extensive government regulations applicable to our business and obtaining regulatory approvals, we remain subject to the risk of being unable to obtain necessary approvals on a timely basis, if at all. Delays in receiving regulatory approvals could adversely affect our ability to market our products.

Product approvals by the FDA and by comparable foreign regulatory authorities may be withdrawn if compliance with regulatory standards is not maintained or if problems relating to the products are experienced after initial approval. In addition, if we fail to comply with governmental regulations, we may be subject to warning or untitled letters, fines, unanticipated compliance expenditures, interruptions of our production and/or sales, prohibition of importation, seizures and recalls of our products, criminal prosecution and debarment of us and our employees from the generic drug approval process.

Changes in regulatory environment may prevent us from utilizing the exclusivity periods that are important for the success of some of our generic products.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is only triggered by commercial marketing of the product. However, the Medicare Act also contains forfeiture provisions which could deprive the first "Paragraph IV" filer (as described below) of eligibility for such exclusivity if certain conditions are met. Accordingly, in situations where we are the first "Paragraph IV" filer, we may face the risk of forfeiture and therefore may not be able to exploit a given exclusivity period for specific products.

Under the terms of the Hatch-Waxman Act, a generic applicant must make certain certifications with respect to the patent status of the listed drug that it references in its ANDA. In the event that such applicant plans to challenge the validity or enforceability of an existing listed patent or asserts that the proposed product does not infringe an existing listed patent, it files a Paragraph IV certification. The Hatch-Waxman Act provides for a potential 180-day period of generic exclusivity for the first company that submits an ANDA with a Paragraph IV certification and that also lawfully maintains such certification. Such exclusivity prevents the approval for 180 days of a subsequently submitted ANDA containing a Paragraph IV certification. The Medicare Act modified certain provisions of the Hatch-Waxman Act. Under the Medicare Act, final ANDA approval for a product subject to Paragraph IV patent litigation may be obtained upon the earlier of a favorable district court decision or 30 months from receipt of notification to the patent holder of the Paragraph IV filing, provided there are no other issues preventing the FDA from granting final approval. Exclusivity rights for the first Paragraph IV filer may be forfeited pursuant to the Medicare Act under specified circumstances including, for example, if tentative approval is not timely obtained. Some of the changes made by the Medicare Act apply to ANDAs where the first certification was filed after the enactment of the Medicare Act; other earlier submitted ANDAs are generally governed by the previous version of the law.

From time to time, the U.S. Congress ("Congress") considers and enacts legislation amending the Hatch-Waxman Act, including with respect to 180-day exclusivity. If further changes to the law are enacted, it might affect our ability to qualify for or otherwise benefit from the statutory 180-day exclusivity period.

Pharmaceutical companies are required by international law to comply with adverse event reporting requirements.

We are required by international law to comply with adverse event reporting requirements. Our failure to meet these reporting requirements in any jurisdiction could result in actions by regulatory authorities in that and/or other jurisdictions, including any of the following: warning letters, public announcements, restriction or suspension of marketing authorizations, revocation of marketing authorizations, fines or a combination of any of these actions.

Healthcare reform changes may have an impact on all segments of the healthcare industry.

In March 2010, the U.S. government enacted the Patient Protection and Affordable Care Act, as amended by the Health Care Education and Reconciliation Act of 2010 (collectively, "PPACA"), which represented the most comprehensive overhaul of both the public and private healthcare systems ever enacted in the United States. The PPACA substantially expanded the number of insured individuals in the U.S. through a combination of expanded Medicaid eligibility; establishment of an insurance exchange through which individuals and groups without coverage may purchase commercial health insurance; prohibiting coverage exclusions for pre-existing conditions; and other measures. PPACA also imposed on manufacturers a variety of additional rebates, discounts, fees, taxes and reporting and regulatory requirements.

We face uncertainties due to litigation brought against the federal government by a number of state attorneys general in 2018, who seek a ruling that the PPACA is unconstitutional. In November 2020, the Supreme Court heard an appeal of a lower court ruling brought by other attorneys general and the U.S. House of Representatives. The Supreme Court is expected to rule on the case in the near future. We cannot predict whether PPACA will be invalidated by the Supreme Court, and if so, whether Congress will replace it with an alternative health care framework or what the impact of any such new framework will have on drug coverage, reimbursement, required discounts, and regulatory requirements. There is no assurance that any future repeal, replacement, or modification of the PPACA will not adversely affect our business and financial results, and we cannot predict how future federal or state legislative or administrative changes relating to healthcare reform will affect our business.

Reimbursement policies of third-parties, cost containment measures and healthcare reform as well as governmental regulation of prices could adversely affect the demand for our products and limit our ability to sell our products.

Our ability to market our products depends, in part, on prices and reimbursement levels for them and related treatment established by federal and state government healthcare programs, private health insurers and other third party payor organizations, including health maintenance organizations and managed care organizations. Reimbursement may not be available for some of our products and, even if granted, may not be maintained. Limits placed on our prices or reimbursement could make it more difficult for people to buy our products and reduce, or possibly eliminate, the demand for our products. In the event that any federal, state or other governmental authority enacts any additional legislation or adopts any additional regulations or policies that affect third-party coverage, price levels or reimbursement, demand for our products may be reduced with a consequent adverse effect, which may be material, on our sales and profitability.

In addition, the purchase of our products could be significantly influenced by the following factors, among others:

- trends in managed healthcare in the United States;
- developments in health maintenance organizations, managed care organizations and similar enterprises;
- judicial invalidation of major federal health care legislation;
- legislative proposals to reform healthcare, drug prices and government insurance programs; and
- price regulation and controls and reimbursement policies.

The PPACA is a sweeping measure intended to expand healthcare coverage in the U.S., primarily through the establishment of an exchange to facilitate the purchase of health insurance, premium and cost-sharing subsidies for certain low-income individuals and expansion of the Medicaid program. Among other things, the PPACA contained provisions that changed payment levels for pharmaceuticals under Medicaid and increased pharmaceutical rebates under the Medicaid Drug Rebate Program. Effective October 1, 2010, the law changed the formula for calculating federal upper limits (“FULs”), which are a type of cap on the amount a state Medicaid program can reimburse pharmacies for multiple source drugs (drugs for which there are at least two therapeutically equivalent versions on the market). The FULs are calculated based on the weighted-average of the average manufacturer prices (“AMPs”) of the equivalent drugs on the market when there are at least three therapeutically equivalent versions. In addition, the law changed the preexisting definition of AMP so that it is based only on direct sales to retail community pharmacies and sales to wholesalers for drugs distributed to retail community pharmacies. The Centers for Medicare & Medicaid Services (“CMS”) issued final regulations regarding the FUL and the calculation of AMP and rebates under the Medicaid Drug Rebate Program. These regulations were effective as of April 1, 2016. Even though the weighted-average does not disclose our AMP, the release of such FULs to the public and our customers may affect our pricing.

In addition, in its final regulations for the Medicaid Drug Rebate Program, CMS required state Medicaid programs, beginning April 1, 2017, to base their reimbursement rates for brand drugs and other drugs not subject to a FUL on pharmacies’ actual acquisition costs, rather than using the previous methodologies based on published benchmarks such as average wholesale price (“AWP”) or wholesaler acquisition cost (“WAC”).

Effective January 1, 2010, the PPACA also increased the minimum Medicaid rebate rate from 15.1% to 23.1% of AMP for most drugs approved under a new drug application (“NDA”), including authorized generics. The PPACA also increased the Medicaid rebate from 11% to 13% of AMP for most drugs approved under an ANDA. Further, the volume of rebated drugs was expanded to include drugs dispensed to beneficiaries in Medicaid managed care organizations. In addition, an alternative, higher rebate may be imposed on drugs that are line extensions of previously approved oral dosage form drugs. CMS’s final regulations also expanded the Medicaid Drug Rebate Program such that manufacturers will be required to pay rebates to the U.S. Territories (Puerto Rico, the U.S. Virgin Islands, Guam, the Northern Mariana Islands and American Samoa), effective April 1, 2022. These measures have increased or will increase our cost of selling to the Medicaid market.

Furthermore, as a result of legislative changes in the Bipartisan Budget Act of 2015 ("BBA"), generic drugs are subject to an additional rebate if the AMP for a given quarter exceeds an inflation-adjusted baseline AMP. This price increase penalty previously applied only to innovator drugs. Currently, the price increase penalty for innovator and generic drugs, together with the basic Medicaid rebate, is limited to 100% of the AMP of the drug. Under an amendment to the Medicaid Rebate statute enacted on March 11, 2021, the 100% limit will be removed beginning on January 1, 2024, so that the rebate on a unit of drug could possibly exceed the average price of the drug.

Both Congress and the current administration have proposed or are currently considering a wide variety of actions intended to reduce drug prices and/or reduce the amount of reimbursement for drugs under federal government programs such as Medicare. These actions include basing payment for drugs under Medicare Part B on an index of prices in other countries, allowing Medicare Part D to negotiate lower prices with drug manufacturers, requiring rebates for drugs whose prices increase greater than the rate of inflation, permitting the importation of less expensive versions of drugs from Canada and other countries and other measures. These proposals, if finalized or enacted, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our relationships with customers and third-party payors are subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors play a primary role in the recommendation and prescription of any products we market. Our arrangements with third-party payors, prescribers, and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute any products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

- the federal healthcare program anti-kickback statute prohibits persons from, among other things, knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under a federal healthcare program such as Medicare and Medicaid;
- the federal False Claims Act imposes criminal and civil penalties, including civil whistleblower or *qui tam* actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- federal law requires applicable manufacturers of covered drugs to report payments and other transfers of value to physicians, teaching hospitals, physician assistants, nurse practitioners, clinical nurse specialists, certified registered nurse anesthetists and anesthesiologist assistants and certified nurse-midwives on an annual basis, which includes data collection and reporting obligations. The information is made publicly available on a searchable website; and
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers.

Some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and require drug manufacturers to report information related to payments and other transfers of value to healthcare providers or marketing expenditures. Still other states require the reporting of certain pricing information, pricing controls, or patient access constraints, including information pertaining to the justification of launch prices or price increases greater than a specified threshold. State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties comply with applicable healthcare laws and regulations involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, imprisonment, exclusion of products from government funded healthcare programs, such as Medicare and Medicaid, and the curtailment or restructuring of our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs.

Any failure to comply with the complex reporting and payment obligations under the Medicare and Medicaid programs may result in further litigation or sanctions, in addition to the lawsuits.

The U.S. laws and regulations regarding Medicare and/or Medicaid reimbursement and rebates and other governmental programs are complex. Some of the applicable laws may impose liability even in the absence of specific intent to defraud. The subjective decisions and complex methodologies used in calculating prices that are reportable under these programs are subject to review and challenge, and it is possible that such reviews could result in material changes. The federal government and a number of state attorneys general and others have filed lawsuits alleging that pharmaceutical companies reported inflated AWP, Medicaid rebate best prices or average sales prices (which are used to set Medicaid Part B payment rates for drugs) leading to excessive payments by Medicare and/or Medicaid for prescription drugs. Additional actions are possible. These actions, if successful, could adversely affect us and may have a material adverse effect on our business, results of operations, financial condition and cash flows.

We are susceptible to product liability claims that may not be covered by insurance and could require us to pay substantial sums.

We face the risk of loss resulting from, and adverse publicity associated with, product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. In addition, our product liability insurance may not be adequate to cover such claims or we may not be able to obtain adequate insurance coverage in the future at acceptable costs. A successful product liability claim that exceeds our policy limits could require us to pay substantial sums. In addition, in the future, we may not be able to obtain the type and amount of coverage we desire or to maintain our current coverage.

Product recalls could harm our business.

Product recalls or product field alerts may be issued at our discretion or as recommended or required by the FDA, other governmental agencies or other companies having regulatory authority over pharmaceutical product sales. From time to time, we may recall products for various reasons, including failure of our products to maintain their stability through their expiration dates. Any recall or product field alert has the potential of damaging the reputation of the product or our reputation. Any significant recalls could materially affect our sales. In these cases, our business, financial condition, results of operations and cash flows could be materially adversely affected.

Our reputation among consumers and our customers in the pharmacy trade may be negatively impacted by incidents of counterfeiting of our products.

The counterfeiting of pharmaceutical products is a widely reported problem for pharmaceutical manufacturers, distributors, retailers and consumers in the United States, which is our largest market. Such counterfeiting may take the form of illicit producers manufacturing cheaper and less effective counterfeit versions of our products, or producing imitation products containing no active ingredients, and then packaging such counterfeit products in a manner, which makes them look like our products. If incidents occurred in which such products prove to be ineffective, or even harmful, to the individuals who used them, consumers and our customers might not buy our products out of fear that they might be ineffective or dangerous counterfeits. In addition, sales of counterfeit products could reduce sales of our legitimate products, which could have a material negative impact on our sales and net income.

The manufacture and storage of pharmaceutical and chemical products are subject to environmental regulation and inherent risk.

Because chemical ingredients are used in the manufacture of pharmaceutical products and due to the nature of the manufacturing process itself, there is a risk of property damage or personal injury caused by or during the storage or manufacture of both the chemical ingredients and the finished pharmaceutical products. Although we have never incurred any material liability for damage of this nature, we may be subject to liability in the future. In addition, while we believe our insurance coverage is adequate, it is possible that a successful claim would exceed our coverage, requiring us to pay a substantial sum.

The pharmaceutical industry is also subject to extensive environmental regulation. We therefore face the risk of incurring liability for damages or the costs of remedying environmental harms because of the chemical ingredients contained in our products and the processes involved with their manufacture. For example, we could be held liable for costs to investigate or remediate contamination resulting from the presence or release of hazardous materials at or from any of our properties or the disposal of any such materials at third party sites. Although we have never incurred any such liability in any material amount, we may be subject to liability in the future. We may also be required to increase expenditures to address environmental issues and to comply with applicable regulations. If we fail to comply with environmental regulations or the conditions of our operating licenses, the licenses could be revoked and we could be subject to criminal sanctions and substantial liability. We could also be required to suspend or modify our manufacturing operations.

Testing required for the regulatory approval of our products is sometimes conducted by independent third-parties. Any failure by any of these third-parties to perform this testing properly may have an adverse effect upon our ability to obtain regulatory approvals.

Our applications for the regulatory approval of our products incorporate the results of testing and other information that are sometimes provided by independent third-parties (including, for example, manufacturers of raw materials, testing laboratories, contract research organizations or independent research facilities). The likelihood that the products being tested will receive regulatory approval is, to some extent, dependent upon the quality of the work performed by these third-parties, the quality of the third-parties' facilities and the accuracy of the information provided by these third-parties. We have little or no control over any of these factors.

Some of our products are manufactured by independent third-parties. Any failure by any of these third-parties to perform this manufacturing properly or follow cGMPs, may have an adverse effect upon our ability to maintain regulatory approvals or continue marketing our products.

Certain products are manufactured by independent third-parties. Their compliance with cGMPs and other regulatory requirements is essential to our obtaining and maintaining regulatory approvals and marketing authorization for these products in the countries in which they are sold. Any failure by any of these third-parties to perform this manufacturing properly or follow cGMPs may have an adverse effect upon our ability to obtain or maintain regulatory approvals or continue marketing our products.

Governmental investigations and litigation relating to sales and marketing practices may result in material penalties and/or settlement amounts.

We are a party to numerous claims and several investigations brought under federal and state antitrust laws by various plaintiffs, including state governments, and federal and state governmental agencies, alleging that we, together with other pharmaceutical manufacturers and in some cases the entire industry, engaged in conspiracies to fix drug prices and/or allocate customers and market share of generic pharmaceutical products in the United States. Responding to such investigations and claims and litigating these cases is costly. Our defense and the proceedings themselves are unpredictable and may develop over lengthy periods of time. If we were to enter into settlements to bring the investigations to closure or to resolve the litigation, those settlements could require us to pay a material sum. See Note 13 to our consolidated financial statements for additional information. We operate around the world in complex legal and regulatory environments. Following calls in recent years from policy makers and other stakeholders in many countries for governmental intervention against high prices of certain pharmaceutical products, we are currently and/or may be subject to governmental investigations, claims or other legal action or regulatory action regarding our products. It is not possible to predict the ultimate outcome of any such investigations or claims or what other investigations or litigation or regulatory responses may result from such assertions.

Risks Relating to Our Company and Our Operations

Sun Pharmaceutical Industries Ltd., and its affiliates, controls 85.2% of the voting power in our Company.

Our Chairman, Mr. Dilip Shanghvi and members of his immediate family (one of whom is a member of our board of directors) control, through their beneficial ownership of 77.8% of our outstanding ordinary shares and 100% of our founders' shares through Sun Pharmaceutical Industries Ltd., 85.2% of the voting power in our Company, as of March 31, 2021. Mr. Dilip Shanghvi, along with entities controlled by him and members of his family, control 54.5% of Sun Pharma as of March 31, 2021. Sun is able to control the outcome of shareholder votes of the Company requiring a majority of the votes.

50% of the voting power in our subsidiary Taro U.S.A. is held by a corporation which is controlled by Sun.

The share capital of Taro U.S.A. is divided into two classes. Taro Israel owns 96.9% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. Taro Development Corporation ("TDC") owns 3.1% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. Sun owns all of the outstanding voting shares of TDC and thereby controls TDC. Although TDC has agreed to vote all of its shares in Taro U.S.A. for the election to its board of directors of such persons as Taro Israel may designate, TDC may terminate the agreement upon one year written notice. In the event that TDC were to cease voting its shares in Taro U.S.A. for our designees, or otherwise, in accordance with Taro Israel's preference, TDC could prevent Taro Israel from electing a majority of the board of directors of Taro U.S.A., effectively block actions that require approval of a majority of the voting power in Taro U.S.A. and potentially preclude the Company from consolidating Taro U.S.A. into the Company's financial statements. Taro U.S.A. accounted for approximately 69%, 75% and 79% of the Company's consolidated revenue for the years ended March 31, 2021, 2020 and 2019, respectively.

Wholesaler customers account for a substantial portion of our consolidated sales.

We have no long-term agreements with the wholesalers that require them to purchase our products and they may therefore reduce or cease their purchases from us at any time. Any cessation or significant reduction of their purchases from us would likely have a material adverse effect on our results of operations and financial condition. Furthermore, changes in their buying patterns or in their policies and practices in relation to their working capital and inventory management may result in a reduction of, or a change in the timing of, their purchases of our products. While we receive periodic inventory reports from the wholesalers, we have no ability to obtain advance knowledge of such changes. We base our manufacturing schedules, inventories and internal sales projections principally on historical data. To the extent that actual orders from these wholesalers differ substantially from our internal projections, we may either find ourselves with excess inventory or in an out-of-stock position, which could have a material adverse effect upon our operating results.

The nature of our business requires us to estimate future charges against wholesaler accounts receivable. If these estimates are not accurate, our results of operations and financial condition could be adversely affected.

Sales to third-parties, including government institutions, hospitals, hospital buying groups, pharmacy buying groups, pharmacy chains and others generally are made through wholesalers. We sell our products to wholesalers, and the wholesalers resell the products to third-parties at times and in quantities ordered by the third-parties. Typically, we have a contract price with a third-party to which a wholesaler resells our products that may be equal to or less than the price at which we sold the products to the wholesaler. In such a case, following the purchase of the product by a third-party purchaser from the wholesaler, the wholesaler charges us back for any shortfall. At the time of any individual sale by us to a wholesaler, we do not know under which contracts the wholesaler will resell products to third-parties. Therefore, we estimate the amount of chargebacks and other credits that may be associated with these sales and we reduce our revenue accordingly. One factor in calculating these estimates is information on customer inventory levels provided to us by our customers. We obtain official reports of the amount of our products held in inventory by our wholesaler customers. If this information is inaccurate or not forthcoming, this may result in erroneously estimated reserves for chargebacks, returns or other deductions. In addition, from time to time, the amount of such chargebacks and other credits reported by a wholesaler may be different from our estimates. Discrepancies of this nature may result in a reduction in the value of our accounts receivable and a related charge to net income. The reconciliation of our accounts with wholesalers may, from time to time, delay, or otherwise impact, the collection of our accounts receivable or result in a decrease in their value and in a related charge to our net income.

Our inventories of finished goods have expiration dates after which they cannot be sold.

Industry standards require that pharmaceutical products be made available to customers from existing stock levels rather than on a made-to-order basis. Therefore, in order to accommodate market demand adequately, we strive to maintain sufficiently high levels of inventories. However, inventories prepared for sales that are not realized as or when anticipated may approach their expiration dates and may have to be written off. These write-offs, if any, could have an adverse effect on our results of operations and financial condition.

Our future success depends on our ability to develop, manufacture and sell new products.

Our future success is largely dependent upon our ability to develop, manufacture and market new commercially viable pharmaceutical products and generic equivalents of proprietary pharmaceutical products whose patents and other exclusivity periods have expired. Delays in the development, manufacture and marketing of new products could negatively impact our results of operations. Each of the steps in the development, manufacture and marketing of our products involves significant time and expense. We are, therefore, subject to the risks, among others, that:

- any products under development, if and when fully developed and tested, will not perform in accordance with our expectations;
- any generic product under development will, when tested, not be bioequivalent to its brand-name counterpart;
- necessary regulatory approvals will not be obtained in a timely manner, if at all;
- any new product cannot be successfully and profitably produced and marketed;
- quality control problems may adversely impact our reputation for high quality production;
- other companies may launch their version of generic products, either prior to or following the launch of our newly approved generic version of the same product;
- brand-name companies may launch their products, either themselves or through third-parties, in the form of authorized generic products which can reduce sales, prices and profitability of our newly approved generic products;
- generic companies may launch generic versions of our brand-name drugs; or
- our products may not be priced at levels acceptable to our customers.

If we are unable to obtain raw materials, our operations could be seriously impaired.

While the majority of our products are either synthesized by us or are derived from multiple source materials, some raw materials and certain products are currently obtained from single domestic or foreign suppliers. Most of these materials are subject to regulatory inspections and if found to be non-compliant we could be prevented from obtaining them. Although we have not experienced significant difficulty in obtaining raw materials to date, material supply interruptions may occur in the future and we may have to obtain substitute raw materials or products. For most raw materials we do not have any long-term supply agreements and therefore we are subject to the risk that our suppliers of raw materials may not continue to supply to us on satisfactory terms or at all.

Furthermore, obtaining the regulatory approvals required for adding alternative suppliers of raw materials for finished products we manufacture may be a lengthy process. We strive to maintain adequate inventories of single source raw materials in order to ensure that any delays in receiving regulatory approvals will not have a material adverse effect upon our business. However, we may not be successful in doing so, and consequently, we may be unable to sell some products pending approval of one or more alternate sources of raw materials. Any significant interruption in our supply stream could have a material adverse effect on our operations.

Research and development efforts invested in our innovative pipeline may not achieve expected results.

We invest increasingly greater resources to develop our innovative pipeline, both through our own efforts and through collaborations with third-parties, which results in higher risks.

The time from discovery to a possible commercial launch of an innovative product is substantial and involves multiple stages during which the product may be abandoned as a result of serious developmental problems, the inability to achieve our clinical goals, the inability to obtain necessary regulatory approvals in a timely manner, if at all, or the inability to produce and market such innovative products successfully and profitably. In addition, we face the risk that some of the third-parties we collaborate with may fail to perform their obligations. Accordingly, our investment in research and development of innovative products can involve significant costs with no assurances of future revenues or profit.

We are continuing our efforts to develop new proprietary pharmaceutical products, but these efforts are subject to risk and may not be successful.

Our principal business has traditionally been the development, manufacture and marketing of generic equivalents of pharmaceutical products first introduced by other companies. However, we have increased our efforts to develop new proprietary products.

Expanding our focus beyond generic products and broadening our product pipeline to include new proprietary products may require additional internal expertise or external collaboration in areas in which we currently do not have substantial resources and personnel. We may have to enter into collaborative arrangements with others that may require us to relinquish rights to some of our technologies or products that we would otherwise pursue independently. We may not be able to acquire the necessary expertise or enter into collaborative agreements on acceptable terms, if at all, to develop and market new proprietary products.

In addition, although a newly developed product may be successfully manufactured in a laboratory setting, difficulties may be encountered in scaling up for manufacture in commercially-sized batches. For this reason and others, in the pharmaceutical industry only a small minority of all new proprietary research and development programs ultimately result in commercially successful drugs.

In order to obtain regulatory approvals for the commercial sale of new proprietary products, we are required to complete extensive clinical trials in humans to demonstrate the safety and efficacy of the products to the satisfaction of FDA and regulatory authorities abroad. Conducting clinical trials is a lengthy, time-consuming and expensive process, and the results of such trials are inherently uncertain.

A clinical trial may fail for a number of reasons, including:

- failure to enroll a sufficient number of patients meeting eligibility criteria;
- failure of the new product to demonstrate safety and/or efficacy;
- the development of serious (including life threatening) adverse events including, for example, side effects caused by or connected with exposure to the new product; or
- the failure of clinical investigators, trial monitors and other consultants or trial subjects to comply with the trial plan or protocol.

The results from early clinical trials may not be predictive of results obtained in later clinical trials. Clinical trials may not demonstrate the safety and efficacy of a product sufficient to obtain the necessary regulatory approvals, or to support a commercially viable product. Any failure of a clinical trial for a product in which we have invested significant time or other resources could have a material adverse effect on our results of operations and financial condition.

Even if launched commercially, our proprietary products may face competition from existing or new products of other companies. These other companies may have greater resources, market access, and consumer recognition than we have. Thus, there can be no assurance that our proprietary products will be successful or profitable. In addition, advertising and marketing expenses associated with the launch of a proprietary product may, if not successful, adversely affect our results of operations and financial condition.

We may not be able to successfully identify, consummate and integrate licensing deals or future acquisitions.

We have in the past, and may in the future, pursue licensing deals (both in-license and out-license deals) or acquisitions of product lines and/or companies and seek to integrate them into our operations. Licensing deals and acquisitions of additional product lines and companies involve risks that could adversely affect our future results of operations. Any one or more of the following examples may apply:

- we may encounter issues with intellectual property, manufacturing or financial complications with in-license or out-license deals;
- we may not be able to identify suitable licensing deals, acquisition targets or acquire companies on favorable terms;
- we compete with other companies that may have stronger financial positions and are therefore better able to acquire licenses, product lines and companies. We believe that this competition will increase and may result in decreased availability or increased prices for suitable licenses or acquisition targets;
- we may not be able to obtain the necessary financing, on favorable terms or at all, to finance any of our potential license deals or acquisitions;
- we may not be able to obtain the necessary regulatory approvals, including the approval of antitrust regulatory bodies, in any of the countries in which we may seek to consummate potential licenses or acquisitions;
- we may ultimately fail to complete a licensing deal or an acquisition after we announce that we plan to license a product or acquire a product line or a company;
- we may fail to license products or integrate our acquisitions successfully in accordance with our business strategy;
- we may choose to license a product or acquire a business that is not profitable, either at the time of the license or acquisition or thereafter;

- licensing deals or acquisitions may require significant management resources and divert attention away from our daily operations, resulting in the loss of key customers and personnel, and expose us to unanticipated liabilities;
- we may not be able to retain the skilled employees and experienced management that may be necessary to maximize an in-license's profitability or operate businesses we acquire, and if we cannot retain such personnel, we may not be able to locate and hire new skilled employees and experienced management to replace them; and
- we may license a product or purchase a company that has contingent liabilities that include, among others, known or unknown intellectual property or product liability claims.

Our tax liabilities could be larger than anticipated.

We are subject to tax in many jurisdictions, and significant judgment is required in determining our provision for income taxes. Likewise, we are subject to audit by tax authorities in many jurisdictions. In such audits, our interpretation of tax legislation might be challenged and tax authorities in various jurisdictions may disagree with, and subsequently challenge, the amount of profits taxed in such jurisdictions under our intercompany agreements. Although we believe our estimates are reasonable, the ultimate outcome of such audits and related litigation could be different from our provision for taxes and might have a material adverse effect on our consolidated financial statements.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") which, among other provisions, allows U.S. corporations to carry existing losses back to the preceding five years. The Company expects to receive a benefit due to the increased value of its losses when carried back to preceding years in which the U.S. federal corporate income tax rate was 35% versus the current 21%.

We are in the process of enhancing and further developing our global enterprise resource planning systems and associated business applications, which could result in business interruptions if we encounter difficulties.

We are enhancing and further developing our global enterprise resource planning ("ERP"), quality control laboratory operations systems and other business critical information technology ("IT") infrastructure systems and associated applications to provide more operating efficiencies and effective management of our business and financial operations. Such changes to ERP systems and related software, quality control systems, and other IT infrastructure carry risks such as cost overruns, project delays and business interruptions and delays. If we experience a material business interruption as a result of our ERP enhancements, it could have a material adverse effect on our business, financial position, and results of operations and/or cash flow.

We are increasingly dependent on information technology and our systems and infrastructure face certain risks, including cybersecurity and data leakage risks.

We are increasingly dependent on sophisticated information technology systems and infrastructure to operate our business. In the ordinary course of business, we collect, store and transmit large amounts of confidential information, trade secrets, intellectual property, proprietary business information, and employee personal information, and it is critical that we do so in a secure manner to maintain the confidentiality and integrity of such confidential information. We have contracted with third party vendors to enhance our operations and, as part of our service arrangements with Sun as described in greater detail under "*Item 7B – Related Party Transactions—Related Party Transactions—Arrangements with Sun*," we also have outsourced elements of our operations to Sun, including significant elements of our information technology infrastructure. The size and complexity of our information technology systems, and those with whom we contract, make such systems potentially vulnerable to service interruptions, security breaches from inadvertent or intentional actions by employees, partners or vendors, or from attacks by malicious third parties. Any significant disruptions to our information technology systems, including breaches of information security or cybersecurity, or failure to integrate new and existing information technology systems could adversely affect our business, financial condition or results of operations. While we exercise care in selecting vendors that maintain adequate information security controls and monitor our relationships with our vendors, we and our vendors or Sun, could be susceptible to third party attacks on our information security systems, which attacks are of ever increasing levels of sophistication and are made by groups and individuals with a wide range of motives and expertise, including state and quasi-state actors, criminal groups, "hackers" and others. Certain aspects of the security of such technologies are unpredictable or beyond our control, and the failure by mobile technology, third-party and cloud service providers to adequately safeguard their systems and prevent cyber-attacks could disrupt our operations and result in misappropriation, corruption or loss of confidential and other information. Although the aggregate impact on our operations and financial condition has not been material to date, we have been the target of events of this nature and expect them to continue as cybersecurity threats have been rapidly evolving in sophistication and becoming more prevalent in the industry. In addition, although we have cybersecurity insurance, such insurance may not adequately cover the losses and damages that we may sustain as a result of a cyber-attack. We may also not be able to obtain adequate insurance coverage in the future at acceptable costs. Furthermore, the public perception that a cyber-attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third parties with whom we do business.

Maintaining the secrecy of our confidential information, trade secrets, intellectual property, proprietary business information, and employee personal information is important to our competitive business position. However, such information can be difficult to protect. While we have taken steps to protect such information and invested heavily in information technology, data security and preventing data leakages, there can be no assurance that our efforts will prevent service interruptions or security breaches in our systems or the unauthorized or inadvertent wrongful use or disclosure of data that could adversely affect our business operations or result in the loss, dissemination, or misuse of critical or sensitive information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available. A breach of our security measures or the accidental loss, inadvertent disclosure, unapproved dissemination, misappropriation or misuse of our data, whether as a result of theft, hacking, fraud, trickery or other forms of deception, or for any other cause, could enable others to produce competing products, use our data to gain an advantage, and/or adversely affect our business position. Any such breach or the accidental loss, inadvertent disclosure, unapproved dissemination, misappropriation or misuse of our data could also result in a violation of applicable privacy and other laws in the U.S. and abroad, litigation exposure, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, additional compliance costs and our internal controls or disclosure controls being rendered ineffective. Further, any such interruption, security breach, loss or disclosure of confidential information, could result in financial, legal, business and reputational harm to us and could have a material adverse effect on our business, financial condition, results of operations, cash flows, and/or share price.

Social media presents potential internal and external risks for our company.

The internal unauthorized, inappropriate or illicit use of social media could cause reputational harm to our business and/or create adverse consequences, including the inadvertent release of non-public information or personally identifiable information. Externally, our brand and reputation could suffer harm in the event of negative comments or altered information being disseminated through social media. If we were to suffer reputational or brand harm or adverse consequences through social media, it may have a material adverse effect on our business, financial condition and results of operations.

A public health crisis, such as the COVID-19 pandemic, any widespread outbreak of an illness or communicable disease, or any other pandemic could have a material adverse effect on our business, results of operations, cash flows and financial position.

COVID-19, a disease caused by a strain of coronavirus, was first reported in December 2019 and later declared a pandemic by the World Health Organization in March 2020, spreading globally. It has affected Israel and Canada, where most of our manufacturing takes place, and has spread throughout each state in the United States, our largest market. The COVID-19 pandemic has disrupted global supply chains, created significant volatility in global financial markets and negatively impacted the global economy. Additionally, it has impacted our business and may materially affect our operations, including manufacturing, supply chain, pre-commercial launch and clinical trial activities should the pandemic persist. Countries, states and local governments instituting measures to reduce the spread of COVID-19 have impacted our operations with significant disruptions, uncertainty and economic volatility, higher costs, and capital expenditures, such measures include quarantines, government restrictions on movement, business closures and suspensions, canceled events and activities, self-isolation, and other voluntary and/or mandated changes in behavior. Our offices are or have been operating under work from home protocols, and our manufacturing and distribution facilities have instituted policies and procedures to protect our employees and operations, including social distancing, the supply and use of personal protective equipment, split shifts and health assessments. We had and, in some instances, continue to have to suspend in-person activities of our field employees because of restrictions on meetings instituted by our customers. These protocols, policies, procedures, and suspension of activities have affected our business operations. In the event of illnesses at or closure of one of our facilities, it is possible that such illness or closure could affect our production, shipping, and supply of products to our customers, which would cause us to incur higher costs and have a negative impact on our financial results.

The COVID-19 pandemic has affected and may continue to affect the operations of our suppliers, third-party manufacturers, or partners in our supply chains (transportation, shipping, and logistics), which resulted and may continue to result in higher costs and delays in the manufacturing and supply of products to our customers, which has and will continue to have a negative impact on our financial results. If we need to find alternate suppliers, third-party manufacturers, or partners in our supply chain, such alternates may come with increased costs, which could have a negative impact on our financial results.

The COVID-19 pandemic may affect regulatory agencies globally, causing disruptions that limit our ability to supply products or bring new or improved products to market, which could negatively impact our business operations and financial results. Currently, regulatory agencies globally, including the FDA, are experiencing slower response times and offering limited inspections of manufacturing facilities, affecting approval of new products, regulatory submissions and inspections.

Due to reductions in healthcare benefits as a result of unemployment and patient visits to doctors' offices, pharmacies and healthcare facilities, we may experience a decline in revenue or slower revenue growth related to such reductions. Our customers may increase demand for certain Company products that exceeds our ability to meet such demand, which could negatively affect our operations and strain relationships with our customers.

The impact of COVID-19 could cause our customers, third-party manufacturers or suppliers to have liquidity issues, impacting our collection on receivables and negatively impacting our ability to procure products or materials.

The continued impact of the COVID-19 pandemic could have a significant negative impact on our business, financial results, cash flow and liquidity. We may need to seek additional sources of financing to fund our operations. Capital and credit markets have experienced disruptions due to COVID-19 and foreign exchanges have experienced increased volatility. Because of these disruptions and volatility, seeking additional financing may be difficult and is dependent upon evolving market conditions, among other factors.

The impact of the COVID-19 pandemic on the global and U.S. economies is uncertain, but a sustained economic downturn could negatively impact demand for our products and materially affect our business, financial condition and results of operations, and the value of our shares.

Risks Relating to Our Intellectual Property

We depend on our ability to protect our intellectual property and proprietary rights, but we may not be able to maintain the confidentiality, or assure the protection, of these assets.

Our success depends, in large part, on our ability to protect our current and future technologies and products and to defend our intellectual property rights. If we fail to protect our intellectual property adequately, competitors may manufacture and market products similar to ours. Numerous patents covering our technologies have been issued to us, and we have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the United States. Some patent applications in the United States are maintained in secrecy until the patent is issued. Because the publication of discoveries tends to follow their actual discovery by many months, we may not be the first to invent, or file patent applications on any of our discoveries. Patents may not be issued with respect to any of our patent applications and existing or future patents issued to or licensed by us may not provide competitive advantages for our products. Patents that are issued may be challenged, invalidated or circumvented by our competitors. Furthermore, our patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products. Where trade secrets are our sole protection, we may not be able to prevent third-parties from marketing generic equivalents to our products, reducing prices in the marketplace and reducing our profitability.

We also rely on trade secrets, non-patented proprietary expertise and continuing technological innovation that we seek to protect, in part, by entering into confidentiality agreements with licensees, suppliers, employees, consultants and others. These agreements may be breached and we may not have adequate remedies in the event of a breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Moreover, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors. If patents are not issued with respect to products arising from our research, we may not be able to maintain the confidentiality of information relating to these products.

Third-parties may claim that we infringe on their proprietary rights and may prevent us from manufacturing and selling such products, or may challenge our own proprietary rights.

There has been substantial litigation in the pharmaceutical industry with respect to the manufacture, use and sale of new products. These lawsuits often relate to the validity and infringement of patents or proprietary rights of third-parties. We have in the past and may be required to in the future commence or defend against charges relating to the infringement of patent or proprietary rights. Any such litigation could:

- require us to incur substantial expenses, even if we are insured or successful in the litigation;
- require us to divert significant time and effort of our technical and management personnel;
- result in the loss of our rights to develop or make certain products;
- require us to pay substantial monetary damages or royalties in order to license proprietary rights from third-parties;
- prevent us from launching a developed, tested and approved product; or
- result in our loss of certain patent or proprietary rights.

Although patent and intellectual property disputes within the pharmaceutical industry have often been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include the long-term payment of royalties. These arrangements may be investigated by United States regulatory agencies and, if improper, may be invalidated. Furthermore, the required licenses may not be made available to us on acceptable terms. Accordingly, an adverse determination in a judicial or administrative proceeding or a failure to obtain necessary licenses could prevent us from manufacturing and selling some of our products or increase our costs to market these products.

From time to time, we seek to market patented products before the related patents expire. In order to do so in the United States, we must challenge the patent under the procedures set forth in the Hatch-Waxman Act. In the United States, in order to obtain a final approval for a generic product prior to expiration of certain of the innovator's patents, we must, under the terms of the Hatch-Waxman Act, as amended by the Medicare Act, notify the patent holder as well as the owner of an NDA, that we believe that the patents listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (the "Orange Book") for the marketed product are invalid, unenforceable or not infringed by our product. To the extent that we engage in patent challenge procedures, we are involved and expect to be involved in patent litigation regarding the validity, enforceability or infringement of the originator's patent. In addition, when seeking regulatory approval for some of our products, we are required to certify to the FDA and its equivalents in foreign countries, that such products do not infringe upon third-party patent rights, or that those patents are invalid or unenforceable. Filing a certification against a patent gives the patent holder the right to bring a patent infringement lawsuit against us. Any lawsuit in the United States would delay regulatory approval by the FDA until the earlier of the resolution of such claim or 30 months from the patent holder's receipt of notice of certification.

A third party might challenge any of our patent rights. If successful, such a challenge could result in a loss of market exclusivity with respect to one or more of our products.

In addition, it is not required that all pharmaceutical patents be listed with the FDA or other regulatory authorities. For example, patents relating to antibiotics or a manufacturing process might not be listed in the Orange Book. Any launch of a pharmaceutical product by us that may infringe a patent, whether listed or not, may involve us in litigation.

Patent challenges are complex, costly and can take a significant amount of time to complete. A claim of infringement and the resulting delay could result in substantial expenses and even prevent us from manufacturing and selling products and, in certain circumstances, such litigation may result in significant damages which could have a material adverse effect on our results of operations and financial condition.

Our launch of a product prior to a final court decision, settlement with the patent owner or the expiration of a patent held by a third-party may result in substantial damages to us. Depending upon the circumstances, a court may award the patent holder damages up to three times the patent holder's loss of profit or other actual damages, and not less than a reasonable royalty. If we are found to infringe a patent held by a third-party and become subject to significant damages, these damages could have a material adverse effect on our results of operations and financial condition.

Risks Relating to Our Compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley")

We have, in the past, and could in the future, fail to maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley.

Sarbanes-Oxley imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Sarbanes-Oxley, and in particular with Section 404 thereof, have resulted in diversion of our management's time and attention, and we expect these efforts to require the continued commitment of resources.

We have in the past, and may, in the future, identify material weaknesses in our internal controls that evidence that we fail to maintain effective internal controls in accordance with Section 404 of Sarbanes-Oxley. As of March 31, 2021, we did not identify any material weaknesses in internal controls. Failure to maintain adequate internal controls could negatively affect shareholder and customer confidence.

Material weaknesses in our disclosure controls and procedures could negatively affect shareholder and customer confidence.

Under Sarbanes-Oxley, we are required to assess the effectiveness of our disclosure controls and procedures on an annual basis. If we were to conclude that our disclosure controls and procedures were ineffective, shareholder and customer confidence could be negatively affected, which could have a material adverse impact on the market price of our ordinary shares.

Risks Relating to Investment in Our Ordinary Shares

Volatility of the market price of our ordinary shares could adversely affect us and our shareholders.

The market price of our ordinary shares has been volatile, and may, in the future, be subject to wide fluctuations, for the following reasons, among others:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of new or enhanced products;
- market conditions or trends in the pharmaceutical industry;

- developments or disputes concerning proprietary rights;
- failure by us to develop new products;
- introduction of technologies or product enhancements by others that reduce the need for our products;
- general economic and political conditions;
- departures of key personnel;
- changes in the market valuations of our competitors;
- regulatory considerations; and
- the other risk factors listed in this section of this 2021 Annual Report.

No citizen or resident of the United States who acquired or acquires any of our ordinary shares at any time after October 21, 1999, is permitted to exercise more than 9.9% of the voting power in our Company, with respect to such ordinary shares, regardless of how many shares the shareholder owns.

In order to reduce our risk of being classified as a "Controlled Foreign Corporation" under the United States Internal Revenue Code of 1986, as amended (the "Code"), we amended our Articles of Association in 1999 to provide that no owner of any of our ordinary shares is entitled to any voting right of any nature whatsoever with respect to such ordinary shares if (a) the ownership or voting power of such ordinary shares was acquired, either directly or indirectly, by the owner after October 21, 1999, and (b) the ownership would result in our being classified as a Controlled Foreign Corporation. This provision has the practical effect of prohibiting each citizen or resident of the United States who acquired or acquires our ordinary shares after October 21, 1999, from exercising more than 9.9% of the voting power in our Company, with respect to such ordinary shares, regardless of how many shares the shareholder owns. The provision may therefore discourage United States persons from seeking to acquire, or from accumulating, 15% or more of our ordinary shares (which, due to the voting power of the founders' shares, would represent 10% or more of the voting power of our Company). As of March 31, 2021, no citizen or resident of the United States held an amount of ordinary shares that would represent 10% or more of the voting power of our Company.

Risks Relating to Our International Operations

We face risks related to foreign currency exchange rates.

Because some of our revenue, operating expenses, assets and liabilities are denominated in foreign currencies, we are subject to foreign exchange risks that could adversely affect our operations and reported results. To the extent that we incur expenses in one currency but earn revenue in another, any change in the values of those foreign currencies relative to the USD could cause our profits to decrease or our products to be less competitive against those of our competitors. To the extent that our foreign currency holdings and other assets denominated in a foreign currency are greater or less than our liabilities denominated in a foreign currency, we have foreign exchange exposure.

Current and changing economic conditions may adversely affect our industry, business, partners and suppliers, financial position, results of operations and/or cash flow.

The global economy continues to experience significant volatility, and the economic environment may continue to be, or become, less favorable than that of past years. Among other matters, the continued risk of a debt default by one or more European countries, related financial restructuring efforts in Europe, and/or evolving deficit and spending reduction programs instituted by the U.S. and other governments could negatively impact the global economy and/or the pharmaceutical industry. This has led, and/or could lead, to reduced consumer and customer spending and/or reduced or eliminated governmental or third party payor coverage or reimbursement in the foreseeable future, and this may include spending on healthcare, including but not limited to pharmaceutical products. While generic drugs present an alternative to higher-priced branded products, our sales could be negatively impacted if patients forego obtaining healthcare, patients and customers reduce spending or purchases, and/or if governments and/or third-party payors reduce or eliminate coverage or reimbursement amounts for pharmaceuticals and/or impose price or other controls adversely impacting the price or availability of pharmaceuticals. In addition, reduced consumer and customer spending, and/or reduced government and/or third party payor coverage or reimbursement, and/or new government controls, may drive us and our competitors to decrease prices and/or may reduce the ability of customers to pay and/or may result in reduced demand for our products. The occurrence of any of these risks could have a material adverse effect on our industry, business, financial position, results of operations and/or cash flow.

Our business requires us to move goods across international borders. Any events that interfere with, or increase the costs of, the transfer of products across international borders could have a material adverse effect on our business.

We transport most of our products across international borders, primarily those of the United States, Canada and Israel. Since September 11, 2001, there has been more intense scrutiny of products that are transported across international borders. As a result, we may face delays, and increases in costs due to such delays, in delivering products to our customers. Any events that interfere with, or increase the costs of the transfer of products across international borders could have a material adverse effect on our business.

Risks Relating to Key Employees

Our future success is highly dependent on our continued ability to attract and retain key personnel. Any failure to do so could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our ordinary shares to decline.

The pharmaceutical industry, and our company in particular, is science based. It is therefore imperative that we attract and retain qualified personnel in order to develop new products and compete effectively. If we fail to attract and retain key scientific, technical or management personnel, our business could be affected adversely. If we are unsuccessful in retaining or replacing key employees, it could have a material adverse effect on our business, financial position and results of operations and could cause the market value of our ordinary shares to decline.

Risks Relating to Our Location in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products.

We are incorporated under Israeli law and a significant component of our manufacturing and research and development facilities are located in Israel. Political, economic and military conditions in Israel may directly affect our operations, and we could be adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, or a significant downturn in the economic or financial condition of Israel. Unprecedented (from an Israeli perspective) political instability, under which there has been no permanent government and no budget adopted since December 2018, may also adversely impact the Israeli economy and, indirectly, our Israeli operations.

Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, as well as, more recently, the United Arab Emirates and other countries in the Middle East, Israel frequently has been subject to civil unrest and terrorist activity, with varying levels of severity. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our operations. Furthermore, certain parties with whom we do business periodically have declined to travel to Israel, forcing us to make alternative arrangements where necessary, and the United States Department of State has issued, from time to time, an advisory regarding travel to Israel. As a result, the FDA has at various times curtailed or prohibited its inspectors from traveling to Israel to inspect the facilities of Israeli companies, which, should it occur with respect to our Company, could result in the FDA withholding approval for new products we intend to produce at those facilities.

If terrorist acts were to result in substantial damage to our facilities, our business activities would be disrupted since, with respect to some of our products, we would need to obtain prior FDA approval for a change in manufacturing site. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages sustained by us could have a material adverse effect on our business.

Many male Israeli citizens, including our employees, are subject to compulsory annual reserve military service until they reach the age of 45 (or older, for citizens who hold certain positions in the Israeli armed forces reserves) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists, and some of our Israeli employees have been called up in connection with armed conflicts. It is possible that there will be similar large-scale military reserve duty call-ups in the future. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to obligatory military service requirements. Any disruption in our operations could harm our business.

We may be affected by fluctuations in the NIS relative to the USD.

A substantial portion of our expenses in Israel, primarily labor and occupancy expenses, are incurred in NIS. As a result, the cost of our operations in Israel, as measured in USD, is subject to the risk of exchange rate fluctuations between the USD and the NIS. During the year-ended March 31, 2021, the value of the NIS increased 6.7% relative to the USD based on the change in the exchange rate from the start to the end of the fiscal year. This trend was furthermore reflected in exchange rates movement throughout the fiscal year, as the value of the NIS appreciated relative to the USD, which had a negative impact on our results of operations by increasing the USD value of our NIS-incurred expenses. If the NIS continues to appreciate relative to the USD, that would further negatively affect our USD-measured results of operations.

Our operations may be affected by negative labor conditions in Israel.

Strikes and work-stoppages occur relatively frequently in Israel. If Israeli trade unions threaten strikes or work-stoppages and such strikes or work-stoppages occur, those may, if prolonged, have a material adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers and to receive raw materials from our suppliers in a timely manner.

Environmental requirements related to our Haifa Bay manufacturing facility.

Our Haifa Bay manufacturing facility is located among a large concentration of industrial and other facilities that release emissions into the air in the Haifa Bay region. The Israeli Ministry of Environmental Protection (the "MoEP") has declared the reduction of air pollution in Haifa Bay to be a primary goal and has taken a stringent approach in enforcing environmental protection laws for the industrial plants in Haifa Bay. We may be subject to enforcement action, including penalties, if we do not adhere to those strict rules.

Government pricing or price control policies can materially impede our profitability or ability to set prices for our products.

The Israeli government typically purchases pharmaceutical products at the lowest prices in the market, which may affect our profitability. All pharmaceutical products sold in Israel are subject to government price controls. Permitted price increases and decreases are enacted by the Israeli government as part of a formal review process. The inability to control the prices of our products may adversely affect our operations.

We may benefit from government programs and tax benefits, both or either of which may be discontinued or reduced.

We have, in the past, received grants and substantial tax benefits under Israeli government programs, including the Approved Enterprise program and programs of the National Technological Israel Innovation Authority (the "Authority" or "IIA") (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel). In order to be eligible for these programs and benefits, we must meet specified conditions including making specified investments in fixed assets from our equity and paying royalties with respect to grants received. In addition, some of these programs could restrict our ability to manufacture particular products and transfer particular technology outside of Israel. If we fail to comply with these conditions in the future, the benefits received could be canceled and we could be required to refund payments previously received under these programs or pay increased payments and/or taxes. In the future, the government of Israel may discontinue or curtail these and the tax benefits available under these programs. If the government of Israel ends these programs and tax benefits while we are recipients, our business, financial condition and results of operations could be materially adversely affected.

Provisions of Israeli law may delay, prevent or make more difficult a merger or acquisition. This could prevent a change of control and depress the market price of our ordinary shares.

Provisions of Israeli corporate and tax law may have the effect of delaying, preventing or making more difficult a merger or acquisition. The Israeli Companies Law, 5759 - 1999 (the "Israeli Companies Law") and the regulations promulgated thereunder, generally require that a merger be approved by a company's board of directors and by a shareholder vote at a shareholders' meeting that has been called on at least 35 days' advance notice by each of the merger parties. Under our Articles of Association, the required shareholder vote is a supermajority of at least 75% of the shares voting in person or by proxy on the matter. Any creditor of a merger party may seek a court order blocking a merger if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of any party to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that a merger proposal has been delivered to the Israeli Registrar of Companies and at least 30 days have passed from the time each merging company has received shareholder approval for the merger. In addition, a majority of each class of securities of the target company must approve a merger. Moreover, a tender offer for all of a company's issued and outstanding shares can only be completed if the acquirer receives sufficient responses such that the acquirer will hold at least 95% of the issued share capital upon consummation of the shareholders' tenders. Completion of the tender offer also requires approval of a majority of shareholders who do not have a personal interest in the tender offer, unless, following consummation of the tender offer, the acquirer would hold at least 98% of the company's outstanding shares. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer, may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition, unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek such appraisal rights.

Other potential means of acquiring a public Israeli company such as ours might involve additional obstacles. A significant body of case law has not yet developed with respect to the Israeli Companies Law. Until that happens, uncertainties will exist regarding its interpretation, especially with regard to mergers and acquisitions, which may inhibit such transactions.

Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than do United States tax laws. The provisions of Israeli corporate and tax law and the uncertainties surrounding such laws may have the effect of delaying, preventing or making more difficult a merger or acquisition. This could prevent a change of control of the Company and depress the market price of our ordinary shares, which otherwise might rise as a result of such a change of control. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. Generally, with respect to other share swap transactions, the tax deferral is limited in time, and when that time expires, the tax becomes payable even if no disposition of the shares has occurred.

It may be difficult to effect service of process and enforce judgments against our directors and officers.

We are incorporated in Israel. Several of our executive officers and directors are non-residents of the United States and a substantial portion of our assets and the assets of such persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of those persons or to effect service of process upon those persons. It may also be difficult to enforce civil liabilities under United States federal securities laws in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum in which such a claim should be brought. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the applicable U.S. law must be proved as a factual matter, which can be a time-consuming and costly process. Also, certain matters of procedure will be governed by Israeli law.

We are subject to government regulation that increases our costs and could prevent us from marketing or selling our products.

We are subject to extensive pharmaceutical industry regulations in countries where we operate. We cannot predict the extent to which we may be affected by legislative and other regulatory developments concerning our products.

In Israel, the manufacture and sale of pharmaceutical products is regulated in a manner substantially similar to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective or manufactured and marketed other than in accordance with registration conditions.

We are subject to legislation in Israel, primarily relating to patents and data exclusivity provisions. Modifications of this legislation or court decisions regarding this legislation may adversely affect us and may prevent us from exporting Israeli-manufactured products in a timely fashion. Additionally, the existence of third-party patents in Israel, with the attendant risk of litigation, may cause us to move production outside of Israel or otherwise adversely affect our ability to export certain products from Israel.

Risks Relating to Our Location in Canada

Government price control policies can materially impede our ability to set prices for our products.

In Canada, the Patented Medicine Prices Review Board (“PMPRB”) monitors and controls the prices of patented drug products marketed in Canada. The PMPRB requires patentees to report pricing and assess whether pricing is excessive based on a number of factors, including the price of comparable drugs sold in Canada and the price of patented medicine in other jurisdictions. While price increases are permitted, they are generally limited to the amount of the annual increase of the Canadian Consumer Price Index. Consequently, the existence of one or more patents relating to a drug product, while providing some level of proprietary protection for the product, also triggers a governmental price control regime that significantly affects the Canadian pharmaceutical industry’s ability to set pricing. Additionally, generic pricing is affected by the PMPRB given that generic pricing is tied to the price of the interchangeable brand product. To the extent we have products covered by a patent in Canada or generic products affected by the PMPRB, our inability to control the prices of any such products may adversely affect our operations. The risk associated with the PMPRB’s jurisdiction has also been affected by recent changes to the regulatory landscape within which the PMPRB operates.

Sales of our products in Canada depend, in part, upon their eligibility for reimbursement from drug benefit formularies.

Each Canadian province establishes its own drug benefit formulary that lists the drugs for which a provincial government will reimburse qualifying persons and sets the prices at which the government will reimburse such persons. There is not complete uniformity among provinces, which could result in the listing of products in some provinces but not others. However, provincial

governments generally will reimburse the lowest available price of the generic equivalents of any drug listed on its formulary. The formularies can also provide for automatic drug substitution, even for patients who do not qualify for government reimbursement. The effect of these provincial formulary regimes is to encourage the sale of lower-priced versions of pharmaceutical products. Further, legislation in some provinces limits the price at which generic pharmaceuticals are reimbursed based on the number of generic competitors in the market and the price of their brand equivalent. Therefore, the potential lack of reimbursement due to a refusal to list on a provincial formulary may adversely affect our ability to profitably market our products. Additionally, legislative price controls on generic products may affect profitability by limiting selling price.

We may be affected by fluctuations in the CAD relative to the USD.

A substantial portion of our expenses in Canada, primarily labor, packaging materials, occupancy, selling, marketing and administrative expenses, are incurred in CAD. As a result, the cost of our operations in Canada, as measured in USD, is subject to the risk of exchange rate fluctuations between the USD and the CAD. During the year-ended March 31, 2021, the value of the CAD increased 10.6% relative to the USD based on the change in the exchange rate from the start to the end of the fiscal year. This trend was furthermore reflected in exchange rates movement throughout the fiscal year, as the value of the CAD appreciated relative to the USD, which had a negative impact on our results of operations by increasing the USD value of our CAD-incurred expenses. If the CAD continues to appreciate relative to the USD, that would further negatively affect our USD-measured results of operations.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

The legal and commercial name of our company is Taro Pharmaceutical Industries Ltd. We were incorporated under the laws of the State of Israel in 1959 under the name Taro-Vit Chemical Industries Ltd. In 1984, we changed our name to Taro Vit Industries Ltd. and in 1994 we changed our name to Taro Pharmaceutical Industries Ltd., which was the name of a subsidiary of Taro Vit Industries Ltd. incorporated under the laws of the State of Israel in 1950.

In 1961, we completed the initial public offering of our ordinary shares. In that year, we also acquired 97% of the outstanding stock of an Israeli corporation, then known as Taro Pharmaceutical Industries Ltd. (“TPIL”). In 1981, we sold 37% of our interest in TPIL. In 1993, after acquiring all of the outstanding shares of TPIL, we merged TPIL into our company. In July 2001, we completed a stock split by distributing one ordinary share for each ordinary share then outstanding and one ordinary share for every ten founders’ shares then outstanding. In October 2001, we sold 3,950,000 of our ordinary shares, and shareholders sold 1,800,000 of our ordinary shares, in a public offering. In 2007, we sold 6,787,500 of our ordinary shares to Sun. In September 2010, the Levitt and Moros families and Sun Pharma reached an agreement to transfer their interest in Taro to Sun in accordance with an option agreement entered into by the parties in May 2007. Since March 22, 2012, our ordinary shares have been traded on the NYSE under the symbol “TARO.”

Our registered office is located at 14 Hakitor Street, Haifa Bay 2624761, Israel. Our telephone number at that address is +972-4-847-5700. Our agent for service of process in the United States is Taro Pharmaceuticals U.S.A., Inc., 3 Skyline Drive, Hawthorne, NY 10532. Our telephone number at that address is +1-914-345-9000.

The Securities and Exchange Commission (“SEC”) maintains an internet site at www.sec.gov that contains reports and information statements and other information regarding registrants like us that file electronically with the SEC.

We routinely post important information on our website at https://www.taro.com/. This website and the information contained therein or connected thereto shall not be deemed to be incorporated into this annual report.

Capital Expenditures

During the years ended March 31, 2021, 2020 and 2019, our capital expenditures were $17.0 million, $26.6 million and $27.0 million, respectively. The focus of our capital expenditure program has been the expansion and upgrade of our manufacturing facilities, laboratories, and information technology systems in order to enable us to increase operational efficiencies, remain in compliance with cGMP, accommodate anticipated increased demand for our products and maintain a competitive position in the marketplace.

The major projects undertaken during these three years, as part of our capital expenditure program, include:

- the acquisition of additional production and packaging equipment;
- expanding and upgrading our research and development laboratories in Israel and Canada; and

- the upgrade of our information technology and serialization systems, in addition to general improvements to our facilities.

For a detailed presentation of our property, plant and equipment, see Note 7 to our consolidated financial statements included elsewhere in this 2021 Annual Report. Also see Item 4.D. – "Property, Plant and Equipment."

B. BUSINESS OVERVIEW

We are a multinational, science-based pharmaceutical company. We develop, manufacture and market Rx and OTC pharmaceutical products primarily in the United States, Canada and Israel. Our primary focus includes semi-solids formulations, such as creams and ointments and other dosage forms such as liquids, capsules and tablets, in the dermatological and topical, cardiovascular, neuropsychiatric and anti-inflammatory therapeutic categories.

We operate principally through three entities: Taro Israel, and two of its subsidiaries (including indirect), Taro Pharmaceuticals Inc. ("Taro Canada") and Taro U.S.A. The principal activities and primary product lines of these subsidiaries may be summarized as follows:

Entity	Principal Activities	Primary Product Lines
Taro Israel	• Manufactures more than 100 finished dosage form pharmaceutical products for sale in Israel and for export • Produces APIs used in the manufacture of finished dosage form pharmaceutical products • Markets and distributes both proprietary and generic products in the local Israeli market • Performs research and development	• Dermatology: Rx and OTC semi-solid (creams, ointments, lotions, foams and gels) and liquid products • Cardiology and Neurology: Prescription oral dosage products • Analgesics, Rx and OTC oral dosage products • Central Nervous System (CNS) – Rx oral dosage products • Allergy (Antihistamine): OTC oral dosage products
Taro Canada	• Manufactures more than 200 finished dosage form pharmaceutical products for sale in Canada and for export to the U.S. and other markets • Markets and distributes both proprietary and generic products in the Canadian market • Performs research and development	• Dermatology: Rx and OTC semi-solid products (creams, ointments, lotions and gels) and liquid products • Allergy (Antihistamine): OTC oral dosage products
Taro U.S.A.	• Markets and distributes both proprietary and generic products in the U.S. market • Performs regulatory, post marketing and clinical activities	• Dermatology: Rx and OTC semi-solid products (creams, ointments, lotions, foams and gels) and liquid products • Cardiology and Neurology: Rx oral dosage products • Other Rx and OTC products

As of March 31, 2021, 17 (excluding tentative approvals) of our ANDAs are being reviewed by the FDA. During the fiscal year ended March 31, 2021, we filed 7 ANDAs with the FDA. In addition, there are numerous products for which either development or internal regulatory work is in process. The applications pending before the FDA are at various stages in the review process, and there can be no assurance that we will be able to successfully complete any remaining testing or that, upon completion of such testing, approvals will be granted. In addition, there can be no assurance that the FDA will not grant approvals for competing products submitted by our competitors, prior to, simultaneous with or after granting approval to us.

The Generic Pharmaceutical Industry

Generic pharmaceuticals are the chemical and therapeutic equivalents of brand-name drugs and are typically marketed after the patents for brand-name drugs have expired. Generic pharmaceuticals generally must undergo clinical testing that demonstrates that they are bioequivalent to their branded equivalents and are manufactured to the same standards. Proving bioequivalence generally requires data demonstrating that the generic formulation results in a product whose rate and extent of absorption are within an acceptable range of the results achieved by the brand-name reference drug. In some instances, bioequivalence can be established by demonstrating that the therapeutic effect of the generic formula falls within an acceptable range of the therapeutic effects achieved by the brand-name reference drug.

Generic pharmaceutical products must meet the same quality standards as branded pharmaceutical products although they are generally sold at prices that are substantially lower than those of their branded counterparts. As a result, generic pharmaceuticals represent a much larger percentage of total drug prescriptions dispensed than their corresponding percentage of total sales. This discount tends to increase (and margins tend to decrease) as the number of generic competitors increases for a given product. Because of this pricing dynamic, companies that are among the first to develop and market a generic pharmaceutical product tend to earn higher profits than companies that subsequently enter the market for that product. Furthermore, products that are difficult to develop or are intended for niche markets generally attract fewer generic competitors and therefore may offer higher profit margins than those products that attract a larger number of competitors. However, profit is influenced by many factors other than the number of competitors for a given drug or the size of the market. Depending on the actions of each of our competitors, price discounts can be just as significant for a specific product with only a few competitors or a small market, as for a product with many competitors or a large market.

In recent years, the market for generic pharmaceuticals has grown. We believe that this growth has been driven by the following factors, among others:

- efforts by governments, employers, third-party payers and consumers to control healthcare costs;
- increased acceptance of generic products by physicians, pharmacists and consumers; and
- the increasing number of pharmaceutical products whose patents have expired and are therefore subject to competition from, and substitution by, generic equivalents.
- higher ANDA approval rate by the FDA.

Products

We currently market more than 200 pharmaceutical products in over 25 countries. The following represents key therapeutic categories and dosage forms.

Therapeutic Categories

The following represents various key therapeutic categories: allergy, analgesic, antibacterial, antibiotic, anticonvulsant, antiemetic, antifungal, anti-inflammatory, anti-cancer, antiplatelet agent, antipyretic, cardiovascular, CNS, corticosteroid, cosmetic, cough and cold, dermatology, diuretic, endocrine, gastrointestinal, laxative, narcotics, neuropathic pain, neuropsychiatric, sedative/hypnotic, and topical anti-neoplastic.

Dosage Forms

The following represents various dosage forms of products: capsule, cream, drops, emulsion, gel/gel kit, granules, injectable, lotion, oil, ointment, paste (including dental), powder/powder for solution, rectal suppository, shampoo, solution/solution for infusion, spray, suspension, syrup, tablets, toothpaste & mouthwash, topical foam, and topical solution.

Topical corticosteroids are used in the treatment of some dermatologic conditions (including psoriasis, eczema and various types of skin rashes). Topical antineoplastics are used in the treatment of cancer (including skin cancer). Antifungals are used in the treatment of some infections (including athlete’s foot, ringworm and vaginal yeast infections). Anticonvulsants are used in the treatment of various seizure disorders (including epilepsy). Cardiovascular products are used in the treatment of heart disease. There are several categories of cardiovascular drugs, including anticoagulants, antihypertensive and antiarrhythmic. Anticoagulants, commonly known as blood thinners, are used in the treatment of heart disease and stroke associated with heart disease.

Some of our products are subject to seasonality, such as allergy drugs; however, in the aggregate our products are not materially subject to seasonality.

For the years ended March 31, 2021, 2020 and 2019, no product comprised 10% of our total consolidated sales.

Sales and Marketing

In the United States, Israel and Canada, our sales are primarily generated by our own dedicated sales force. In other countries, we sell through agents and other distributors. Our sales force is supported by our customer service and marketing employees.

The following is a breakdown of our net sales by geographic region, including the percentage of our total consolidated net sales for each period:

	Year ended March 31,					
	2021		2020		2019	
	Sales (in thousands)	% of total sales	Sales (in thousands)	% of total sales	Sales (in thousands)	% of total sales
United States	$ 383,829	70%	$ 495,673	77%	$ 537,111	80%
Canada	110,167	20%	97,997	15%	83,970	13%
Israel	46,574	8%	42,817	7%	40,050	6%
Other	8,400	2%	8,282	1%	8,762	1%
Total	$ 548,970	100%	$ 644,769	100%	$ 669,893	100%

In the year ended March 31, 2021, revenue in the United States accounted for 70% of total consolidated net sales. In addition to marketing Rx drugs, we market our generic OTC products primarily as store brands under its customers' labels to wholesalers, drug chains, food chains and mass merchandisers. A significant portion of our revenue is derived from sales to a limited number of customers. If the Company were to experience a significant reduction in or loss of business with one or more of such customers, or if one or more such customers were to experience difficulty in paying us on a timely basis, our business, financial condition, and results of operations could be materially adversely affected. During the year ended March 31, 2021, we sold to approximately 200 customers in the United States. The following table represents sales to our largest customers greater than 10% of consolidated net sales:

	Year ended March 31,		
Customer	2021	2020	2019
Customer A	12.6%	*	*
Customer B	10.5%	13.0%	*
Customer C	*	11.5%	12.1%
Customer D	*	*	11.0%

*Less than 10%.

The following table sets forth the percentage of consolidated net sales by each type of customer in the United States in the year ended March 31, 2021:

Customer Type	Percentage of Consolidated Sales
Drug wholesalers and store chains	42%
Mass merchandisers, food and retail chains	14%
Managed care organizations	8%
Generic drug distributors	4%
Other	2%

In the year ended March 31, 2021, sales in Canada accounted for 20% of our total consolidated net sales and Taro Canada sold to approximately 300 customers.

The PMPRB monitors and controls prices of patented drug products marketed in Canada by persons holding, or licensed under, one or more patents. The existence of one or more patents relating to a drug product triggers a governmental price control regime that significantly affects the Canadian pharmaceutical industry's ability to set pricing. Furthermore, in each province of Canada there is a drug benefit formulary. A formulary lists the drugs for which a provincial government will reimburse qualifying persons and the prices at which the government will reimburse such persons. Provincial governments generally will reimburse the lowest available price of the generic equivalents of any drug listed on the formulary list of a province. Consequently, provincial formulary regimes tend to encourage the sale of lower-priced versions of pharmaceutical products.

The following table sets forth the percentage of consolidated net sales by each type of customer in Canada in the year ended March 31, 2021:

Customer Type	Percentage of Consolidated Sales
Drug wholesalers	13%
Drug chains, independent pharmacies and others	7%

In the year ended March 31, 2021, sales in Israel accounted for 8% of our total consolidated net sales. The marketing, sales and distribution of Rx pharmaceuticals and OTC products in Israel is closely monitored by the Israeli government. The market for these products is dominated by institutions that are similar to health maintenance organizations in the United States, as well as private pharmacies. Most of our marketing efforts in Israel focus on selling directly to these groups.

All pharmaceutical products sold in Israel are subject to price controls. Permitted price increases and decreases are enacted by the Israeli government as part of a formal review process. There are no restrictions on the import of pharmaceuticals, provided that they comply with registration requirements of the Israeli Ministry of Health.

In Israel, the pharmaceutical market generally is divided into two market segments: (i) the private market, which includes drug store chains, private pharmacies and wholesalers; and (ii) the institutional market, which includes Kupat Holim Clalit (the largest health maintenance organization in Israel), other health maintenance organizations, the Israel Ministry of Health, the Armed Forces, and sales to the Palestinian authorities through third parties.

The following table sets forth the percentage of consolidated net sales by each type of customer in Israel and other international markets in the year ended March 31, 2021:

Customer Type	Percentage of Consolidated Sales
Institutional	4%
Private	4%
Other international	2%

We have expanded the production capacity of our Israeli and Canadian operations to meet anticipated greater demand for our products in future years. As discussed below under "*Industry Practice Relating to Working Capital Items*," future demand for our products may not increase at a rate we previously anticipated. In addition, we utilize contract manufacturers for certain products to satisfy customer demand in a timely manner. As a result, in each of the years ended March 31, 2021, 2020 and 2019, backorders represented less than 5% of our consolidated net sales.

Competition and Pricing

The pharmaceutical industry is intensely competitive. We compete with the original manufacturers of the brand-name equivalents of our generic products, other generic drug manufacturers (including brand-name companies that also manufacture generic drugs or license their products to other generic drug manufacturers) and manufacturers of new drugs that may compete with our generic drugs. Many of our competitors have greater financial, production and research and development resources, substantially larger sales and marketing organizations, and substantially greater name recognition than we have. In the recent past, the barriers to entry for new entrants to the generic industry have significantly reduced, thus resulting in a larger competitive field. At the same time, the customer base for the generic manufacturers has seen significant consolidation at the purchasing level, resulting in increased purchasing power for the customer. This dual effect of increased competition and increased purchasing power has resulted in a downward trend for prices for our generic products.

Additionally, brand-name drug companies have historically attempted to prevent generic drug manufacturers from producing certain products and to prevent competing generic drug products from being accepted as equivalent to their brand-name products. We expect such efforts to continue in the future. Also, some brand-name competitors, in an attempt to participate in the generic drug sales of their branded products, have introduced generic equivalents of their own branded products, both prior and subsequent to the expiration of their patents or FDA exclusivity periods for such drugs. These competitors have also introduced authorized generics or generic equivalents of brand-name drug products. Our brand-name drug competitors are increasingly selling their branded products through controlled distribution channels, further limiting our access and increasing competitive intensity with those generic manufacturers.

Competitive factors in the major markets in which we participate can be summarized as follows:

North America

The U.S. pharmaceutical market is undergoing, and is expected to continue to undergo, rapid and significant market and technological changes and we expect competition to intensify as these market and scientific advances are made. We intend to effectively compete in this marketplace by focusing on a niche product development strategy highlighted by differentiated technologies and dedicated focus on therapeutic areas which play to our strengths.

In the United States, we compete with branded pharmaceutical manufacturers such as Bristol-Myers Squibb Company, Celgene Corporation, GlaxoSmithKline Inc., Merck & Co., Inc., Novartis AG, Pfizer Inc., Bausch Health Companies Inc. and Galderma Laboratories, LP., as well as with generic companies such as Teva Pharmaceuticals U.S.A., Viatris Inc., Perrigo Company PLC, Glenmark Generics, Inc., USA and Sandoz Pharmaceuticals (the generics subsidiary of Novartis). Many of these companies have more resources, market and name recognition and better access to customers than we have. Therefore, there can be no assurance that we can compete successfully with them.

A significant portion of our sales are made to a relatively small number of wholesalers, retail drug chains, food chains and mass merchandisers, which continue to undergo significant consolidation. We face increasing product pricing pressures as a result of this consolidation as well as the emergence of large buying groups who are able to negotiate price discounts on our products.

There can be no guarantee that Taro will not continue to experience challenges during the current year in comparison to prior years, especially for our generic drug division, due to price erosion from our customers increased focus on lower pricing, customer consolidation and increased competition in specific product segments due to new entrants in our markets. These challenges could have a material impact on our business, cash flows, and results of operations or result in impairment charges, and the market value of our share price may decline.

In Canada, our competition includes Merck Canada Inc., Pfizer Canada Inc., Janssen Inc., Novartis Pharmaceuticals Canada Inc., GlaxoSmithKline Inc., Valeant Canada, AstraZeneca Canada, Johnson & Johnson Inc., Bayer Inc. and Bristol-Myers Squibb Canada. We also compete with other manufacturers of generic products, such as Apotex Inc., Teva Canada Limited, Viatris Inc., Sandoz Canada Incorporated and Pharmascience Inc.

Depending on the product, pricing in Canada is established by competitive factors or by Canadian provincial formulary price lists published by the Canadian provinces.

Israel

In Israel, we compete with Teva Pharmaceutical Industries Ltd., Perrigo Israel Pharmaceuticals Ltd., Dexcel Pharma Israel, and Rafa Laboratories Ltd., among others. In addition, many leading multinational companies, including Bayer AG, Eli Lilly and Company, Merck & Co., Inc. and Pfizer Inc. market their products in Israel.

In Israel, the government establishes the prices for pharmaceutical products as part of a formal review process. There are no restrictions on the import of pharmaceuticals provided that they comply with registration requirements of the Israeli Ministry of Health.

Manufacturing and Raw Materials

We currently manufacture finished pharmaceutical products at our government approved facilities in Canada and Israel and APIs in our Israel facility.

For the manufacture of our finished dosage form pharmaceutical products, we use pharmaceutical chemicals that we either produce ourselves or purchase from chemical manufacturers in the open market globally. Substantially all of such chemicals are obtainable from a number of sources, subject to regulatory approval. However, we purchase certain raw materials from single source suppliers. The decision to purchase APIs is a function of our sales forecast and prevailing prices in the market. When appropriate purchasing opportunities arise, the Company may acquire certain APIs in excess of its ordinary requirements or rate of growth. Obtaining the regulatory approvals required to add alternative suppliers of such raw materials for products sold in the United States or Canada may be a lengthy process. We strive to maintain adequate inventories of single source raw materials in order to ensure that any delays in receiving such regulatory approvals will not have a material adverse effect on our business. However, we may become unable to sell certain products in the United States, Canada, or Israel pending approval of one or more alternate sources of raw materials.

We synthesize the APIs used in some of our key products, including steroids, anti-fungals, CNS, NSAIDS, anticoagulants and dermatological preparations. We plan to continue the strategic selection of APIs for synthesis in order to maximize the advantages from this scientific and manufacturing capability.

Although, prices of principal raw materials have been relatively stable, the Company has programs to keep the cost of APIs consistent or to improve upon them; for example, through the qualification of alternate suppliers and process improvements.

Industry Practices Relating to Working Capital Items

Certain customary industry selling practices affect our working capital, including, but not limited to, providing favorable payment terms to customers and discounting selling prices through the issuance of free products as well as other incentives within a specified time frame if a customer purchases more than a specified threshold of a product. These incentives are provided principally with the intention of maintaining or expanding our distribution to the detriment of competing products.

Industry practice requires that pharmaceutical products be made available to customers from existing stock rather than on a made-to-order basis. Therefore, in order to accommodate market demand adequately, we strive to maintain a sufficient level of inventory.

Government Regulation

We are subject to extensive pharmaceutical industry regulations in the United States, Canada, Israel and other jurisdictions, and may be subject to future legislative and other regulatory developments concerning our products and the healthcare field generally. Any failure by us to comply with applicable policies and regulations of any of the numerous authorities that regulate our industry could have a material adverse effect on our results of operations.

In the United States, the Federal Food, Drug, and Cosmetic Act (the "FDC Act") and other federal and state statutes and regulations, govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of pharmaceutical products. Failure to comply with applicable U.S. requirements may subject a company to a variety of administrative or judicial sanctions, such as FDA refusal to approve pending new drug applications ("NDAs") or ANDAs, warning or untitled letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties, and criminal prosecution. In Canada, Israel and other jurisdictions, the manufacture and sale of pharmaceutical products are regulated in a similar manner. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. In addition, approval is required before any new drug or a generic equivalent to a previously approved drug can be marketed. Furthermore, each country requires successful inspections or approval of manufacturing facilities, including adherence to cGMPs during the production and storage of pharmaceutical components, including, but not limited to, raw materials and finished products. As a result, we have had periodic inspections of our facilities and records.

Regulatory authorities in each country also have extensive enforcement powers over the activities of pharmaceutical manufacturers, including the power to seize, force the recall of and prohibit the sale or import of non-complying products and to halt the operations of and criminally prosecute and fine non-complying manufacturers. These regulatory authorities also have the power to revoke approvals previously granted and remove from the market previously approved drug products.

In the United States, Canada, Israel and other jurisdictions, we, as well as other manufacturers of drugs, are dependent on obtaining timely approvals for products. The approval process in each country has become more rigorous and costly in recent years. There can be no assurance that approvals will be granted in a timely manner or at all. In addition, the procedure for drug product approvals, if such approval is ultimately granted, generally takes longer than one year. The review processes in Canada and Israel are substantively similar to the review process in the United States.

In the United States, any drug that is not generally recognized as safe and effective by qualified experts for its intended use is deemed to be a new drug, which generally requires FDA approval. Approval is obtained, either by the submission of an ANDA or an NDA. If the new drug is a new dosage form, a strength not previously approved, a new indication or an indication for which the ANDA procedure is not available, an NDA is required. Pharmaceutical product development for a new product or certain changes to an approved product in the United States typically involves preclinical laboratory and animal tests, the submission to the FDA of an investigational new drug application ("IND"), which must become effective before clinical testing may commence, and adequate and well-controlled clinical trials to establish the safety and effectiveness of the drug for each indication for which FDA approval is sought. Satisfaction of FDA approval to market requirements typically takes many years and the actual time required may vary substantially based upon the type, complexity, and novelty of the product or disease.

Preclinical tests include laboratory evaluation of product chemistry, formulation, and toxicity, as well as animal trials to assess the characteristics and potential safety and efficacy of the product. The conduct of the preclinical tests must comply with federal regulations and requirements, including good laboratory practices. The results of preclinical testing are submitted to the FDA as part of an IND along with other information, including information about product chemistry, manufacturing and controls, and a proposed clinical trial protocol. Long-term preclinical tests, such as animal tests of reproductive toxicity and carcinogenicity, may continue after the IND is submitted.

A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin.

Clinical trials involve the administration of the investigational new drug to healthy volunteers or patients under the supervision of a qualified investigator. Clinical trials must be conducted: (i) in compliance with federal regulations; (ii) in compliance with good clinical practice ("GCP"), an international standard meant to protect the rights and health of patients and to define the roles of clinical trial sponsors, administrators, and monitors; as well as (iii) under protocols detailing the objectives of the trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol involving testing on U.S. patients and subsequent protocol amendments must be submitted to the FDA as part of the IND.

The FDA may order the temporary, or permanent, discontinuation of a clinical trial at any time, or impose other sanctions, if it believes that the clinical trial either is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. The study protocol and informed consent information for patients in clinical trials must also be submitted to an institutional review board ("IRB"), for approval. An IRB may also require the clinical trial at the site to be halted, either temporarily or permanently, for failure to comply with the IRB's requirements, or may impose other conditions.

We generally receive approval for generic products by submitting an ANDA to the FDA. Generally, an ANDA provides for marketing of a drug product that contains the same active ingredient and has the same route of administration, dosage form, and strength as a previously approved drug (also known as the reference listed drug) and has been shown to be bioequivalent to the reference listed drug. Other than the requirement for bioequivalence testing, ANDA applicants are not required to conduct, or submit results of, pre-clinical or clinical tests to prove the safety or effectiveness of their drug product. For a systemically absorbed drug, bioavailability is generally determined by the rate and extent of absorption and levels of concentration of a drug product in the blood stream needed to produce a therapeutic effect. Bioequivalence compares the bioavailability of one drug product with another and, when established, indicates that the rate and extent of absorption of a generic drug in the body are substantially equivalent to the previously approved brand-name reference listed drug. For a topical drug, and other drug products not amenable to blood level studies, clinical endpoint studies are typically used as an indirect measure of formulation difference in bioavailability between the test and reference products. ANDA approvals are granted after the review by the FDA of detailed information submitted as part of the ANDA regarding the pharmaceutical ingredients, drug production methods, quality control, labeling, and demonstration that the product is bioequivalent to the brand-name reference listed drug. Demonstrating bioequivalence generally requires data demonstrating that the generic formula results in a product whose rate and extent of absorption are within an acceptable range of the results achieved by the brand-name reference listed drug. In some instances, bioequivalence can be established by demonstrating that the therapeutic effect of the generic product falls within an acceptable range of the therapeutic effects achieved by the brand-name reference listed drug. Generic drug user fees pursuant to the Generic Drug User Fee Amendments must be paid to FDA upon submission of each ANDA and Drug Master File as well as for any manufacturing facilities. In addition, an applicant under an approved ANDA is subject to an annual program fee based on the number of ANDAs held.

Products resulting from our proprietary drug program may require us to submit an NDA to the FDA. An NDA must include the results of all preclinical, clinical, and other testing and a compilation of data relating to the product's pharmacology, chemistry, manufacture, and controls. The clinical studies required prior to the NDA submission are both costly and time consuming, and often take five to seven years or longer, depending, among other factors, on the nature of the chemical ingredients involved and the indication for which the approval is sought. The cost of preparing and submitting an NDA is also substantial. The submission of most NDAs is additionally subject to a substantial application user fee, and the applicant under an approved NDA is also subject to an annual program fee for each prescription drug product pursuant to the Prescription Drug User Fee Act. The FDA has 60 days from its receipt of an NDA to determine whether the application will be filed based on the agency's threshold determination that it is sufficiently complete to permit substantive review. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of NDAs. A majority of such applications for standard review drug products are reviewed within 10 to 12 months; most applications for priority review drugs are reviewed in 6 to 8 months. Priority review can be applied to drugs that the FDA determines offer major advances in treatment, or provide a treatment where no adequate therapy exists. For biologics, priority review is further limited only for drugs intended to treat a serious or life-threatening disease relative to the currently approved products. The review process for both standard and priority review may be extended by FDA for three additional months to consider certain late-submitted information, or information intended to clarify information already provided in the submission.

The FDA may also refer applications for novel drug products, or drug products that present difficult questions of safety or efficacy, to an advisory committee—typically a panel that includes clinicians and other experts—for review, evaluation, and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it generally follows such recommendations. Before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. Additionally, the FDA will inspect the facility or the facilities at which the drug is manufactured. The FDA will not approve the product unless compliance with cGMP is satisfactory and the NDA contains data that provide substantial evidence that the drug is safe and effective in the indication studied.

Among the requirements for drug approval by the FDA is that manufacturing procedures and operations conform to cGMP. The cGMP regulations must be followed at all times during the manufacture of pharmaceutical products. During the review of an NDA or ANDA, the FDA will typically inspect the facility or the facilities at which the drug is manufactured. The FDA will not approve the product unless compliance with cGMP is satisfactory. In addition, quality-control, drug manufacture, packaging, and labeling procedures must continue to conform to cGMPs after approval. Drug manufacturers and certain of their subcontractors are required to register their establishments with the FDA and certain state agencies. Registration with the FDA subjects entities to periodic unannounced inspections by the FDA, during which the agency inspects manufacturing facilities to assess compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money, and effort in the areas of production and quality-control to maintain compliance with cGMPs. If the FDA believes a company is not in compliance with cGMP, certain sanctions may be imposed, including: (i) withholding new drug approvals as well as approvals for supplemental changes to existing applications; (ii) preventing the receipt of necessary licenses to export products; (iii) preventing the importation of certain products into the United States; (iv) classifying the company as an unacceptable supplier and thereby disqualifying the company from selling products to federal agencies; and (v) pursuing a consent decree or court action that limits company operations and/or imposes monetary fines.

After the FDA evaluates the NDA and the manufacturing facilities, it issues either an approval letter or a complete response letter. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing, or information, in order for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in the resubmission of the NDA, the FDA will issue an approval letter. An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications.

Changes to some of the conditions established in an approved application, including changes in indications, labeling, or manufacturing processes or facilities, require submission and FDA approval of a new NDA or NDA supplement before the change can be implemented. An NDA supplement for a new indication typically requires clinical data similar to that in the original application, and the FDA uses the same procedures and actions in reviewing NDA supplements as it does in reviewing NDAs.

As a condition of ANDA or NDA approval, the FDA may require a risk evaluation and mitigation strategy ("REMS"), to help ensure that the benefits of the drug outweigh the potential risks. REMS can include medication guides, communication plans for healthcare professionals, and elements to assure safe use ("ETASU"). ETASU can include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The requirement for REMS can materially affect the potential market and profitability of the drug. Moreover, product approval may require substantial post-approval testing and surveillance to monitor the drug's safety or efficacy. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

In addition, because we market drugs that are classified as controlled substances in the United States, Canada and Israel, we must meet the requirements of the federal Controlled Substances Act and relevant state laws and regulations in the United States as well as equivalent laws in Canada and Israel. These regulations include stringent requirements for handing and receipt of controlled substances including import, export, manufacture, storage, distribution and dispensing. These requirements include registration/licensing, manufacturing controls (e.g., quotas), import permits/declarations, inventory, recordkeeping, monitoring, disposal, reporting and security to ensure accountability and prevent diversion of, or the unauthorized access to, the controlled substances in each stage of the production, storage and distribution process. The DEA and state agencies (e.g., relevant state boards of pharmacy) inspect manufacturers, distributors, importers, and exporters that are registered with the DEA and licensed by state agencies to review and ensure compliance with the federal Controlled Substances Act and comparable state laws, and DEA regulations with respect to security, record keeping, inventory and reporting prior to issuing a federal controlled substance registration or state license. The specific security requirements vary by the type of business activity (e.g., manufacturing as opposed to providing pharmacy services) and the DEA schedule of the controlled substances (e.g., Schedule II narcotics as opposed to Schedule IV benzodiazepines) handled by the registrant. Once registered, manufacturing, distribution, exporting or importing facilities must maintain records documenting the manufacture, receipt, distribution, storage, import, or export of all controlled substances. Manufacturers are required to obtain quotas for certain Schedule I and II controlled substances. Also, manufacturers and distributors must submit periodic reports to the DEA on the distribution of Schedule I and II controlled substances, Schedule III narcotic substances, and other designated substances. All DEA registrants must report any potentially suspicious orders for controlled substances and any reports of theft or significant losses. DEA registrants must also follow appropriate disposal procedures and in some cases, obtain authorization to destroy or dispose of controlled substances. Most states impose similar licensing, recordkeeping, monitoring, reporting and security requirements. In addition to maintaining an importer and/or exporter registration, importers and exporters of controlled substances must obtain a permit for every import or export of a Schedule I or II substance and a narcotic substance in Schedule III, IV and V. For all other drugs in Schedule III, IV and V, importers and exporters must submit an import or export declaration. Failure to maintain the appropriate registrations and licenses, both federal and state, or to obtain sufficient quota or

approval for imports and exports could have a material adverse effect on our business. Failure to comply with applicable requirements, particularly resulting in the theft, loss or diversion of controlled substances, can result in significant enforcement action that could have a material adverse effect on our business, operations and financial condition. The DEA and/or state authorities may seek civil monetary penalties, refuse to renew necessary registrations or licenses, or initiate proceedings to revoke those registrations/licenses. In certain circumstances, violations could lead to criminal prosecution.

In May 1992, the Generic Drug Enforcement Act of 1992 (the "Generic Act") was enacted. The Generic Act, a result of legislative hearings and investigations into the generic drug approval process, allows the FDA to impose debarment and other penalties on individuals and companies that commit certain illegal acts relating to the generic drug approval process. In some situations, the Generic Act requires the FDA not to accept or review, for a period of time, ANDAs from a company or an individual that has committed certain violations. It also provides for temporary denial of approval of applications during the investigation of certain violations that could lead to debarment and also, in more limited circumstances, provides for the suspension of the marketing of approved drugs by the affected company.

The Generic Act also allows for civil penalties and withdrawal of previously approved applications. To our knowledge, neither we, nor any of our employees has ever been subject to debarment.

Any distribution of prescription drug products in their finished dosage form and pharmaceutical samples must comply with the U.S. Prescription Drug Marketing Act ("PDMA"), a part of the FDC Act. In addition, Title II of the Federal Drug Quality and Security Act of 2013, known as the Drug Supply Chain Security Act ("DSCSA"), has imposed new "track and trace" requirements on the distribution of prescription drug products by manufacturers, distributors, and other entities in the drug supply chain. These requirements are being phased in over a ten-year period. The DSCSA requires the transmission of transaction information, transaction history and a transaction statement with finished dosage form drug products introduced into interstate commerce in the United States. In addition, the products may only be sold to entities that are authorized trading partners as defined in the DSCSA. The DSCSA also requires drug manufacturers, distributors and other entities in the supply chain to investigate, quarantine and report drug products that are either suspect or illegitimate, as more fully described in the DSCSA. The DSCSA also requires manufacturers to include product identifiers (i.e., serialization) on prescription drug products and will eventually require the establishment of an electronic interoperable prescription product system to identify and trace certain prescription drugs distributed in the United States. These requirements will result in increased expenses and may create additional administrative encumbrances. Failing to comply with these requirements could result in enforcement actions by the FDA, including but not limited to the imposition of penalties or fines.

Several types of state and federal laws have been applied to prohibit or restrict certain marketing practices in the pharmaceutical industry. These laws include anti-kickback statutes and false claims statutes. The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering, recommending or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid, or other federally financed healthcare programs. The PPACA, enacted in March 2010, amended the intent element of the federal anti-kickback statute so that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers, and formulary managers on the other. Violations of the anti-kickback statute are punishable by imprisonment, criminal fines, civil monetary penalties, and/or exclusion from participation in federal healthcare programs. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchases, or recommendations may be subject to scrutiny if they do not qualify for an exemption or safe harbor.

The Federal False Claims Act prohibits any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement material to a false claim. This includes claims made to programs where the federal government reimburses, such as Medicare and Medicaid, as well as programs where the federal government is a direct purchaser, such as when it purchases off the Federal Supply Schedule. Numerous pharmaceutical companies have been sued under this law for allegedly inflating drug prices they report to pricing services or to the federal government, which in turn were used by the government to set Medicare and Medicaid reimbursement rates or Medicaid rebates. In addition, certain marketing practices, including off-label promotion, may also violate the Federal False Claims Act. Additionally, the PPACA amended the federal anti-kickback statute such that a violation of that statute can also serve as a basis for liability under the Federal False Claims Act. The majority of states also have statutes or regulations similar to the federal anti-kickback law and the Federal False Claims Act, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

There are also an increasing number of state laws with requirements for manufacturers and/or marketers of pharmaceutical products. Some states require the reporting of expenses relating to the marketing and promotion of drug products and the reporting of gifts and payments to individual healthcare practitioners in these states. Other states prohibit various marketing-related activities, such as the provision of certain kinds of gifts or meals. Still other states require the reporting of certain pricing information, including

information pertaining to and justification of launch prices or price increases greater than a specified threshold. In addition, states such as California, Connecticut, Nevada, and Massachusetts require pharmaceutical companies to implement compliance programs and/or marketing codes. Many of these laws contain ambiguities as to what is required to comply with the laws. In addition, as discussed below, a similar federal requirement requires manufacturers to track and report to the federal government certain payments made to teaching hospitals, physicians and certain other types of health care professionals made in the previous calendar year. These laws may affect our sales, marketing and other promotional activities by imposing administrative and compliance burdens on us, and companies that do not comply with these state laws face civil penalties.

Federal law requires that a pharmaceutical manufacturer, as a condition of having its products receive federal reimbursement under Medicaid and Medicare Part B, must pay rebates to state Medicaid programs for all units of its covered outpatient drugs dispensed to Medicaid beneficiaries and paid for by a state Medicaid program under either a fee-for-service arrangement or through a managed care organization. The rebates are based on prices reported to CMS by manufacturers for their covered outpatient drugs (AMP for generic drugs, and AMP and best price for brand drugs). CMS issued final regulations regarding the calculation of AMP and rebates under the Medicaid Drug Rebate Program, effective as of April 1, 2016. The terms of participation in the Medicaid Drug Rebate Program impose an obligation to correct the prices reported in previous quarters, as may be necessary. Any such corrections could result in additional or lesser rebate liability, depending on the direction of the correction. In addition to retroactive rebates, if a manufacturer were found to have knowingly submitted false information to the government, federal law provides for civil monetary penalties for failing to provide required information, late submission of required information, and false information.

A manufacturer must also participate in a federal program known as the 340B drug discount program in order for federal funds to be available to pay for the manufacturer's drugs under Medicaid and Medicare Part B. Under this program, the participating manufacturer agrees to charge certain safety net healthcare providers, known as covered entities, no more than an established discounted price for its covered outpatient drugs. The formula for determining the discounted price is defined by statute and is based on the AMP and the unit rebate amount as calculated under the Medicaid Drug Rebate Program, discussed above. Civil monetary penalties can be imposed on manufacturers for each instance of overcharging a covered entity. Manufacturers are required to report certain pricing information to the Office of Pharmacy Affairs within the Health Resources & Services Administration.

Federal law also requires that manufacturers report data on a quarterly basis to CMS regarding the pricing of drugs that are separately reimbursable under Medicare Part B. These are generally drugs, such as injectable products, that are administered "incident to" a physician service and are not generally self-administered, as well as certain vaccines, oral dosage form chemotherapy and immunosuppressive therapy drugs and drugs used with durable medical equipment such as infusion pumps. The pricing information submitted by manufacturers is used to set payment rates to health care providers and suppliers for drugs covered under Medicare Part B. As with the Medicaid Drug Rebate Program, federal law provides for civil monetary penalties for failing to provide required information, late submission of required information, and false information.

Manufacturers are also required to make their covered drugs, which are generally drugs approved under NDAs or biologics license applications ("BLAs"), available to federal government departments and agencies and other authorized users of the Federal Supply Schedule ("FSS") of the General Services Administration. The law also requires manufacturers to offer discounted FSS contract pricing for purchases of their covered drugs by certain government agencies in order for federal funding to be available for reimbursement or purchase of the manufacturer's drugs under certain federal programs. The discounts are determined based on prices that are calculated and reported to the government by manufacturers. The accuracy of a manufacturer's reported prices may be audited by the government. Among the remedies available to the government for inaccuracies is recoupment of any overcharges to the government. If a manufacturer were found to have knowingly reported false prices, in addition to other penalties available to the government, the law provides for civil monetary penalties per incorrect item.

The PPACA, as well as subsequent legislation, such as the BBA, have had an impact on all segments of the health care industry. Pharmaceutical and medical device manufacturers have seen an increase in revenues by virtue of additional Americans who have access to health insurance beginning in 2014; however, the legislation imposes on manufacturers a variety of additional rebates, discounts and fees that have curtailed that increase in revenues. For example, manufacturers subsidize 70% of the cost of providing brand drugs (approved via an NDA) to Medicare Part D beneficiaries within the coverage gap. As another example, the PPACA increased the minimum Medicaid rebate rate from 15.1% to 23.1% of AMP for most drugs approved under an NDA, and increased the Medicaid rebate from 11% to 13% of AMP for drugs approved under an ANDA. In another example, under the BBA, generic drugs approved under an ANDA are subject to an additional Medicaid rebate if the AMP for a given quarter exceeds the inflation-adjusted baseline AMP, effective for the first calendar quarter of 2017. This price increase penalty previously applied only to innovator drugs. For generic drugs, the baseline AMP will depend on when the drug was launched. For innovator drugs, the baseline AMP is the AMP for the first full quarter after launch. Also, annual fees are imposed on each manufacturer and importer of branded prescription drugs or biologics, based on the ratio of its sales reimbursed or purchased by government agencies to such sales made by all drug manufacturers during the prior year, and based on different sales dollar tiers (the highest being over $400 million in brand sales, and the lowest being at least $5 million in brand sales).

The PPACA also imposed reporting and regulatory requirements. For example, the "sunshine" provisions impose tracking and reporting requirements and public disclosure requirements on a drug manufacturer's payments to physicians and teaching hospitals, and a 2018 amendment has expanded these requirements to include tracking of payments to additional types of health care professionals beginning on January 1, 2021, for reporting in 2022. Annual reports are due in March of each year. The data reported under the "sunshine" provisions are posted in searchable form on a public website.

In addition, the legislation advances the policy of comparative clinical effectiveness research on medical treatments, services and items, including drugs and devices. Taken together, these government health care reform measures may adversely impact the pricing of healthcare products and services in the United States and the amount of reimbursement available from governmental agencies or other third-party payors. Government cost control initiatives could decrease the price that we or any current or potential collaborators could receive for any of our products and could adversely affect our profitability.

Environmental Compliance

We believe that we are currently in compliance with all applicable environmental laws and regulations in all of the countries in which we operate.

C. ORGANIZATIONAL STRUCTURE

The legal and commercial name of our company is Taro Pharmaceutical Industries Ltd. We were incorporated under the laws of the State of Israel in 1959 under the name Taro-Vit Chemical Industries Ltd. In 1984, we changed our name to Taro Vit Industries Ltd., and in 1994, we changed our name to Taro Pharmaceutical Industries Ltd.

The following is a list of our significant subsidiaries and their countries of incorporation as of March 31, 2021:

Name of Subsidiary	Country of Incorporation
Taro Pharmaceuticals U.S.A., Inc.	United States
Taro Pharmaceuticals Inc.	Canada
Taro Pharmaceuticals North America, Inc.	Cayman Islands
Taro Pharmaceuticals Europe B.V.	Netherlands
Taro International Ltd.	Israel

The share capital of Taro U.S.A. is divided into two classes. The Company owns 96.9% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. TDC owns 3.1% of the shares that have economic rights and 50% of the shares that have voting rights in Taro U.S.A. TDC has agreed to vote all of its shares in Taro U.S.A. for such persons as we may designate for any election to its board of directors; however, TDC may terminate the agreement upon one year's written notice.

The Company owns 100% of the shares of Taro International Ltd., Taro Pharmaceuticals North America, Inc., and Taro Canada. The Company owns 99.75% of Taro Pharmaceuticals Europe B.V. and Taro Pharmaceuticals North America, Inc. owns the remaining 0.25%.

Sun beneficially owns 85.2% of the voting power of the Company as of March 31, 2021.

D. PROPERTY, PLANT AND EQUIPMENT

The following is a list of our principal facilities as of March 31, 2021:

Location	Square Footage	Main Use	Own/Lease
Haifa Bay, Israel	912,000	Pharmaceutical manufacturing, production and research laboratories, administration, warehousing and chemical production (including tank farm and chemical finishing plant)	Long-term Lease / Own (1)
Brampton, Canada	159,000	Pharmaceutical manufacturing, production and research laboratories, administration, distribution, and warehousing	Own
Brampton, Canada	89,000	Administration and warehousing	Lease
Hawthorne, New York	124,000	Administrative offices	Own
Cranbury, New Jersey	315,000	Distribution facility	Own

(1) The land housing the majority of our manufacturing, production laboratories and research facilities, as described above is held by the Company under a long-term lease from the Israel Land Authority ("ILA"). The buildings and the vast majority of the equipment on this land are owned by the Company.

From April 1, 2018 through March 31, 2021, we invested $70.6 million in property, plant and equipment. Most of these projects have been completed and are subject to depreciation in accordance with our accounting policy of capitalizing costs that are direct and incremental to the activities required to bring the facilities to commercial production.

Our manufacturing plant, research and office facilities in Haifa Bay, Israel are located in a complex of buildings with an aggregate area of 912,000 square feet. We lease much of the land underlying these facilities from the ILA pursuant to long-term ground leases that expire between 2018 and 2060. In accordance with the regulations of the ILA, the Company is entitled to extend the lease agreement ending 2018 for an additional period of 49 years and is in the process of extending the lease agreement. For additional information, please refer to Note 2.i. and 2.j. to our consolidated financial statements included elsewhere in this 2021 Annual Report.

We have owned our main manufacturing facility in Brampton, Canada since 1992. Since then, we have purchased additional adjacent square footage and engaged in projects to develop and expand the facility to meet our growing manufacturing needs. As of March 31, 2021, we owned a total of 159,000 square feet at our main manufacturing facility. In addition to our owned space, since September 2000, Taro Canada has leased 75,000 square feet of office and warehouse space, adjacent to our main manufacturing facilities, which lease term continues to September 2025. In December 2013, Taro Canada leased an additional 14,000 square feet of warehouse space near the two other facilities, which lease term continues to December 2021.

A subsidiary of Taro U.S.A. has owned its 124,000 square foot building in Hawthorne, New York since February 2005. The mortgage was repaid on this building in December 2015.

A subsidiary of Taro U.S.A. owns a 315,000 square foot distribution facility in Cranbury, New Jersey. The mortgage was repaid on this facility in February 2012. To enhance the management of warehousing and transportation services at and from our Cranbury distribution facility, on December 2, 2020, Taro U.S.A. entered into a services agreement with a leading third-party warehousing and transportation management provider. The transition of services to the third party started in February 2021. Once the transition is completed, the third party will provide warehousing, managed transportation, and other logistics services to the Cranbury distribution facility.

In the pharmaceutical industry, both manufacturing plants and equipment must be constructed and installed in accordance with regulations designed to meet stringent quality and sterility guidelines, among others. In order to meet these requirements, certain validation processes are required to be completed prior to commencing commercial production.

Design qualification (“DQ”), installation qualification (“IQ”), operational qualification (“OQ”), performance qualification (“PQ”) and validation are the steps required by cGMPs to bring plants and/or equipment to the status of their intended use. In the performance of these activities, the Company uses both internal and external resources. The Company capitalizes external costs and those internal costs that are direct and incremental to the activities required to bring the facilities and activities to commercial production.

In the pharmaceutical industry, project life cycles (e.g., the construction of a new manufacturing facility) are typically longer than those in other industries. Such projects are technically complicated due to the highly regulated nature of the industry and the necessity of complying with specific detailed demands of regulatory authorities such as the FDA.

Certain internal resources utilized in bringing these facilities to the status required for their intended use are completely dedicated to these projects. The costs of personnel involved in such a process are capitalized only to the extent that they are directly dedicated to the completion of the facilities.

As described below, the nature of the activities performed by the employees whose salaries were capitalized include only the work and the direct costs associated with the factory acceptance test (“FAT”), the installation of equipment and the qualification and testing of the equipment prior to its commercial use.

The typical stages for defining the beginning and the completion of such construction projects include: planning and design of the facilities; construction; purchase, transportation and installation of equipment; equipment and facility validation (run in tests); and process and product validation.

All new equipment must undergo DQ, IQ, OQ and PQ in order to test and verify, according to written protocols, that all aspects of the equipment meet pre-determined specifications. IQ is defined as the documented evidence that the equipment has been installed according to the approved drawings and specifications. OQ is the documented evidence that all aspects of the equipment and the facility operate as intended within pre-determined ranges, according to the operational specifications. PQ is defined as the documented evidence that all aspects of the facility, utility or equipment that can affect product quality perform as intended in the pre-determined acceptance criteria.

Such qualification and validation activities are required for all equipment and systems that have an impact on or affect product quality and are required prior to commencing commercial production. At the time of installation and validation, all employees who will operate and maintain the equipment from the engineering, technology and maintenance departments are appropriately trained. At this stage in the installation and validation process, experts from the equipment manufacturer are on site, as part of the purchase contract, to provide training to Company employees in the operation and maintenance of the equipment.

This phase, which is necessary to bring the asset to the condition required for its intended use, is handled by a multi-functional team of engineers and technologists. The direct costs are the direct labor and the material consumed during this stage of installation and validation such as bottles, ampoules and raw materials. Incremental costs, which have arisen in direct response to the additional activity, include the expenses directly attributable to any employee’s time fully dedicated to the project in question. After the equipment has passed all DQ, IQ, OQ and PQ tests, it is then tested for its ability to actually manufacture the specific products that are intended to be produced on the equipment. Three consecutive successful validation batches must be produced. This process is performed jointly by the technology and the manufacturing departments. In addition, the cleaning of the equipment must be validated to assure that there is no carry-over residue to the next product to be manufactured using the equipment. Only after the validation batches that are manufactured using the new equipment pass quality control and quality assurance tests can they be released for sale, completing the validation process. No further costs are capitalized. This process is performed for all products.

During the installation process, materials from inventory are consumed. For example, in order to qualify a tablet press machine or an ampoule filling machine, we use raw materials, including APIs and excipients, to run the qualification test. As part of this test, actual tablets are manufactured and costs are incurred. These tablets may neither be distributed nor sold. These qualification procedures are part of cGMPs mandated by the FDA and its international counterparts. The amount of inventory capitalized as part of these projects is less than one percent of the total cost of the assets. We do not capitalize, as part of the asset cost, inventories that are routinely produced in commercial quantities on a repetitive basis.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

The following discussion should be read in conjunction with our consolidated financial statements and related notes for the years ended March 31, 2021, 2020 and 2019, which are included elsewhere in this 2021 Annual Report.

OVERVIEW

We are a multinational, science-based pharmaceutical company. We develop, manufacture and market Rx and OTC pharmaceutical products, primarily in the United States, Canada and Israel. We also develop and manufacture APIs primarily for use in our finished dosage form products. Our primary areas of focus include topical creams and ointments, liquids, capsules and tablets. We operate principally through three entities: Taro Israel and two of its subsidiaries, Taro Canada and Taro U.S.A.

The pharmaceutical industry is affected by demographic and socioeconomic trends, such as aging populations and increased demand for pharmaceuticals, as well as broad economic trends, resulting in a corresponding increase in healthcare costs, effects on reimbursement pricing, and spending decisions of healthcare organizations, all of which lead to increased recognition of the importance of generics as providing access to affordable pharmaceuticals. We believe our business model is appropriately structured to take advantage of these trends.

The following is a breakdown of net sales by geographic region, including the percentage of our total consolidated net sales for each period:

	Year ended March 31,					
	2021		2020		2019	
	Sales (in thousands)	Sales net sales	Sales (in thousands)	% of total net sales	Sales (in thousands)	% of total net sales
United States	$ 383,829	70%	$ 495,673	77%	$ 537,111	80%
Canada	110,167	20%	97,997	15%	83,970	13%
Israel	46,574	8%	42,817	7%	40,050	6%
Other	8,400	2%	8,282	1%	8,762	1%
Total	$ 548,970	100%	$ 644,769	100%	$ 669,893	100%

We generate most of our revenue from the sale of Rx and OTC pharmaceutical products. Portions of our OTC products are sold as private label products primarily to chain drug stores, food stores, drug wholesalers, drug distributors and mass merchandisers in the United States. A significant portion of our revenue is derived from sales to a limited number of customers. If the Company were to experience a significant reduction in or loss of business with one or more of such customers, or if one or more such customers were to experience difficulty in paying us on a timely basis, our business, financial condition, and results of operations could be materially adversely affected. The following customers accounted for the following proportion of our total consolidated net sales:

	Year ended March 31,					
	2021		2020		2019	
Customer	Sales (in millions)	% of total net sales	Sales (in millions)	% of total net sales	Sales (in millions)	% of total net sales
Customer A	$ 69.1	12.6%	*	*	*	*
Customer B	$ 57.9	10.5%	$ 83.9	13.0%	*	*
Customer C	*	*	$ 74.1	11.5%	$ 81.4	12.1%
Customer D	*	*	*	*	$ 74.0	11.0%

*Less than 10%.

Due to increased competition from other generic pharmaceutical manufacturers as they gain regulatory approvals to market generic products, selling prices and related profit margins tend to decrease as products mature. Thus, our future operating results are dependent on, among other factors, our ability to introduce new products. In addition, our operating results are dependent on the impact of pricing pressures on existing products. These pricing pressures are inherent in the generic pharmaceutical industry.

For the years ended March 31, 2021, 2020 and 2019, no product comprised 10% of our total consolidated sales.

Our sales are subject to market conditions and other factors. We are therefore unable to predict the extent, if any, to which the relative contribution to our total revenue of this product line as well as other product lines may increase or decrease in the future.

Cost of goods sold consists of direct costs and allocated costs. Direct costs consist of raw materials, packaging materials, royalties, and direct labor identified with a specific product. Allocated costs are costs not associated with a specific product.

Certain customary industry selling practices affect our level of working capital; for example, industry practice requires that pharmaceutical products be made available to customers on demand from existing stock levels rather than on a made-to-order basis. Therefore, in order to accommodate market demand, we try to maintain adequate levels of inventory. Increased demand for existing products and preparation for new product launches, the exact timing of which cannot be determined accurately, have generally resulted in higher levels of inventory. However, anticipated growth in sales of any individual product, or of all products, may not materialize. Consequently, inventories prepared for these sales may become obsolete and have to be written off.

Another industry practice causes us to provide our customers with limited rights to return products, receive rebates, assert chargebacks and take other deductions with respect to sales that we make to them. See *Item 5.A. – "Operating Results – Critical Accounting Policies – Allowance for Sales Deductions and Product Returns."* The exercise of these rights by customers to whom we have granted them has an impact, which may be substantial, upon our working capital.

We continuously monitor our aged receivables and our customers' creditworthiness. We also engage in active and intensive collection efforts as necessary.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 to our consolidated financial statements, which are prepared in conformity with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate, on an ongoing basis, our estimates, including those related to bad debts, sales deductions, income taxes and contingencies. We base our estimates on currently available information, our historical experience and various other assumptions that we believe to be reasonable under the circumstances. The results of these assumptions are the basis for determining the carrying values of assets and liabilities that are not readily apparent from other sources. Since the factors underlying these assumptions are subject to change over time, the estimates on which they are based are subject to change accordingly.

The following is a summary of certain policies that have a critical impact upon our financial statements and, we believe, are most important to keep in mind in assessing our financial condition and operating results.

Use of Estimates. In preparing the consolidated financial statements, we use certain estimates and assumptions that affect reported amounts and disclosures. These estimates and underlying assumptions can impact all elements of our financial statements. We use estimates when accounting for product returns and sales deductions from revenues, determining the valuation and recoverability of assets (for example: accounts receivables, inventories, and intangible assets), and the reported amounts of accrued liabilities. We regularly evaluate our estimates and assumptions, using historical experience, third-party data, and market and external factors. Our estimates are often based on complex judgments, probabilities and assumptions that we believe to be reasonable but that are inherently uncertain and unpredictable. As future events and their effects cannot be determined with precision, our estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. We adjust our estimates and assumptions when facts and circumstances indicate the need for change. It is possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

Functional Currency Change to USD for Taro Canada. Prior to April 1, 2019, the functional currency of the Company's Canadian subsidiary was the CAD. Accordingly, the financial statements of the Canadian subsidiary were translated into USD. All balance sheet accounts were translated using the exchange rates in effect at the balance sheet date. Amounts recorded in the Consolidated Statements of Operations were translated using the average exchange rate prevailing during the year. The resulting translation adjustments were reported as a component of shareholders' equity under accumulated other comprehensive income.

Effective as of the Company's fiscal year beginning April 1, 2019, Taro Canada's functional currency became the USD. FASB ASC Topic 830, "*Foreign Currency Matters*," requires a change in functional currency to be reported as of the date it is determined there has been a change, and it is generally accepted practice that the change is made at the start of the most recent period that approximates the date of the change. Management determined it would enact this change effective on April 1, 2019. While the change was based on a factual assessment, the determination of the date of the change required management's judgement given the change in the primary economic and business environment, in which Taro Canada operates, have evolved over time. As part of

management's functional currency assessment, changes in economic facts and circumstances were considered. This included analysis of changes in management of operations, process, and composition of cash and marketable securities balances. The Company has centralized different functions, including treasury and investment portfolio measurement, which resulted in a stronger focus on the USD currency for Taro Canada. Additionally, as budgeting has also been centralized for the Company, Taro Canada has implemented budgeting in USD, whereas this was previously performed in CAD. Taro Canada's cash inflows consist primarily of USD cash balances and less of CAD, as also reflected in the budget. The transfer of significant intangible assets to Taro Canada, as a result of the winding down of TNA, has reduced the relevance of the foreign currency position on the balance sheet of Taro Canada. The Group decided to focus Taro Canada's sales market as the US market, with the majority of sales to the US denominated in USD. This was followed by centralizing budgets and facilitating effective netting and hedging activities. Assuming current business operating model stays constant, management believes that the USD cash balances will continue to increase, while CAD cash balances will continue to produce a net outflow.

Management re-evaluated all indicators established in ASC 830-10-55-5 to determine the functional currency of Taro Canada. Such indicators include i) cash flow, ii) sales price, iii) sales market, iv) expense, v) financing and vi) intercompany transactions and arrangements. Management determined that the cash flow indicators and the sales market indicators were most relevant to Taro Canada operations and its primary economic environment. At the time of the assessment adopted on April 1, 2019, cash flows generated by Taro Canada that relate to its individual assets and liabilities now directly affect the Company's cash flows and are readily available for remittance to the Company. The majority of cash flow from Taro Canada's operations is denominated in USD with the sales market for Taro Canada's products now mostly in the U.S. Approximately 75% of Taro Canada's revenue is to the U.S. market with over 80% of Taro Canada's plant production, in terms of units, being produced for the US market. Significant asset and liability line items on Taro Canada's balance sheet are comprised almost solely (greater than 90%) of USD denominated transactions. Furthermore, most of Taro Canada's generated cash flows are now invested in USD based cash and cash equivalents or marketable securities. Since such investments are short-term, cash is readily available for remittance to other Taro entities. Thus, the USD is the primary currency from which Taro Canada generates and accumulates cash.

When considering all relevant facts together, management concluded that the USD best reflects the currency of the primary economic environment in which Taro Canada currently operates. Therefore, USD is the functional currency as a result of the change in the most significant economic facts and circumstances from cash flow and sales market indicators, as well as intra-entity transactions and arrangements, which are material to Taro Canada. As a result, the Company adopted USD as the functional currency for Taro Canada effective April 1, 2019.

The change was accounted for prospectively from the date of the change in accordance with FASB ASC Topic 830. The translated balances of monetary and nonmonetary assets and liabilities recorded in Taro Canada's financial statements as of the end of the prior reporting period became the new accounting basis for those assets and liabilities in the period of the change. To the extent the entity had monetary assets and liabilities denominated in the old functional currency, such balances created transactional gains and losses subsequent to the change in functional currency. The amount recorded in the currency translation adjustment account for prior periods was not reversed upon the change in functional currency. The exchange rate on the date of the change became the historical rate for subsequent re-measurement of nonmonetary assets and liabilities into the new functional currency.

The following table summarizes the impact on both consolidated net income and other comprehensive income (loss) utilizing USD as the functional currency of Taro Canada as of March 31, 2020, compared to the related impact if the functional currency of Taro Canada would have remained CAD (excluding FX from transactions denominated in CAD recorded in the respective period):

	USD as Functional Currency *(in USD)**	**CAD as Functional Currency *(in USD)****
		(Unaudited Pro Forma)
Financial (income) expense, net - attributed to foreign translation gain	$ (14,838)	$ (46,667)
Other comprehensive loss - attributed to foreign currency translation adjustments	$ (1)	$ (92,959)

* Based on consolidated amounts of the Group for the fiscal year ended March 31, 2020, which was the first fiscal year Taro Canada utilized USD as the functional currency. Includes Taro Canada amounts reported in USD with USD as functional currency.

** Based on unaudited pro forma consolidated amounts of the Group for the fiscal year ended March 31, 2020. Includes Taro Canada unaudited pro forma amounts reported in USD with CAD as functional currency.

Revenue Recognition. We sell our products directly to wholesalers, retail drug store chains, mass merchandisers, grocery chains, other direct purchasers and customers that acquire our products indirectly through wholesalers.

The Company ships products to its customers only in response to, and to the extent of, the orders that customers submit to the Company. Depending on the terms of our customer arrangements, revenue is generally recognized when the product is received by the customer ("FOB Destination Point") or at the time of shipment ("FOB Shipping Point").

Allowance for Sales Deductions and Product Returns. When we recognize and record revenue from the sale of our pharmaceutical products, we record an estimate in the same financial reporting period for product returns, chargebacks, rebates and other sales deductions, which are reflected as reductions of the related gross revenue. We regularly monitor customer inventory information at our three largest wholesale customers to assess whether any excess product inventory levels may exist. We review this information along with historical product and customer experience, third-party prescription data, industry and regulatory changes and other relevant information and revise our estimates as necessary.

Our estimates of inventory in the distribution channel are based on inventory information reported to us by our major wholesale customers, historical shipment and return information from our accounting records and third-party data on prescriptions filled. Our estimates are subject to inherent limitations pertaining to reliance on third-party information.

Product returns. Consistent with industry practice, we generally offer our customers the right to return inventory within three to six months prior to product expiration and up to 12 months thereafter (the "return period"). Product returns are identified by their manufacturing lot number. Because we manufacture in bulk, lot sizes are generally large and, therefore, shipments of a particular lot may occur over a one-to-six month period. As a result, although we cannot associate a product return with the actual shipment in which such lot was included, we can reasonably estimate the period (in months) over which the entire lot was shipped and sold. We use this information to estimate the average time period between lot shipment (and sale) and return for each product, which we refer to as the "return lag." The shelf life of most of our products ranges between 18-36 months. Because returns of expired products are heavily concentrated during the return period, and given our historical data, we are able to reasonably estimate return lags for each of our products. These return lags are periodically reviewed and updated, as necessary, to reflect our best knowledge of facts and circumstances. Using sales and return data (including return lags), the Company determines a return rate to estimate our return reserves. We supplement this calculation with additional information including customer and product specific channel inventory levels, competitive developments, external market factors, our planned introductions of similar new products and other qualitative factors in evaluating the reasonableness of our return reserve. We continuously monitor factors that could affect our estimates and revise the reserves as necessary. Our estimates of expected future returns are subject to change based on unforeseen events and uncertainties.

We monitor the levels of inventory in our distribution channels to assess the adequacy of our product returns reserve and to identify potential excess inventory on hand that could have an impact on our revenue recognition. We do not ship products to our wholesalers when it appears that they have an excess of inventory on hand, based on demand and other relevant factors, for that particular product.

Chargebacks. We have arrangements with certain customers that allow them to buy our products directly from wholesalers at specific prices. Typically these price arrangements are lower than the wholesalers' acquisition costs or invoice prices. In exchange for servicing these third party contracts, our wholesalers can submit a "chargeback" claim to us for the difference between the price sold to the third-party and the price at which it purchased the product from us. We generally pay chargebacks on generic products, whereas branded products are typically not eligible for chargeback claims. We consider many factors in establishing our chargeback reserves including inventory information from our largest wholesale customers and the completeness of their reports, estimates of Taro inventory held by smaller wholesalers and distributors, processing time lags, contract and non-contract sales trends, average historical contract pricing, actual price changes, actual chargeback claims received from the wholesalers, Taro sales to the wholesalers and other relevant factors. Our chargeback provision and related reserve varies with changes in product mix, changes in pricing, and changes in estimated wholesaler inventory. We review the methodology utilized in estimating the reserve for chargebacks in connection with analyzing our product return reserve each quarter and make revisions as considered necessary to reasonably estimate our potential future obligation.

Rebates and other deductions. We offer our customers various rebates and other deductions based primarily on their volume of purchases of our products. Chain wholesaler rebates are rebates that certain chain customers claim for the difference in price between what the chain customer paid a wholesaler for a product purchase and what the chain customer would have paid if such customer had purchased the same product directly from us. Cash discounts, which are offered to our customers, are generally 2% of the gross sales price, and provide our customers an incentive for paying within a specified time period after receipt of invoice. Medicaid rebates are earned by states based on the amount of our products dispensed under the Medicaid plan. Billbacks are special promotions or discounts provided over a specific time period to a defined customer base, and for a defined product group. Distribution allowances are a fixed percentage of gross purchases for inventory shipped to a national distribution facility that we pay to our top wholesalers on

a monthly basis. Administration fees are paid to certain wholesalers, buying groups, and other customers for stocking our products and managing contracts and servicing other customers. Shelf stock adjustments, which are customary in the generic pharmaceutical industry, are based on customers' existing levels of inventory and the decrease in the market price of the related product. When market prices for our products decline, we may, depending on our contractual arrangements, elect to provide shelf-stock adjustments and thereby allow our customers with existing inventories to compete at the lower product price. We use these shelf-stock adjustments to support our market position and to promote customer loyalty.

The Company establishes reserves for rebates and these other various sales deductions based on contractual terms and customer purchasing activity, tracking and analysis of rebate programs, processing time lags, the level of inventory in the distribution channel and other relevant information. Based on our historical experience, substantially all claims for rebates and other sales deductions are received within 24 months.

Three-year summary

The following tables summarize the activities for sales deductions and product returns for the years ended March 31, 2021, 2020 and 2019:

For the year ended March 31, 2021

	Beginning balance	Provision recorded for current period sales (1)	Credits processed/ Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (104,552)	$ (1,173,810)	$ 1,159,272	$ (119,090)
Rebates and Other	(70,630)	(180,079)	174,140	(76,569)
Total	$ (175,182)	$ (1,353,889)	$ 1,333,412	$ (195,659)
Current Liabilities				
Returns	$ (61,406)	$ (37,011)	$ 46,181	$ (52,236)
Other (2)	(41,562)	(26,036)	49,038	(18,560)
Total	$ (102,968)	$ (63,047)	$ 95,219	$ (70,796)

For the year ended March 31, 2020

	Beginning balance	Provision recorded for current period sales (1)	Credits processed/ Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (109,763)	$ (1,104,946)	$ 1,110,157	$ (104,552)
Rebates and Other	(113,657)	(305,098)	348,125	(70,630)
Total	$ (223,420)	$ (1,410,044)	$ 1,458,282	$ (175,182)
Current Liabilities				
Returns	$ (63,818)	$ (37,258)	$ 39,670	$ (61,406)
Other (2)	(33,497)	(77,537)	69,472	(41,562)
Total	$ (97,315)	$ (114,795)	$ 109,142	$ (102,968)

For the year ended March 31, 2019	Beginning balance	Provision recorded for current period sales (1)	Credits processed/ Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (116,632)	$ (1,086,800)	$ 1,093,669	$ (109,763)
Rebates and Other	(133,221)	(377,568)	397,132	(113,657)
Total	$ (249,853)	$ (1,464,368)	$ 1,490,801	$ (223,420)
Current Liabilities				
Returns	$ (70,865)	$ (38,247)	$ 45,294	$ (63,818)
Other (2)	(40,968)	(64,405)	71,876	(33,497)
Total	$ (111,833)	$ (102,652)	$ 117,170	$ (97,315)

(1) Includes immaterial amounts of reversals of provisions recorded for prior years' sales.
(2) Includes indirect rebates and amounts due to customers.

Inventory. Inventories are stated at the lower of cost or market. Cost is determined as follows: raw and packaging materials mainly on a weighted-average cost basis; finished goods products and products still in process, mainly on a weighted-average production cost including direct and indirect, or overhead, manufacturing expenses. Our finished goods inventories generally have a limited shelf life and are subject to obsolescence as they approach their expiration dates. As a result, we record a reserve against our entire finished goods inventory with expiration dates of less than 12 months and use historical experience to estimate the reserve for products with expiration dates of more than 12 months from the balance sheet date. When available, we use actual data to validate our estimates. We regularly evaluate our policies and the carrying value of our inventories and establish a reserve against the carrying value of our inventories. The determination that a valuation reserve is required, as well as the appropriate level of such reserve, requires us to utilize significant judgment. Although we make every effort to ensure the accuracy and reasonableness of our forecasts of future demand for our products, any significant unanticipated decreases in demand, or unanticipated changes in our major customer inventory management policies, could have a material impact on the carrying value of our inventories and reported operating results.

Valuation of Long-Lived Assets and Goodwill. We evaluate our long-lived assets for impairment and perform annual impairment testing for goodwill and other indefinite-lived intangible assets and other long-lived assets on March 31, when impairment indicators exist. Impairments are recorded for the excess of a long-lived assets' carrying value over fair value. Some examples of impairment indicators are as follows:

- Changes in legal or business climate that could affect an asset's value. For example, a failure to gain regulatory approval for a product or the extension of an existing patent that prevents our ability to produce a generic equivalent.
- Changes in our ability to continue using an asset. For example, restrictions imposed by the FDA could reduce our production and sales volume.
- Decreases in the pricing of our products. For example, consolidation among our wholesale and retail customers could place further downward pressure on the prices of some of our products.

We estimate the fair value of our long-lived assets other than goodwill, such as product rights, using a discounted cash flow analysis or market approach where appropriate when required under applicable U.S. GAAP. Under the discounted cash flow method, we estimate cash flows based on our forecasts and discount these cash flows using the appropriate rate to determine the net present value of the asset. The net present value of our assets is affected by several estimates, such as:

- The timing and amount of forecasted cash flows
- Discount rates
- Tax rates
- Regulatory actions
- Amount of competition
- Manufacturing efficiencies
- The number and size of our customers

For the years ended March 31, 2021, 2020 and 2019, the Company did not record any impairment charges.

Effective for the Company's fiscal year beginning April 1, 2020, fair value of goodwill is estimated using a one-step method in accordance with ASU 2017-04. We compare the market value of our equity to the carrying value of our equity. If the carrying value exceeds the market value of our equity, impairment will be recorded for the difference. We did not record any impairment of goodwill for the years ended March 31, 2021, 2020 and 2019.

Income Taxes. We determine deferred taxes by utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax basis of assets and liabilities under the applicable tax laws. Deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. On an annual basis, management determines if it is more likely than not that we will not benefit from the deferred tax assets in certain subsidiaries. For any locations where this is determined, a full valuation allowance is provided against the deferred tax assets. In future years, if it is more likely than not that we will be in a position to utilize its deferred tax asset, the valuation allowance for such assets may be modified.

Recent Accounting Pronouncements that were recently adopted

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820)*." The guidance focuses on modification of disclosures, which includes the consideration of costs and benefits. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year. The adoption of ASU 2018-13 does not have a material impact on our financial position or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles – Goodwill and Other (Topic 350)*." The new guidance reduces the complexity of goodwill impairment tests by no longer requiring entities to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a modification reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year on a prospective basis. The adoption of ASU 2017-04 does not have a material impact on our financial position or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326)*." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Guidance in Topic 326 applies to our financial instruments, such as investments that are generally of high credit quality and trade receivables. Prior to Topic 326, under U.S. GAAP, an entity generally considered past events and current conditions when measuring credit losses. The new guidance requires an entity to measure the allowance for expected credit losses by utilizing information, including historical data and current economic conditions, plus the use of reasonable supportable forecasts. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year. The adoption of ASU 2016-13 does not have a material impact on our financial position or results of operations.

Recent Accounting Pronouncements that may have an impact on future consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848)." The guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU No. 2021-01, "Reference Rate Reform - Scope (Topic 848)" which focuses on expanding the scope of Topic 848 to include derivative instruments impacted by discounting transition. The guidance will be effective for the Company fiscal year beginning April 1, 2021, including interim periods within that year. The Company is currently assessing the impact of the adoption on our financial position and results of operations.

In December 2019, the FASB issued ASU No. 2019-12, "*Simplifying the Accounting for Income Taxes (Topic 740)*." The guidance focuses on simplifying accounting for income taxes by removing certain exceptions and simplifying certain requirements under Topic 740. The guidance will be effective for the Company's fiscal year beginning April 1, 2021. The Company does not currently anticipate the adoption to have a material impact on our financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-14, "*Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20)*." The guidance focuses on additional disclosure of reasons for significant gains and losses to changes in the benefit obligation for the period, in addition to removal and clarification of existing disclosures. The guidance will be effective for the Company fiscal year beginning April 1, 2021, on a retrospective basis. The Company does not currently anticipate the adoption to have a material impact on our financial position or results of operations.

RESULTS OF OPERATIONS

The following table sets forth selected items from our Consolidated Statements of Operations as a percentage of total sales:

	For the year ended March 31,		
	2021	**2020**	**2019**
Consolidated Statements of Operations			
Sales, net	100.0%	100.0%	100.0%
Cost of sales	46.0%	38.0%	33.5%
Gross profit	54.0%	62.0%	66.5%
Operating expenses:			
Research and development	11.0%	9.3%	9.4%
Selling, marketing, general and administrative	16.6%	14.5%	13.4%
Settlements and loss contingencies	101.8%	0.0%	(0.5%)
Total operating expenses	129.4%	23.8%	22.3%
Operating (loss) income	(75.4%)	38.2%	44.2%
Financial income, net	(3.6%)	(7.5%)	(8.8%)
Other gain, net	0.5%	0.5%	0.3%
(Loss) income before income taxes	(71.2%)	46.2%	53.3%
Tax expense	1.8%	8.3%	11.2%
Net (loss) income	**(73.0%)**	**37.9%**	**42.1%**
Net (loss) income attributable to non-controlling interest	(2.6%)	*	0.1%
Net (loss) income attributable to Taro	**(70.4%)**	**37.9%**	**42.2%**

* Less than 0.05%

YEAR ENDED March 31, 2021 COMPARED WITH YEAR ENDED March 31, 2020

Sales. For the year ended March 31, 2021, sales decreased $95.8 million, or 14.9%, compared to the same period in 2020. Sales in the United States during the year ended March 31, 2021, decreased $111.8 million or 22.6%, compared to the same period in 2020. We continue to experience a difficult generic pricing environment, particularly in the U.S., driven by more intense competition among manufacturers, new entrants to the market, buying consortium pressures, and a higher ANDA approval rate from the FDA. The United States generic and OTC sales during the year ended March 31, 2021, was also negatively impacted by the COVID-19 pandemic. There are no products in the year ended March 31, 2021 or 2020 that represent more than 10.0% of consolidated net sales. The Company actively manages its product portfolio to assess pricing relative to market dynamics. Sales in Israel and other international markets increased $3.9 million, or 7.6%, primarily due to new launches and increased market share on certain products. Sales in Canada increased $12.2 million, or 12.4%, compared to the year ended March 31, 2020, due to new launches and increased market share on certain products.

Cost of Sales. Cost of sales of $252.3 million, or 46.0% of net sales, in the year ended March 31, 2021, increased $7.3 million compared to $245.0 million, or 38.0% of net sales in the same period in 2020. This increase is primarily related to one-time costs and the challenging pricing environment affecting net selling price, offset by lower royalties and lower product costs due to sales volumes.

Gross Profit. The Company's gross profit was $296.7 million, or 54.0% of net sales, in the year ended March 31, 2021, while gross profit was $399.7 million, or 62.0% of net sales in the same period in 2020. The decrease in 2021 was primarily the result of product mix, pricing pressure in the U.S. generic business, and negative impact from the COVID-19 pandemic.

Research and Development. Research and development ("R&D") expenses increased $0.4 million in the year ended March 31, 2021, compared to the previous year. This increase is principally due to timing and types of clinical studies and our continuous evaluation and rationalization of our portfolio. As a percentage of net sales, R&D expenses increased 1.7% to 11.0% in the year ended March 31, 2021, compared to the previous year.

Selling, Marketing, General and Administrative. In the year ended March 31, 2021, selling, marketing, general and administrative ("SMG&A") expenses decreased $2.1 million. This decrease is primarily related to lower personnel costs, legal fees, and marketing delays, in addition to higher insurance and other one-time expenses, partially offset by higher freight costs, depreciation, and COVID-19 related expenses. As a percentage of net sales, SMG&A increased to 16.6% from 14.5%.

Settlements and Loss Contingencies. Settlements and loss contingencies was $558.9 million in the year ended March 31, 2021, compared to $0.0 million in the year ended March 31, 2020, primarily due to the one-time settlement charge consisting of $418.9 million related to the global resolution of the Department of Justice ("DOJ") investigations into the U.S. generic pharmaceutical industry and an additional provision of $140.0 million related to ongoing multi-jurisdiction civil antitrust matters. However, there can be no assurance as to the ultimate outcome.

Operating (Loss) Income. In the year ended March 31, 2021, the Company had operating (loss) of $(413.8) million compared to operating income of $246.5 million in the same period in 2020, a decrease of $660.3 million. The (loss) is primarily the result of the aforementioned settlements and loss contingencies in 2021.

Financial Income, Net. Financial income, net, results principally from interest income and the impact of foreign currency exchange rate fluctuations. Net financial income was $19.8 million in the year ended March 31, 2021, compared to $48.5 million for the year ended March 31, 2020. The change in financial income, net, is the result of FX income of $0.4 million in 2021, compared to FX income of $14.8 million in 2020 ─ an unfavorable impact of $14.4 million. Interest and other financial income was $20.2 in 2021, compared to $33.6 in 2020, a decrease of $13.4 million, reflecting the low global interest rate environment.

Taxes. Tax expense in the year ended March 31, 2021 was $9.7 million, compared to $53.5 million in the same period in 2020, a decrease of $43.8 million, principally the result of non-recurring items in the current year. The effective tax rate decreased to (2.5)% from 17.9%, primarily as a result of the non-deductible portion of settlements.

Net (Loss) Income attributable to Taro. Net (loss) income decreased $630.9 million to net (loss) of $(386.7) million for the year ended March 31, 2021, compared to net income of $244.2 million in the prior year, by reason of the factors noted above.

YEAR ENDED March 31, 2020 COMPARED WITH YEAR ENDED MARCH 31, 2019

Sales. For the year ended March 31, 2020, sales decreased $25.1 million, or 3.7%, compared to the same period in 2019. Sales in the United States during the year ended March 31, 2020 decreased $41.4 million or 7.7%, compared to the same period in 2019. We continue to experience a difficult generic pricing environment, particularly in the U.S., driven by more intense competition among manufacturers, new entrants to the market, buying consortium pressures, and a higher ANDA approval rate from the FDA. There are no products in the year ended March 31, 2020 or 2019 that represent more than 10.0% of consolidated net sales. The Company actively manages its product portfolio to assess pricing relative to market dynamics. Sales in Israel and other international markets increased $2.3 million, or 4.7%, primarily due to new launches and increased market share on certain products. Sales in Canada increased $14.0 million, or 16.7%, compared to the year ended March 31, 2019, due to Taro's distribution of Sun and Ranbaxy products in Canada beginning in the year ended March 31, 2019, and new launches and increased market share on certain products. Total Company volumes increased 3.2% as compared to 2019.

Cost of Sales. Cost of sales, as a percentage of net sales, increased to 38.0% in the year ended March 31, 2020, compared to 33.5% in 2019. This increase is primarily related to higher product costs due to increased sales volumes compared to prior year, one-time costs and the challenging pricing environment affecting net selling price.

Gross Profit. The Company's gross profit was $399.7 million, or 62.0% of net sales, in the year ended March 31, 2020, while gross profit was $445.7 million, or 66.5% of net sales in the same period in 2019. The decrease in 2020 was primarily the result of the product mix throughout the year.

Research and Development. R&D expenses decreased $3.5 million in the year ended March 31, 2020, compared to the previous year. This decrease is principally due to timing and types of clinical studies and our continuous evaluation and rationalization of our portfolio. As a percentage of net sales, R&D expenses decreased 0.1% to 9.3% in the year ended March 31, 2020, compared to the previous year.

Selling, Marketing, General and Administrative. In the year ended March 31, 2020, selling, marketing, general and administrative ("SMG&A") expenses increased $3.4 million. As a percentage of net sales, SMG&A increased to 14.5% from 13.4%. This increase is primarily related to increased legal fees and freight costs, in addition to higher insurance and other one-time expenses, partially offset by an overall decrease in personnel costs.

Settlements and Loss Contingencies. Settlements and loss contingencies income was $0.0 million in the year ended March 31, 2020, compared to an income of $3.7 million in 2019, primarily due to a settlement on IP litigation in Israel in 2019.

Operating Income. In the year ended March 31, 2020, the Company had operating income of $246.5 million compared to $296.2 million in the same period in 2019, a decrease of $49.7 million. Operating income, as a percentage of sales, decreased to 38.2% in the year ended March 31, 2020 from 44.2% in the same period in 2019.

Financial (Income) Expense, Net. Financial (income) expense, net, results principally from interest income and the impact of foreign currency exchange rate fluctuations. Net financial income was $48.5 million in the year ended March 31, 2020, compared to income of $58.9 million for the year ended March 31, 2019. The change in financial (income) expense, net, is the result of FX income of $14.8 million in 2020, compared to FX income of $25.3 million in 2019 ─ an unfavorable impact of $10.5 million, principally the result of the commencement of hedging accounting in accordance with ASU No. 2017-12 and the change in our Canadian subsidiary's functional currency to the U.S. dollar. Taro Canada's FX income decreased $12.5 million compared to 2019, offset by an increase in interest and other financial income of $0.1 million from $33.5 million in 2019, to $33.6 million in 2020.

Taxes. Tax expense in the year ended March 31, 2020 was $53.5 million, compared to $74.7 million in the same period in 2019, a decrease of $21.2 million, principally the result of non-recurring items in the current year. The effective tax rate decreased to 17.9% from 20.9%.

Net Income attributable to Taro. Net income decreased $37.5 million to $244.2 million for the year ended March 31, 2020, compared to $281.8 million in the prior year, by reason of the factors noted above**.**

IMPACT OF INFLATION, DEVALUATION (APPRECIATION) AND EXCHANGE RATES ON RESULTS OF OPERATIONS, LIABILITIES AND ASSETS

We conduct manufacturing, marketing and research and development operations primarily in Israel, Canada and the United States. As a result, we are subject to risks associated with fluctuations in the rates of inflation and foreign exchange in each of these countries.

The following table sets forth the annual rate of (deflation) inflation, the (appreciation) devaluation rate of the NIS and the CAD against the USD and the exchange rates between the USD and each of the NIS and the CAD at the end of the period indicated:

	Rate of (Deflation) Inflation		Rate of (Appreciation) Devaluation Against USD		Rate of Exchange of USD	
Period ended	**Israel (1)**	**Canada (2)**	**Israel (1)**	**Canada (2)**	**Israel (1)**	**Canada (2)**
3/31/2021	0.20%	2.20%	(6.72%)	(10.64%)	3.33	1.26
3/31/2020	0.00%	0.89%	(1.65%)	6.02%	3.57	1.41
3/31/2019	1.40%	1.88%	3.42%	3.10%	3.63	1.33

(1) Bank of Israel.
(2) J.P. Morgan Chase.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash, including short-term marketable securities, decreased $85.1 million from March 31, 2020 to $1,023.7 million at March 31, 2021. Total shareholders' equity decreased from $2,109.8 million at March 31, 2020, to $1,695.5 million at March 31, 2021.

On November 5, 2018, the Company announced that its Board of Directors declared a $500 million special cash dividend on Taro ordinary shares. The special dividend of $12.86 was paid on December 28, 2018, to shareholders of record at the close of business on December 11, 2018.

On November 4, 2019, the Company announced that its Board of Directors approved a $300 million share repurchase of ordinary shares. On November 15, 2019, the Company commenced a modified "Dutch auction" tender offer to repurchase up to $225 million in value of its ordinary shares. In accordance with the terms and conditions of the tender offer, which expired on December 16, 2019, the Company accepted for payment 280,719 ordinary shares at the final purchase price of $91.00 per share. During the year ended March 31, 2021, in accordance with a Rule 10b5-1 program, the Company repurchased 332,033 shares at an average price of $75.23 per share. Through May 31, 2021, under the $300 million authorization, the Company has repurchased, in total, 788,727 shares (280,719 shares at an average price of $91.00 and 508,008 shares at an average price of $74.70), leaving $236.5 million remaining under the current board authorization.

Net cash provided by operating activities for the year ended March 31, 2021 was $45.8 million, compared to $271.6 million, in the year ended March 31, 2020. For the year ended March 31, 2021, the Company had net cash provided by investing activities of $67.7 million compared to net cash used in investing activities of $298.2 million for the year ended March 31, 2020. For the year ended March 31, 2021, the Company had net cash used in financing activities of $24.2 million compared to $27.0 million for the year ended March 31, 2020.

The change in our liquidity for the year ended March 31, 2021 resulted from a number of factors, including:

- Net cash provided by operating activities consists primarily of an increase in other accounts payable and accrued expenses of $454.6 million; an increase in trade payables of $32.3 million; depreciation and amortization of $23.7 million; decrease in trade receivables of $21.7 million; and a loss from marketable securities of $5.3 million. This was offset by net (loss) of $(400.7) million; deferred income taxes, net of $38.4 million; increase in inventories, net of $27.2 million; increase in income tax receivables of $9.1 million; increase in other receivables, prepaid expenses, and other of $7.2 million; foreign exchange effect of marketable securities and bank deposits of $4.6 million; and a decrease in income tax payables $4.4 million.
- Net cash provided by investing activities consists principally of proceeds from marketable securities of $1,217.4 million; offset by investment in marketable securities of $1,132.5 million; and purchase of property, plant, and equipment of $17.0 million.
- Net cash used in financing activities consists of purchase of treasury stock for $24.2 million, in accordance with our repurchase program.

Debt

As of March 31, 2021, the Company did not have any debt outstanding.

During the year ended March 31, 2021, we did not incur any indebtedness, including increases in our borrowing capacity under any refinancing.

Liquidity

On March 31, 2021**,** we had total cash and cash equivalents and short-term marketable securities of $1.0 billion and no indebtedness. We expect that existing cash resources and cash from operations will be sufficient to finance our foreseeable working capital requirements. None of our cash and cash equivalents is held captive by any financial covenants or government regulation. As of March 31, 2021 and 2020, we had no commitment for capital expenditures which we consider to be material to our consolidated financial position. The Company had no available and undrawn credit facilities in place at March 31, 2021.

Capital Expenditures

We invested $17.0 million in capital equipment and facilities in the year ended March 31, 2021 and $26.6 million in the year ended March 31, 2020. These investments are principally related to our pharmaceutical and chemical manufacturing facilities, expanding and upgrading our research and development laboratories in Israel and Canada, expanding our serialization capabilities, and maintaining compliance with cGMPs. In addition to facility-related investments, we acquired certain research and development, manufacturing, and packaging equipment to increase production capacity. We also continued to upgrade our information systems infrastructure to enable more efficient production scheduling and enhanced inventory analysis. (*See Note 7 to our consolidated financial statements included in this 2021 Annual Report.)*

C. RESEARCH AND DEVELOPMENT, PATENTS, TRADEMARKS AND LICENSES

We believe that our research and development activities have been a principal contributor to our achievements to date and that our future performance will depend, to a significant extent, upon the results of these activities.

Recruiting talented scientists is essential to the success of our research and development programs. Approximately 18% of our employees work in our worldwide research and development programs.

We currently conduct research and development in three principal areas:

- generic pharmaceuticals, where our programs have resulted in our developing and introducing a wide range of pharmaceutical products (including tablets, sachets, capsules, suspensions, solutions, syrups, sprays, foams, creams, ointments and gels) that are equivalent to numerous brand-name products whose patents and FDA exclusivity periods have expired or been challenged under the Hatch-Waxman Act;
- proprietary pharmaceuticals; and
- organic and steroid chemistry, where our programs have enabled us to synthesize the active ingredients used in many of our products.

For the years ended March 31, 2021, 2020 and 2019, we spent $60.2 million, $59.8 million and $63.2 million, respectively, on research and development activities. We estimate that research and development expenses were allocated 70% to generic pharmaceuticals, 20% to proprietary pharmaceuticals and delivery systems and 10% to organic and steroid chemistry for the year ended March 31, 2021.

Pharmaceutical Products

In the year ended March 31, 2021, we received 10 ANDA final approvals. As of March 31, 2021, we have 4 tentatively approved products developed/manufactured in Canada and Israel. The following table sets forth the final approvals received in the United States from the FDA from April 1, 2020 through March 31, 2021, and tentative approvals as of March 31, 2021:

FINAL ANDA APPROVALS

	Brand Name
Imiquimod Topical Cream 3.75%	Zyclara®
Clocortolone Pivalate Topical Cream 0.1%	Cloderm®
Ivermectin Topical Lotion 0.5%	Sklice®
Doxepin Capsules 10mg; 25mg; 50mg; 75mg; 100mg	Sinequan®
Acetaminophen; Butalbital; Caffeine Capsules 300mg; 50mg; 40mg	Fioricet®
Betamethasone Dipropionate; Calcipotriene Scalp Suspension 0.064%; 0.005%	Taclonex®
Mupirocin Calcium Topical Cream 2%	Bactroban®
Betamethasone Dipropionate Topical Spray 0.005%	Sernivo®
Clindamycin Topical Gel 1%	Cleocin T®
Clobetasol Shampoo 0.05%	Clobex®

TENTATIVE ANDA APPROVALS

Magnesium Sulf.; Potassium Sulf.; Sodium Sulf. Oral Solution 1.6g/3.13g; 17.5g/bottle	Suprep Bowel Prep Kit®
Tavaborole Topical Solution 5%	Kerydin®
Perampanel Tablets 2mg, 4mg, 6mg, 8mg, 10mg, 12mg	Fycompa®
Diclofenac Sodium Topical Solution 2%*	Pennsaid®

*Indicates tentative approval received during the year ended March 31, 2017.

As of March 31, 2021, 17 of our ANDAs, not including the tentative approvals listed above, were being reviewed by the FDA. In addition, there are multiple products for which either developmental or internal regulatory work is in process. The applications pending before the FDA are at various stages in the review process, and there can be no assurance that we will be able to successfully complete any remaining testing or that, upon completion of such testing, approvals for any of the applications currently under review at the FDA will be granted. In addition, there can be no assurance that the FDA will not grant approvals for competing products.

Patents, Trademarks and Licenses

We have filed and received patents, and obtained licenses in the United States and other countries for a variety of products, processes, formulations, syntheses, and methods of treatment.

We do not believe that any single patent is of material importance to us in relation to our current commercial activities.

We have registered trademarks in the United States, Canada and other countries. Taro U.S.A. typically does not use product trademarks in the sale and marketing of its generic multi-source non-innovator products.

From time to time, we seek to develop products for sale in various countries prior to patent expiration. In the United States, in order to obtain a final approval for a generic product prior to expiration of certain innovator's patents, we must, under the terms of the Hatch-Waxman Act, as amended by the Medicare Prescription Drug Improvement and Modernization Act of 2003, notify the patent holder as well as the owner of an NDA, that we believe that the patents listed in the Orange Book for the new drug are either invalid or not infringed by our product. To the extent that we seek to utilize this mechanism to obtain approval to sell products, we are involved and expect to be involved in patent litigation regarding the validity, enforceability or infringement of patents listed in the Orange Book, as well as other patents, for a particular product for which we have sought approval. We may also be involved in patent litigation with third parties to the extent that claims are made that our finished product, an ingredient in our product or our manufacturing process, may infringe the innovator's or third party's process patents. We may also become involved in patent litigation in other countries where we conduct business, including Israel, Canada and various countries in Europe. From time to time, we may settle such litigations and obtain licenses to the asserted patents that allow us to market our products.

D. TREND INFORMATION

See Item 4 – "Information on the Company" and Item 5 – "Operating and Financial Review and Prospects" for trend information.

E. OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table describes the payment schedules of our contractual obligations as of March 31, 2021:

	Payments due by period (in millions)				
Type of Contractual Obligation	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 3.02	$ 1.28	$ 1.29	$ 0.45	$ —
Other long-term liabilities (1)	35.11	30.11	2.72	1.48	0.80
Total	$ 38.13	$ 31.39	$ 4.01	$ 1.93	$ 0.80

(1) Includes tax liabilities, deferred revenue, severance commitments, and other.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table lists our directors and executive officers as of March 31, 2021:

Name	Age	Position
Dilip Shanghvi	65	Director and Chairman of the Board
Abhay Gandhi	56	Director and Vice Chairman of the Board
Sudhir Valia	64	Director
Uday Baldota	51	Director and Chief Executive Officer
Linda Benshoshan	55	Director and Chairwoman of the Audit Committee
Robert Stein, M.D., Ph.D.	70	Director
Dov Pekelman	81	Director and Chairman of the Social Responsibility Committee
James Kedrowski	69	Director
Daphne Huang	50	Vice President, Chief Financial Officer and Chief Accounting Officer
Erik Zwicker	41	Vice President, General Counsel and Secretary
Avi Avramoff, Ph.D.	56	Vice President, Head of R&D
Itamar Karsenti	49	Vice President, Head of Operations
Michele Visosky	55	Vice President, Head of Human Resources
Jayesh Shah	65	Head of Procurement
Victoria Chester*	56	Vice President, Head of Quality
Vikash Agarwal**	46	Vice President, Head of Business Development

* Joined the Company on January 4, 2021.

** Joined the Company on December 29, 2020.

Certain Familial Relationships

Mr. Sudhir Valia is a brother-in-law of Mr. Dilip Shanghvi. Mr. Dilip Shanghvi is the beneficial majority owner of Sun.

Business Experience

Dilip Shanghvi became the Chairman of the Taro Board in August 2013, after previously serving as Director and Chairman from September 2010 to April 2012. He is the founder and Managing Director of Sun Pharma and has extensive industrial experience in the pharmaceutical industry. A first generation entrepreneur, Mr. Shanghvi has won numerous awards and recognitions, including the 2017 Entrepreneur of the Year Award from AIMA (All India Management Association), the 2016 PADMA SHRI (Fourth Highest Civilian Award in the Republic of India) from the Government of India and the 2016 NDTV Business Leadership Award (Pharmaceutical), as well as various other awards including, the Forbes Entrepreneur of the Year award in 2014, Outstanding Business Leader of the Year from CNBC TV18 in 2014, the Economic Times' Business Leader of the Year Award in 2014, the JRD TATA Corporate Leadership Award AIMA (All India Association) in 2014, CNN IBN's Indian of the Year (Business) in 2011, Business India's Businessman of the Year in 2011 and Ernst and Young's World Entrepreneur of the Year in 2011. He has also been awarded the Entrepreneur of the Year, Ernst and Young in 2010, CNBC TV 18's First Generation Entrepreneur of the Year in 2007 and Entrepreneur of the Year (Healthcare and Life Sciences), Ernst and Young in 2005. A prestigious non-profit management association of India, Indore Management Association (IMA), presented Mr. Shanghvi with the IMA Lifetime Outstanding Achievement Award in 2018. Tel Aviv University, Israel's largest and most comprehensive institution of higher learning, granted Mr. Shanghvi an honorary doctorate in 2019. Chemtech Foundation presented Mr. Shanghvi with the "Lifetime Achievement" - Chemtech CEO Leadership & Excellence Award for 2019. Mr. Shanghvi is a Director of various companies, including Shantilal Shanghvi Foundation and is also the Chairman and Managing Director of Sun Pharma Advanced Research Company Ltd.

Abhay Gandhi became a Director in December 2016 and Vice Chairman of the Taro Board in February 2017. Mr. Gandhi has served as Chief Executive Officer of Sun Pharmaceutical Industries, Inc. ("Sun Pharmaceuticals") since November 2016. Mr. Gandhi also served as Interim Chief Executive Officer of Taro from January 2017 until Mr. Uday Baldota's assumption of these duties in August 2017. Prior to joining Sun Pharmaceuticals, Mr. Gandhi served as a Director starting in November 2014, and as the CEO – India Subcontinent, of Sun Pharmaceutical Laboratories Ltd. ("SPLL") starting in November 2013, where he was responsible for domestic operations of the business as well as certain international markets, including sales & marketing, integration efforts, business development, portfolio management and other allied functions. Prior to that appointment, Mr. Gandhi was President – India Subcontinent of SPLL from March 2012 to November 2013, Executive Vice President – International Marketing from April 2007 to March 2012 and has served in various other positions within the Sun Pharma organization for over 20 years. Prior to joining Sun Pharma, Mr. Gandhi held positions at Boehringer Mannheim Gmbh, and Nestle India Ltd. From 2013 to 2015, he was a Member of

the Executive Committee of the Indian Drug Manufacturers Association (IDMA) and a Member of the Confederation of Indian Industry (CII) National Committee on Drugs and Pharmaceuticals from 2013 to 2014. Mr. Gandhi holds a Bachelor of Science and a Masters in Marketing Management from the University of Mumbai, and a Diploma in Business Management from the Institute of Chartered Financial Analysts of India (ICFAI University).

Sudhir Valia became a member of the Taro Board in September 2010. Mr. Valia joined Sun Pharma as a director in January 1994 and was a whole-time director until May 2019. He is now a non-executive director of Sun Pharma. Mr. Valia is the recipient of the CNBC TV 18's CFO Awards for best performing CFO in the Pharma/Healthcare sector in 2012, 2009 and 2006. He also received the "Adivasi Sevak Puraskar" award from the Government of Maharashtra in 2008-2009. Prior to joining Sun Pharma, Mr. Valia was a chartered accountant in private practice. Mr. Valia is a Director of various companies, including Shantilal Shanghvi Foundation and Sun Pharma Advanced Research Company Ltd. Mr. Valia is a qualified chartered accountant in India.

Uday Baldota became a member of the Taro Board in December 2016 and assumed the role of Chief Executive Officer in August 2017. He continues as a member of the global Core Management Team of Sun Pharma. Mr. Baldota serves on the board of directors of the Association for Accessible Medicines. Mr. Baldota was formerly Executive Vice President & Chief Financial Officer of Sun Pharma. He led their global Finance function from June 2012 and was designated as the Chief Financial Officer in August 2014. From June 2005 to May 2012, Mr. Baldota served in various leadership positions as a Vice President and later Senior Vice President reporting to the Chairman and Managing Director of Sun Pharma. Mr. Baldota's areas of responsibility over his tenure at Sun Pharma have included accounting, M&A, business finance, tax, treasury, insurance, controllership, legal, corporate secretarial, corporate communication and internal audit. Mr. Baldota was the Vice President Purchasing of Lafarge India Limited from March 2003 to June 2005 and served as its Head of Information Technology from November 1999 to March 2003. Prior to that, Mr. Baldota served in various IT and marketing roles with Sun Pharma between May 1995 and November 1999. Mr. Baldota earned a Bachelor of Technology in Chemical Engineering from Indian Institute of Technology, Delhi, and a Masters of Business Administration from the Indian Institute of Management, Ahmedabad.

Linda Benshoshan became a member of the Taro Board in December 2016 and serves as the Chairwoman of the Audit Committee and the Chairwoman of the Compensation Committee. She served as a member of the board of Israel Discount Bank from November 2014 until May 2017. Mrs. Benshoshan has been a partner at FORMA Real Estate Funds since November 2016 and a board member of Energix Renewable Energies Ltd. (TASE: ENRG). She is an External Director at MRR Thirteen Limited, External Director at PRIORTECH LTD and External Director at MIGDALINSURANCE & FINANCIAL HOLDINGS Ltd. Over the last five years, Mrs. Benshoshan has served in various capacities within the finance and academic sphere, including, as a member of the advisory board at ALTO Real Estate Funds; and an External Director and Chairwoman of the investments committee at 'Rom' Study Fund. Mrs. Benshoshan holds a B.A. in Economics and Sociology and an M.B.A.in Finance and Banking, from the Hebrew University of Jerusalem.

Robert Stein, M.D., Ph.D. became a member of the Taro Board of Directors in February 2020 and serves on the Audit and Compensation Committee. Dr. Stein has medical and scientific training and has over 40 years of Research and Development leadership experience in both pharmaceutical and biotechnology companies. He currently is an Operating Partner at Samsara Biocapital, Executive Vice President of Research & Development for MiMedx, and also consults widely for pharma, biotech, and academia. Dr. Stein has led R&D across all the major therapeutic areas and has made significant contributions to over nine registered medicines and thirteen monoclonal antibodies currently in late-stage clinical development. From 1980 to 1990, he was at Merck, Sharpe, and Dohme Research Labs where he was Head of Pharmacology. From 1990 to 1996 he was the first head of R&D at Ligand Pharmaceuticals. From 1996 to 2001, he was EVP of Research and Preclinical Development at DuPont-Merck / DuPont Pharmaceuticals. He then spent five years as President of R&D at Incyte, five years as President of Roche Palo Alto (formerly Syntex), three years as CEO of Kinemed, and five years as President, R&D at Agenus. Dr. Stein holds a B.S. with Honors in Biology and Chemistry from Indiana University, where he was a National Merit Scholar. He has an M.D. and a Ph.D. in Physiology and Pharmacology from Duke University Medical and Graduate Schools. He is a member of Phi Beta Kappa, Alpha Omega Alpha, and Sigma Xi Honor Societies. Dr. Stein completed his Internship and Residency at Duke, as well, and is Board Certified in Anatomic and Clinical Pathology. He is a member of the College of American Pathology, the New York Academy of Sciences, the American Association of Cancer Research, and the American Society of Clinical Oncology. Dr. Stein also has served on the Board of Directors for Geron, DiaDexus, and Archemix. He currently is a member of the Boards of Directors for Protagenic Therapeutics, Flame Biosciences, Polypid and Immunogenesis. Dr. Stein is a member of the Scientific Advisory Board for the Drug Development Institute of the James Comprehensive Cancer Center of Ohio State University and a Scientific Advisor to Washington University in St. Louis.

Dov Pekelman became a member of the Taro Board and Audit Committee in August 2011, Chairman of the Special Committee in November 2011 (disbanded in February 2013), the Stock Option Committee in March 2012 (disbanded in January 2015) and the Compensation Committee in February 2013. Professor Pekelman is currently a major shareholder of Atera Networks Ltd. and a board member of Mapi Pharma, Ltd. He serves as Dean of the Business School at the Interdisciplinary Center (IDC), Herzliya, Israel, and is Chairman of the IDC Corporation, the center's economic arm. Professor Pekelman served as a senior consultant to Teva Pharmaceutical Industries Ltd. (NASDAQ: TEVA) from 1985 to 2008 and also founded and ran a leading, Israeli-based management-consulting firm, P.O.C. Ltd. Professor Pekelman served on the Board of Directors of several large industrial corporations, including Enzymotec (NASDAQ:ENZY), Koor Industries Ltd. (TASE: KOR) and served for 22 years on the Board of Directors of Makhteshim Agan Industries Ltd. (TASE: MAIN). Professor Pekelman was also a member of the advisory committee of the Bank of Israel. He holds a Ph.D. from the University of Chicago and a B.S. from the Technion, Israeli Institute of Technology. Professor Pekelman is a published author writing on various aspects of business operations.

James Kedrowski became a member of the Taro Board in May 2011. In addition, Mr. Kedrowski served as the Company's Interim Chief Executive Officer from October 2010 until August 2013. Mr. Kedrowski was with Chattem Chemicals, Inc., an indirect subsidiary of Sun Pharma since 1997 and served as its President. Mr. Kedrowski's prior experience includes over 20 years with Alcoa Inc., starting in sales, then purchasing roles culminating as senior purchasing agent for all chemicals, energy, and carbon. Subsequently, Mr. Kedrowski was in progressive P&L business management positions in the United States before heading to Tokyo for four years of international experience running Alcoa's Industrial Chemicals business in Asia. Mr. Kedrowski then returned to the United States as Operational Vice President for seven North American Industrial Chemicals plants.

Daphne Huang became Vice President, CFO and Chief Accounting Officer in April 2020. Ms. Huang has over 20 years of senior executive experience in finance, most recently serving as Chief Financial Officer at Humanwell Healthcare USA & Puracap International, having financial oversight of their generic pharmaceutical and OTC portfolios. Prior to Humanwell, Ms. Huang held progressively responsible positions in the financial service sector and debt capital markets working for companies such as PriceWaterhouseCoopers, FleetBoston, GE Capital and HSBC. Ms. Huang earned an MBA in Finance and Management from the Leonard N. Stern School of Business at New York University, and a BBA in Accounting from Baruch College.

Erik Zwicker, J.D., joined our Company in April 2020 as Vice President, General Counsel and Secretary. He is currently responsible for the Company's global legal function. Prior to joining Taro, Mr. Zwicker was Head of Legal and Chief Compliance Officer at Roivant Sciences, Inc., a global pharmaceutical company. Prior to Roivant, Mr. Zwicker was Deputy Chief Governance Officer at Bridgewater Associates, LP. In addition, Mr. Zwicker's experience includes serving as an Assistant U.S. Attorney in the United States Attorney's Office for the District of Columbia and as an Assistant Attorney General in the Connecticut Attorney General's Office, and in private practice at a leading law firm. He has also penned various publications in the field of law. Mr. Zwicker holds a Bachelor of Arts degree from Princeton University, a Masters of Bioethics degree, which he earned while on a Fulbright Scholarship at Monash University in Melbourne, Australia, and a J.D. from Harvard Law School.

Avi Avramoff, Ph.D. joined our Company in October 2011 as Global Vice President, Research & Development. He is responsible for the Company's generic and innovative new product development, the management of the R&D Pharma and Chemistry, R&D Analytical Laboratories, Preclinical, Pharmacokinetic and Clinical Studies, Regulatory Affairs, R&D Project Management and Pharmacovigilance in all of Taros' sites. In addition, he is involved in the new product introduction process from selection to launch and Portfolio Management. He has penned various publications and abstracts in the field of pharmacy, as well as several patents and patent applications. Prior to joining our Company, Dr. Avramoff worked as Vice President, Research & Development at Dexcel Pharma.

Itamar Karsenti joined our Company in December 2014 and currently serves as Vice President, Head of Operations. Mr. Karsenti is the operations lead for our Israeli and Canadian manufacturing facilities. He is responsible for Pharma and API Manufacturing, Supply Chain Management, Engineering and Environmental Health and Safety (EH&S). Mr. Karsenti also provides leadership and guidance in sales and marketing, human resources, IT and finance. Prior to joining Taro, Mr. Karsenti worked for Teva Pharmaceutical Industries Ltd. since 2002, where he served as Executive Director, Jerusalem OSD site manager.

Michele Visosky joined our Company in January 2004 in the Human Resources department. She is currently Vice President, Head of Human Resources and heads the department in Canada, Israel and the United States. Ms. Visosky has over 27 years of human resources experience, the majority of which were spent in management level roles. Prior to joining Taro, Ms. Visosky worked at Micro Warehouse, Inc. and PricewaterhouseCoopers LLP, holding progressively responsible human resources positions, with the last one as Senior Vice President, Human Resources.

Jayesh Shah joined our Company in December 2011 as Head of Procurement. His responsibilities include procurement of raw materials, capital items and services for North America. Prior to joining Taro, Mr. Shah worked at Caraco Pharmaceutical Laboratories, Ltd. (now known as Sun Pharmaceutical Industries, Inc.), a subsidiary of Sun Pharma, in 2000 and worked there until 2011. Prior to that, Mr. Shah worked at Sun Pharma in India from 1997 to 2000. From 1977 to 1997, Mr. Shah was a proprietor of J.B. Trading Corporation, an import/export company located in Mumbai, India.

Victoria Chester joined our Company in January 2021 as Vice President, Head of Quality. Ms. Chester has over 20 years of senior executive experience in Quality Operations, most recently serving as Vice President, Head of Corporate Quality Policies and Training in Sun Pharma from September 2016 to January 2021. Since 2007, Ms. Chester held senior roles as Global Director, Quality Policies and Systems in Apotex Inc. and Director of Global Quality Systems and Standards in Novartis Consumer Health Inc. In our Company Ms. Chester is responsible to lead the Taro Quality Strategy, ensuring that it is appropriate and effective in meeting business requirements; ensure that the Quality systems and processes are compliant with the regulatory authorities' expectations and that the Quality Assurance, Quality Systems, Compliance and Quality Control departments effectively perform their functions, while simultaneously complying with Taro values. Ms. Chester earned Masters of Science in Applied Microbiology from Moscow State University and Masters of Science Certification in Pharmaceutical Manufacturing from Michigan State University.

Vikash Agarwal joined our Company in December 2020 as Vice President, Head of Business Development. Prior to joining Taro, Mr. Agarwal held progressively responsible roles at several renowned financial and advisory institutions, including PriceWaterhouseCoopers, Bank Muscat and HSBC UK's Healthcare Investment Banking division, before joining Sun Pharmaceuticals as Head of Mergers and Acquisitions, where he led Sun Pharma's acquisition of Ranbaxy. Following his relocation to the U.K., Mr. Agarwal served as Chief Corporate Development and Strategy Officer at GC Aesthetics, and most recently had an entrepreneurial stint in the health-tech space and provided business development consultative services to Taro. Mr. Agarwal earned an MBA from INSEAD, France, a Chartered Financial Analyst designation from the U.S. CFA Institute, a Chartered Accountant designation from India's Institute of Chartered Accountants, and a Bachelor of Commerce degree from Sri Ram College in Delhi, India.

B. COMPENSATION

Our directors, other than those identified in this paragraph, are paid NIS 149,012 per year for their service as directors and NIS 5,732 for each board and committee meeting they attend, linked to the Israeli consumer price index, or CPI, for their service as directors. Dilip Shanghvi earned approximately $1.5 million during the year ended March 31, 2021, for his service in addition to his duty as director. During the year ended March 31, 2021, Mr. Dov Pekelman received an annual fee of NIS 245,445 due to his role in the establishment of a Social Responsibility Committee. The compensation for our statutory external directors, as defined under Israeli law, is not in excess of the amounts set forth in the Israeli Companies Law and regulations promulgated thereunder.

We incurred an aggregate of approximately $5.6 million in compensation expenses paid to all of our then current directors and executive officers for services rendered to us in all capacities during the year ended March 31, 2021. In addition, approximately $0.6 million was set aside in fiscal 2021 to provide certain executive officers and directors with pension, retirement or similar benefits. During the year ended March 31, 2021, the Company's executive officers and directors did not receive any options to purchase Taro's ordinary shares or other equity incentive awards.

As of March 31, 2021, the Company's executive officers and directors held no options to purchase ordinary shares or other equity incentive awards.

C. BOARD PRACTICES

We are incorporated in Israel and, therefore, we are subject to the provisions of the Israeli Companies Law, in addition to the relevant provisions of U.S. laws.

Board of Directors

Under the Israeli Companies Law, the Board sets the policy of a company and supervises the general manager (i.e., the chief executive officer) of a company in the performance of his or her role. The Board has residual powers so that it may exercise any power of the company not granted to any other body either by law or by our Articles of Association. According to our Articles of Association, as part of its powers, our Board may cause us to borrow or secure payments of any sum or sums of money for our purposes, at times and upon conditions as it deems fit, including the grant of security interests on all or any part of our property.

Under our Articles of Association, our Board may consist of between 5 and 25 directors.

Our directors, other than our statutory external directors, are elected at annual general meetings of our shareholders, which are required to be held at least once during every calendar year and not more than 15 months after the last preceding meeting. Directors may also be appointed to fill vacancies, or may be appointed to serve as additional members of the Board, by an ordinary resolution passed at an extraordinary general meeting of our shareholders. Likewise, in the event of a vacancy, the Board is empowered to appoint a director to fill such vacancy until the next annual general meeting of shareholders. A director, other than a statutory external director, holds office until the next annual general meeting, unless such directorship is earlier vacated in accordance with the provisions of any applicable law or regulation or under our Articles of Association.

Under the Israeli Companies Law, nominations for director may be made by any shareholder holding at least 1% of our outstanding voting power. However, any such shareholder may make such a nomination only if a written notice of such shareholder's intent to make such nomination has been given to our company within seven days after we publish notice of our upcoming annual general meeting (or within 14 days after we publish a preliminary notification of an upcoming annual general meeting). Any such nomination must include certain information, the consent of the proposed director nominee(s) to serve as our director(s) if elected and a declaration signed by the nominee(s) declaring that they have the required skills and availability to carry out their duties and providing details of such skills and affirming that there is no limitation under the Israeli Companies Law preventing their election and that all of the information that is required to be provided to us in connection with such election under the Israeli Companies Law has been provided.

We do not have any service contracts with any of our directors that would provide for benefits upon termination of employment.

Our Board currently consists of eight directors. The following members of our Board have been determined to be independent within the meaning of applicable NYSE regulations: Linda Benshoshan, Dr. Robert Stein and Dov Pekelman.

Under the Israeli Companies Law, the board of directors of a public company must hold at least one meeting every three months. The Company complies with this requirement.

Statutory External Directors

Qualifications of Statutory External Directors

Under the Israeli Companies Law, companies incorporated under the laws of the State of Israel whose shares, *inter alia*, are listed for trading on a stock exchange or have been offered to the public by a prospectus and are held by the public, are generally required to have at least two statutory external directors. The Israeli Companies Law provides that a person may not be elected as a statutory external director if the person is a relative of a controlling shareholder and/or the person or the person's relative (as defined below), partner, employer, anyone to whom the person is subordinate, directly or indirectly, or any entity under the person's control has, as of the date of the person's election to serve as a statutory external director, or had, during the two years preceding that date, any affiliation (as defined below) with:

- our company;
- any entity controlling our company or relative thereof as of the date of the election; or
- any entity controlled by our company or under common control with our company as of the date of the election or during the two years preceding that date.

Under the Israeli Companies Law, "relative" is defined as: a spouse, brother or sister, parent, grandparent, or child; a child/brother/sister/parent of a person's spouse; or the spouse of any of the preceding people.

The term "affiliation" includes an employment relationship, a business or professional relationship even if not maintained on a regular basis (but excluding insignificant relationships), or control of the company, and service as an office holder (as defined below).

The Israeli Companies Law defines the term "office holder" as general manager (i.e., chief executive officer), chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, and any director or manager who reports directly to the general manager.

The Israeli Companies Law provides that no person can serve as a statutory external director if the person's other positions or other business creates, or may create, a conflict of interest with the person's responsibilities as a statutory external director or may otherwise interfere with the person's ability to serve as a statutory external director, or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. Until the lapse of two years from termination of office as a statutory external director, a company, its controlling shareholder and any entity controlled by the controlling shareholder, may not grant a former statutory external director, his/her spouse or child any benefits, directly or indirectly, including engaging the former statutory external director, his/her spouse or child to serve as an office holder in the company or in any company controlled by the controlling shareholder of the company and cannot employ or receive professional services from that person for consideration, either directly or indirectly, including through a corporation controlled by such former statutory external director. The same shall apply to a relative, who is not a former statutory external director's spouse or child, for a period of one year from termination of office as a statutory external director.

A person shall be qualified to serve as a statutory external director only if he or she possesses accounting and financial expertise or professional competence, as defined in the regulations promulgated under the Israeli Companies Law. At least one statutory external director must possess accounting and financial expertise.

The Israeli Companies Law also provides that a shareholders' general meeting at which the appointment of a statutory external director is to be considered will not be called unless the nominee has declared to the company that he or she complies with the qualifications for appointment as a statutory external director.

Election of Statutory External Directors

The Israeli Companies Law provides that statutory external directors must be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority includes the majority of the total votes of non-controlling shareholders (as defined in the Israeli Companies Law) who do not have a personal interest in the election of the subject external director, other than a personal interest that is not derived from a relationship with a controlling shareholder, in such election present at the meeting in person or by proxy (abstentions are not taken into account); or
- the total number of votes against the election of the statutory external director by the non-controlling disinterested shareholders (as described in the previous bullet point) may not exceed two percent of the aggregate voting rights in the company.

For purposes of determining a controlling shareholder, Section 1 of the Israeli Companies Law defines "control" by reference to the definition of the Israeli Securities Law, 5728-1968 (the "Securities Law"), which defines "control" as the ability to direct the activity of a corporation, excluding an ability deriving merely from holding an office of director or another office in the corporation, and a person shall be presumed to control a corporation if he or she holds half or more of a certain type of means of control of the corporation. "Means of control" in Section 1 of the Securities Law is defined as any one of the following: (1) the right to vote at a general meeting of a company or a corresponding body of another corporation; or (2) the right to appoint directors of the corporation or its general manager.

The definition of "personal interest" under the Israeli Companies Law is provided in *Item 10.B.* below, under "*Approval of Specified Related Party Transactions Under Israeli Law and Our Articles of Association—Disclosure of Personal Interest of an Office Holder.*"

The initial term of a statutory external director is three years and may be extended for two additional consecutive terms of three years each, provided that either (i) his or her service for each such additional term is recommended by one or more shareholders holding at least one percent (1%) of the company's voting rights and is approved by a majority at a shareholders meeting, which majority must include either of the criteria described above with respect to his or her initial election; or (ii) his or her service for each such additional term is recommended by the board of directors and is approved by a majority at a shareholders meeting, which majority must include either of the criteria described above with respect to his or her initial election. In accordance with the regulations under the Israeli Companies Law, companies whose securities are listed on one of a number of non-Israeli stock exchanges (including the NYSE, where our ordinary shares are listed) may re-appoint an external director for additional three-year terms, in excess of the nine years described above, if the audit committee and the board of directors confirm that, due to the expertise and special contribution of the external director to the work of the board and its committees, his or her re-appointment is in the best interests of the company. The same special majority is required for election of the statutory external director for each additional three-year term (as was required for the initial term), with the additional requirement that the arguments of the board of directors and audit committee in favor of election for such additional term, and the number of terms already served by the external director, be presented to the general meeting prior to the vote.

Statutory external directors may be removed from office only by the shareholders, based on the same percentage of votes as is required for election or by a court, if the statutory external director ceases to meet the statutory qualifications for his or her appointment or if he or she violates his or her duty of loyalty to the company.

If an external directorship becomes vacant and there are fewer than two external directors on the board of directors at the time, then the board of directors is required under the Israeli Companies Law to call a shareholders' meeting immediately to elect a replacement external director.

Each committee of a company's board of directors that is empowered to exercise one of the functions of the board of directors is required to include at least one statutory external director, except for the audit committee and compensation committee, which are required to include all of the statutory external directors.

A statutory external director is entitled to compensation determined by the board within the scope provided in regulations adopted under the Israeli Companies Law.

Linda Benshoshan and Dr. Robert Stein currently serve as statutory external directors on the Company's Board. Our Board has determined that Linda Benshoshan possesses accounting and financial expertise, whereas Dr. Robert Stein possesses professional competence, as required of our statutory external directors under the Israeli Companies Law.

Exemption from Statutory External Director Requirement

Under regulations promulgated under the Israeli Companies Law, Israeli public companies whose shares are traded on certain U.S. stock exchanges, such as the NYSE, that lack a controlling shareholder (as defined under the Israeli Companies Law) may elect to exempt themselves from the requirement to appoint statutory external directors. Any such company may also exempt itself from the Israeli Companies Law requirements related to the composition of the audit and compensation committees of the Board. Eligibility for these exemptions is conditioned on compliance with U.S. stock exchange listing rules related to majority Board independence and the composition of the audit and compensation committees of the Board, as applicable to all listed domestic U.S. companies. Because we have a controlling shareholder (Sun), we are not eligible for these exemptions.

Qualifications of Directors Generally Under the Israeli Companies Law

Under the Israeli Companies Law, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors (not merely statutory external directors) who must have accounting and financial expertise (according to the same criteria described above with respect to statutory external directors). In accordance with the Israeli Companies Law, the determination of the board should be based on, among other things, the type of the company, its size, the volume and complexity of its activities and the number of directors. Based on the foregoing considerations, our Board of Directors determined that the number of directors with accounting and financial expertise in our company shall not be less than one. As described above, currently Linda Benshoshan has been determined by the board to possess such accounting and financial expertise.

Unaffiliated Directors Under the Israeli Companies Law

Under the Israeli Companies Law, the audit committee of a publicly traded company must consist of a majority of unaffiliated directors. An "unaffiliated director" is defined as a statutory external director or a director who meets the following criteria:

- he or she meets the qualifications for being appointed as a statutory external director, as approved by the audit committee, except for (i) the requirement that the director be an Israeli resident (in the case of a company such as ours whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

Board Committees

Subject to the provisions of the Israeli Companies Law, our Board may delegate its powers to certain committees comprised exclusively of Board members. Pursuant to the Israeli Companies Law, any committee of the board of directors that is authorized to perform any function of the board (other than committees constituted solely as advisory committees) must include at least one statutory external director. The audit committee and compensation committee must be composed of at least three directors and include all statutory external directors. Our Board currently has three committees—an Audit Committee, a Compensation Committee and a Social Responsibility Committee.

Audit Committee

Composition

Under the Israeli Companies Law and our Articles of Association, our Board is required to appoint an audit committee of at least three directors, a majority of whom must be unaffiliated directors, and which must include all statutory external directors (at least two), but excludes:

- the chairman of the board of directors;
- a director employed by our company, or by the company's controlling shareholder, directly or indirectly, or who provides services to any of the foregoing on a regular basis and a director whose main livelihood stems from the controlling shareholder; and

- a controlling shareholder or a relative of a controlling shareholder.

The chairperson of the audit committee is required to be a statutory external director.

A person who is not qualified to serve as a member of the audit committee may not be present at the committee's meetings and at the time resolutions are adopted thereby, unless such person's participation is requested by the committee in order to present to the committee a particular matter.

Currently, our Audit Committee consists of the following directors: Linda Benshoshan, Dr. Robert Stein, and Dov Pekelman, all of whom have been determined by our Board to be independent as defined by the applicable rules of the NYSE and the SEC. Linda Benshoshan and Dr. Robert Stein are statutory external directors. Linda Benshoshan is the chairwoman of our Audit Committee.

Duties and Authorities

Under the Israeli Companies Law and our Audit Committee charter, our Audit Committee is responsible for (i) determining whether there are delinquencies in the business management practices of the company, including, in consultation with the company's internal auditor or the independent auditor, making recommendations to the Board to improve such practices; (ii) determining whether to approve certain related party transactions or transactions in which an office holder has a personal interest; (iii) determining standards and policies for determining whether a transaction with a controlling shareholder or a transaction in which a controlling shareholder has a personal interest is deemed negligible or not and the approval requirements (including, potentially, the approval of the audit committee) for transactions that are not negligible, including the types of transactions that are not negligible; (iv) where the Board approves the working plan of the internal auditor, examining such working plan before its submission to the Board and proposing amendments thereto; (v) examining the company's internal controls and internal auditor's performance, including whether the internal auditor has sufficient resources and tools to dispose of his responsibilities (taking into consideration the company's special needs and size); (vi) examining the scope of the company's auditor's work and compensation and submitting its recommendation with respect thereto to the corporate organ considering the appointment thereof (either the Board or the general meeting of shareholders); and (vii) determining procedures with respect to the treatment of company employees' complaints as to the management of the company's business and the protection to be provided to such employees. Our Audit Committee also approves our financial statements in its role as a committee of the Board. Our Audit Committee may not approve an action or a related party transaction, or take any other action required under the Israeli Companies Law, unless at the time of approval a majority of the committee's members are present, a majority of whom consists of unaffiliated directors including at least one statutory external director.

In accordance with Sarbanes-Oxley requirements and our Audit Committee charter, our Audit Committee is directly responsible for the appointment, compensation and oversight of our independent auditors. In addition, the Audit Committee is also responsible for, among other things, assisting the Board in reviewing, and recommending actions to the Board with respect to, our financial statements, the effectiveness of our internal controls and our compliance with legal and regulatory requirements.

The Audit Committee has reviewed and discussed with our management our audited consolidated financial statements as of and for the year ended March 31, 2021. The Audit Committee has also discussed with our independent registered public accounting firm the matters required to be discussed by Auditing Standards No. 1310, "*Communications with Audit Committees*," issued by the Public Company Accounting Oversight Board. Based on the reviews and discussions referred to above, the Audit Committee has recommended to the Board that the audited consolidated financial statements referred to above be included in this 2021 Annual Report.

Approval of Interested Party Transactions

Under the Israeli Companies Law, the approval of the Audit Committee (or, for transactions involving compensatory matters, the approval of the Compensation Committee) is required to effect certain actions and transactions with office holders, controlling shareholders and entities in which they have a personal interest. Such interested party transactions (including matters described in the following paragraph) require the approval of the Audit Committee (or the Compensation Committee, if involving a compensatory matter), the Board and in certain cases, the shareholders. Such shareholders' approval, in certain cases, also requires a special voting majority. See *Item 10.B "Approval of Specified Related Party Transactions under Israeli Law and Our Articles of Association—Disclosure of Personal Interests of a Controlling Shareholder"* below.

Compensation Committee

Composition

On February 4, 2013, the Company established a Compensation Committee to comply with the requirements of Amendment No. 20 to the Israeli Companies Law ("Amendment 20"), which was effective as of December 2012. Currently, our Compensation

Committee consists of the following directors: Linda Benshoshan (who serves as chairwoman of the committee), Dr. Robert Stein, and Dov Pekelman, each of whom has been determined by our Board to be independent as defined by the applicable rules of the NYSE and the SEC. All of our statutory external directors are members of the Compensation Committee.

Authorities Related to Compensation and Compensation Policy

Amendment 20 also required us to adopt a compensation policy regarding the terms of office and employment of office holders, including compensation, equity awards, severance and other benefits, and exemption from liability and indemnification. For a company such as ours that is not a new public company, the Israeli Companies Law (based on Amendment 20) requires that we adopt a new compensation policy, or renew our existing compensation policy, at least once every three years, via the approval of our Compensation Committee, Board and shareholders (including a special majority of our non-controlling, disinterested shareholders). Under the Israeli Companies Law, the Board may adopt the compensation policy even if it is not approved by the shareholders, provided that following non-approval of such policy by the shareholders, the Compensation Committee and the Board revisit the matter and determine that the adoption of the compensation policy is beneficial to the company. Our initial compensation policy was approved by our Board, upon the recommendations of our Compensation Committee, and was approved by our shareholders on September 12, 2013, and ratified and approved again on March 27, 2014. In December 2016, following its approval by our Compensation Committee and Board, our renewed compensation policy was approved by a majority of our shareholders, but not by the requisite special majority of the non-controlling, disinterested shareholders. As permitted under the foregoing provision of the Israeli Companies Law, our Compensation Committee and Board reconsidered the renewed compensation policy, determined that its adoption was beneficial to our Company based on several factors, and adopted it on February 9, 2017. Despite that approval, we committed to reviewing our renewed compensation policy in light of the feedback that we received from our shareholders and shareholder advocacy organizations and brought an amended version for shareholder vote at our 2018 annual shareholder meeting. Upon recommendation of our Compensation Committee, the Board and requisite special majority of non-controlling, disinterested shareholders approved the compensation policy on December 19, 2018. At our December 2020 annual general meeting of shareholders, a renewed version of our compensation policy was approved by the requisite special majority of the non-controlling, disinterested shareholders. The renewed version of the compensation policy maintained existing compensatory terms for our office holders, and inserted into the compensation policy (i) a maximum coverage level of $100 million under our directors and officers liability ("D&O") insurance policy and (ii) a requirement that premiums and deductibles paid by our company under our D&O insurance policy be consistent with market terms and not material to our company.

The compensation policy serves as the basis for setting the employment and compensation terms of our officers. The compensation policy also relates to certain other factors, including advancement of our objectives, our work schedule and long-term strategy, and creation of appropriate incentives for executives. The policy also takes into account our risk management, size and the nature of our operations. As required under the Israeli Companies Law, our compensation policy also considers the following factors:

- the knowledge, skills, expertise and accomplishments of the relevant director or executive;
- the director's or executive's roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the terms offered and the average compensation of the other employees of our company, including any persons employed through manpower companies;
- the impact of disparities in salary upon work relationships at our company;
- the possibility of reducing variable compensation at the discretion of the board of directors, and the possibility of setting a limit on the exercise value of non-cash variable compensation; and
- as to severance compensation, the period of service of the executive, the terms of his or her compensation during such service period, our company's performance during their period of service, the person's contribution towards our company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving our company.

As further required under the Israeli Companies Law, our compensation policy also addresses the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and a cap on the value of variable compensation;
- the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in our financial statements; and
- the minimum holding or vesting period for variable, long-term compensation.

The compensation policy also considers appropriate incentives from a long-term perspective and maximum limits for severance compensation.

Our Compensation Committee is responsible for recommending the compensation policy to our Board for its approval (and subsequent approval by our shareholders) and is charged with duties related to the compensation policy and to the compensation of our office holders as well as functions related to approval of the terms of engagement of office holders, including:

- recommending whether our compensation policy should continue in effect, if the then-current policy has a term of greater than three years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years for a company such as ours);
- recommending to our Board periodic updates to the compensation policy;
- assessing implementation of the compensation policy; and
- determining whether the compensation terms of our Chief Executive Officer need not be brought to approval of the shareholders (under special circumstances).

Under Amendment 20, the terms of employment of office holders require the approval of the Compensation Committee and the Board (assuming that they are consistent with the then-effective compensation policy). The terms of employment of directors and the chief executive officer (or any other office holder whose compensation deviates from the then-effective compensation policy, as described below) must also be approved by shareholders.

Changes to existing terms of employment of office holders (other than directors) can be made with the approval of the Compensation Committee only, if the committee determines that the change is not substantially different from the existing terms.

Under certain circumstances, the Compensation Committee and the Board may approve an office holder compensatory arrangement that deviates from the compensation policy, provided that such arrangement is approved by the special majority of the company's shareholders mentioned above, or, in certain cases, even if that shareholder approval is not achieved.

Social Responsibility Committee

On February 9, 2017, the Board established a Social Responsibility Committee to assist the Company in overseeing its corporate social responsibility activities at its sites worldwide. These activities may include community outreach programs, philanthropy, employee volunteer activities, academic relations and patient assistance. Dov Pekelman is the chairman of our Social Responsibility Committee.

Nominating Committee

Our Board does not currently have a nominating committee, as director nominations are made in accordance with the terms of our articles, as described in *Item 6.A.* "*Board of Directors*" above. We rely upon the exemption available to foreign private issuers under the Listed Company Manual of the NYSE from the NYSE listing requirements related to creation of a nominating committee. Also see *Item 16.G.* "*Corporate Governance*" below.

Internal Auditor

Under the Israeli Companies Law, the board of directors of a public company is required to appoint an internal auditor proposed by the Audit Committee. The internal auditor may not be an interested party (i.e., a holder of 5% or more of the voting rights in the company or of the issued share capital), the chief executive officer of the company or any of its directors, or a person who has the authority to appoint the company's chief executive officer or any of its directors, or a relative of an office holder or of an interested party, nor may the internal auditor be our external independent auditors or their representatives. The Audit Committee is required to oversee the activities and to assess the performance of the internal auditor, as well as to review the internal auditor's work plan. The role of the internal auditor is to examine, among other things, whether our actions comply with the law and orderly business procedure. On February 6, 2019, David Kinzelberg became the internal auditor of the Company. The internal auditor has the right to demand that the chairman of the Audit Committee convene an Audit Committee meeting, and the internal auditor may furthermore participate in all Audit Committee meetings.

D. EMPLOYEES

The following table sets forth the number of full-time equivalents as of March 31, 2021:

	United States *	Canada	Israel	Total
Sales and Marketing	53	40	33	**126**
Administration	72	37	47	**156**
Research and Development	15	73	168	**256**
Production and Quality Control	—	403	476	**879**
Total	**140**	**553**	**724**	**1,417**

The following table sets forth the number of full-time equivalents as of March 31, 2020:

	United States *	Canada	Israel	Total
Sales and Marketing	124	41	31	**196**
Administration	72	40	45	**157**
Research and Development	15	73	166	**209**
Production and Quality Control	—	399	458	**902**
Total	**211**	**553**	**700**	**1,464**

The following table sets forth the number of full-time equivalents as of March 31, 2019:

	United States *	Canada	Israel	Total
Sales and Marketing	119	41	34	**194**
Administration	73	37	45	**155**
Research and Development	14	70	163	**212**
Production and Quality Control	—	393	475	**903**
Total	**206**	**541**	**717**	**1,464**

* In the United States, distribution employees are included in the Sales and Marketing category.

In general, we believe that our relationship with our employees is satisfactory. Since we are members of the Manufacturers Association, certain general collective agreements apply to us. These agreements concern principally the length of the workday, minimum daily wages for professional workers, insurance for work-related accidents, procedures for dismissing employees, pension payments, and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

The Collective Bargaining Agreement dated April 6, 2011, as amended and extended by the collective bargaining agreement dated January 5, 2017 and July 2, 2020 among Taro Israel, the Histadrut Trade Union and Taro's Israel's Employees Committee (the "Collective Bargaining Agreement"). The Collective Bargaining Agreement is valid until December 31, 2023, and automatically renews for one-year periods unless notice is provided by a party three months prior to the end of a term. The Collective Bargaining Agreement memorialized current employee-employer relations practices of Taro as well as additional rights relating to job security, compensation and other benefits. Israeli law generally requires severance pay upon the retirement or death of an employee or termination of employment in certain other circumstances. Under Section 14 of the Severance Pay Law ("Section 14"), in the event of termination of the employer-employee relationship, all payments made to pension funds or any other similar funds serve as severance pay and the Company is not obliged to pay the employee any other severance pay. Since 2011, the Company's obligations to the employees' pension plan have been governed by the Collective Bargaining Agreement, including our severance obligations and the provision rates to the various provident funds. We are complying with these obligations. We fund our ongoing severance obligations by contributing a sum equal to 8.3% of the employee's wages to funds known as Pension Funds or Managers' Insurance. These funds provide different combinations of savings plan, life insurance and severance pay benefits to our employees, and each employee, according to the fund chosen by them, receives a pension or a lump sum payment upon retirement and severance pay, if the employee is legally entitled to it, upon termination of employment. In addition to the severance pay, each employee contributes an amount equal to 5.75% - 7.0% of their salary towards their pension plan. The Company contributes an additional sum between 6.25% - 7.5% of the employee's salary. Beginning in July 2016, the minimum numbers increased according to Israeli law. Since January 2017, employees contribute at least 6% of their salary toward their pension plan, and the Company contributes an additional sum of at least 6.5% of the

employee's salary towards pension and 6% of the employee's salary towards severance pay. Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute (an agency similar to the United States Social Security Administration), which include payments for national health insurance. The payments to the National Insurance Institute are approximately 19.5% of an employee's wages (up to a specified amount), of which the employee contributes approximately 12.0% and we contribute approximately 7.5%.

E. SHARE OWNERSHIP

The following table sets forth certain information regarding the ownership of our ordinary shares by our directors and executive officers as of March 31, 2021. The percentage of ownership is based on ordinary shares outstanding as of March 31, 2021. None of the ordinary shares owned by any of our directors and executive officers has voting rights different from those possessed by other holders of our ordinary shares.

Name	Number of Ordinary Shares	Percentage of Outstanding Ordinary Shares
Dilip Shanghvi (1)	—	0.0%
Abhay Gandhi	—	0.0%
Sudhir Valia (2)	—	0.0%
Uday Baldota	—	0.0%
Linda Benshoshan	—	0.0%
Robert Stein, M.D., Ph.D.	—	0.0%
Dov Pekelman	—	0.0%
James Kedrowski	—	0.0%
Daphne Huang	—	0.0%
Erik Zwicker	—	0.0%
Avi Avramoff, Ph.D.	—	0.0%
Itamar Karsenti	—	0.0%
Michele Visosky	*	*
Jayesh Shah	—	0.0%
Victoria Chester**	—	0.0%
Vikash Agarwal***	—	0.0%
Total for all directors and officers (16 persons) listed above, as a group	*	*

* Less than 0.1%.

** Joined the Company on January 4, 2021.

*** Joined the Company on December 29, 2020.

(1) Dilip Shanghvi, as the Managing Director of Sun Pharma's board of directors and along with entities controlled by him and members of his family, control 54.5% of Sun Pharma. As of March 31, 2021, Sun Pharma and its affiliates owned 77.8% of Taro's outstanding ordinary shares.

(2) Sudhir Valia is also a director of Sun Pharma. As of March 31, 2021, Sun Pharma and its affiliates owned 77.8% of Taro's outstanding ordinary shares.

As of March 31, 2021, the directors and executive officers listed above held no options to purchase our ordinary shares.

The following table sets forth certain information regarding the ownership of our founders' shares as of March 31, 2021. The percentage of ownership is based on 2,600 founders' shares outstanding as of March 31, 2021.

Name	Number of Founders' Shares	Percentage of Outstanding Founders' Shares
Alkaloida Chemical Company Exclusive Group Ltd. (1)	2,600	100.00%

(1) Alkaloida Chemical Company Exclusive Group Ltd. ("Alkaloida"), a subsidiary of Sun, owns all 2,600 of our outstanding founders' shares and is entitled to exercise one-third of the total voting power in our company regardless of the number of

ordinary shares then outstanding. As a result of the control that may be deemed to be held by Alkaloida, each of Dilip Shanghvi and Sudhir Valia may be deemed to beneficially own the founders' shares held by Alkaloida. Each of Mr. Shanghvi and Mr. Valia disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Ordinary Shares

The following table sets forth certain information as of March 31, 2021, with respect to the ownership of our ordinary shares by all persons who are known to us to beneficially own 5% or more of our outstanding ordinary shares. Beneficial ownership is determined in accordance with rules of the SEC and generally includes voting and investment power with respect to our ordinary shares, as well as the right to receive the economic benefit of ownership of such shares. The holder of the ordinary shares listed in the below table does not have voting rights with respect to such shares that are different from those possessed by other holders of our ordinary shares. Percentage ownership is based on 37,926,044 ordinary shares outstanding as of March 31, 2021.

Name	Ordinary Shares Beneficially Owned		Percent of Ordinary Shares Outstanding
Sun	29,497,813	(1)	77.8%

(1) As reported on the Schedule 13D/A filed by Sun on November 27, 2013.

During the year ended March 31, 2019, the percentage of ordinary shares owned by Sun increased to 76.5% due to the repurchase of 888,719 shares during the year. As of March 31, 2020, Sun's ownership percentage increased 0.6% to 77.1%, due to the repurchase of 280,719 ordinary shares during the year. As of March 31, 2021, the percentage of ordinary shares owned by Sun increased to 77.8%, due to the repurchase of 332,033 shares during the year.

Founders' Shares

At the formation of our Company in 1959, two classes of shares were created, founders' shares and ordinary shares. One-third of the voting power of all of our voting shares is allocated to the founders' shares. Alkaloida, which is a subsidiary of Sun Pharma, owns all of the 2,600 outstanding founders' shares.

Voting Power

As of March 31, 2021, Sun controlled 85.2% of the voting power in our Company by reason of its (i) beneficial ownership of an aggregate of 77.8% of our ordinary shares and (ii) ownership of the founders' shares.

B. RELATED PARTY TRANSACTIONS

In addition to Sun controlling 85.2% of the voting power in our Company as of March 31, 2021, Taro has substantial relationships with Sun. Certain Taro Board members are also members of various Sun entities' boards of directors, including our Chairman, Dilip Shanghvi, who is also Managing Director of Sun Pharma's board of directors. In addition, certain Taro officers and executives are also executives of Sun.

Arrangements with Sun

Since 2013, in the ordinary course of business, Taro has entered into various commercial transactions, including product distribution and logistics, manufacturing and service agreements, with Sun. The Company reviews each of these transactions and believes that the terms of these transactions are comparable to those offered by or that could be obtained from unrelated third parties. Pursuant to Israeli requirements, all material transactions with Sun have been presented to the Audit Committee, which has determined whether any such transaction is considered extraordinary, as defined in the Israeli Companies Law and whether shareholder approval is required for such transaction. The Audit Committee has further determined the Israeli Companies Law approval requirements that are applicable to the different types of transactions entered into with Sun.

Services Arrangement

Sun and Taro renewed a services arrangement (the "Services Agreement"), effective April 1, 2020, that allows the companies to share the services of certain employees of the respective companies involved in certain North American management and operations functions in North America.

The companies are required to maintain records (the "Service Reports") of the costs associated with the provision of the services under the Services Agreement, and allocate such costs between companies, based upon approved allocation methodologies. The Services Agreement requires our Audit Committee to review the Service Reports on a semi-annual basis and the Services Agreement, as a whole, on an annual basis to determine its efficacy and whether it is in the Company's best interests.

Each of the employees providing services under the Services Agreement is required to sign a written acknowledgment of his/her receipt of, and agreement to be bound by (a) the confidentiality and non-disclosure agreement between Sun and Taro, and (b) guidelines for consideration in the performance of such services, including the identification of potential conflicts of interest.

Products Related Arrangements

In April 2017, our Board of Directors approved for Taro to negotiate an agreement with Sun whereby Taro's U.S. branded products team will advertise and promote a combined portfolio of Taro and Sun corticosteroid products. The agreement between Taro U.S.A. and Sun went into effect on May 1, 2017. Under this agreement, Sun sold its products to customers and paid Taro a percentage of the net sales for Taro's promotional services. Taro discontinued the promotion of its U.S. branded products effective March 31, 2019, and terminated the agreement.

In May 2018, Taro Canada signed an agreement with Sun's affiliate Ranbaxy Pharmaceuticals Canada Inc., now Sun Pharma Canada Inc., under which Taro Canada acts as the exclusive distributor for a portfolio of Sun and Ranbaxy products in Canada. Under this agreement, Taro Canada purchases and controls inventory; additionally, Sun and Ranbaxy pay Taro Canada a sales and distribution fee.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

The financial statements required by this item are found at the end of this 2021 Annual Report, beginning on page F-1.

Other Financial Information

We manufacture pharmaceutical products in our facilities in Israel and Canada. A substantial amount of these products are exported, both to our affiliates and non-affiliates. For a breakdown of our sales by geographic market for the past three years, see *"Item 4B – Business Overview – Sales and Marketing."*

Legal Proceedings

From time to time, we are a party to routine litigation incidental to our business, including patent litigation resulting from our use of the patent challenge procedures set forth in the Hatch Waxman Act, product liability litigations, and employment litigations, none of which, individually or in the aggregate, are expected to have a material effect on our financial position or profitability. Other litigation, as disclosed herein, may have a material adverse effect on our financial position or profitability.

On July 23, 2020, Taro U.S.A. came to a global resolution with the DOJ Antitrust Division and Civil Division in connection with DOJ's multi-year investigation into the U.S. generic pharmaceutical industry. Under a Deferred Prosecution Agreement (the "Agreement") reached with the DOJ Antitrust Division, the DOJ filed an information relating to conduct that occurred between 2013 and 2015. If Taro U.S.A. adheres to the terms of the Agreement, including paying a penalty of $205.7 million, the DOJ will dismiss the information after three years. Taro U.S.A. also reached a framework understanding with the DOJ Civil Division, subject to final agreement and agency authorization, in which Taro U.S.A. has agreed to pay $213.3 million to resolve all claims related to federal healthcare programs. Accordingly, an amount of $418.9 million was reserved in the quarter ended June 30, 2020.

The Company, its subsidiaries and, with respect to a complaint brought by U.S. State Attorneys General ("AG") and a complaint brought by putative classes of indirect reseller plaintiffs ("IRPs"), a former member of Taro U.S.A.'s commercial team have been

named as defendants in numerous putative class action lawsuits and additional lawsuits brought by and/or on behalf of purchasers and payors of several generic pharmaceutical products in the U.S. and Canada. The lawsuits allege that the Company, its subsidiaries, and/or, in the AG and IRP complaints, the concerned individual, have conspired with competitors to fix prices, rig bids, or allocate customers with respect to certain products, and also allege an industry-wide conspiracy as to nearly all generic pharmaceutical products. Each of the cases that were filed in U.S. federal court has been transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings under the caption In re: Generic Drug Pricing Antitrust Litigation, MDL No. 2724. The Court had sequenced the lawsuits into separate groups for purposes of briefing motions to dismiss. Defendants filed motions to dismiss complaints in the first group. On October 16, 2018, the Court denied the motions with respect to the federal law claims. On February 15, 2019, the Court granted in part and denied in part the motions with respect to the state law claims. Certain cases are proceeding in discovery. In May 2021, the Court designated certain complaints naming Taro U.S.A. as "bellwether" cases to begin the sequencing of proceedings.

Further, the Company has made a provision of $140.0 million for ongoing multi-jurisdiction civil antitrust matters. An amount of $60.0 million was accounted for in the quarter ended June 30, 2020, and an additional provision of $80.0 million was recognized in the quarter ended March 31, 2021; however, the ultimate outcome of these matters cannot be predicted with certainty. These provisions have been disclosed in the consolidated financial statements.

The Company and two of its former officers are named as defendants in a putative shareholder class action entitled Speakes v. Taro Pharmaceutical Industries, Ltd., filed October 25, 2016, which is now pending in the United States District Court for the Southern District of New York and asserts claims under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") against all defendants and Section 20(a) of the Exchange Act against the individual defendants. It generally alleges that the defendants made material misstatements and omissions in connection with an alleged conspiracy to fix drug prices. On September 24, 2018, the Court granted in part and denied in part the Company's motion to dismiss. The case is proceeding with limited discovery.

On June 22, 2020, a motion seeking documents before filing a shareholder derivative action was filed by a single shareholder against the Company 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 the Company 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 Company has filed a motion to stay proceedings pending resolution of the related U.S. litigation.

As part of an on-going audit by the Israel Tax Authority ("ITA"), with respect to the years ending on March 31, 2016 and through the year ending on March 31, 2019, in March 2021, the ITA announced its intention to issue a tax assessment for the fiscal year ending March 31, 2016. The Company reached a settlement with the ITA under which the Company paid a tax assessment of $2 million. The settlement finalized all tax disputes between the parties for the fiscal year ending March 31, 2016. The fiscal years ending March 31, 2017, March 31, 2018 and March 31, 2019, remain under tax audit.

In April 2019, the Company entered into a conditional settlement with the Israeli Ministry of Environmental Protection (the "MoEP") and submitted it to the Haifa Magistrate's Court, which approved the settlement in July 2019. The conditional settlement concerns one current and one former employees' and the Company's non-compliance with the performance obligations of periodic sampling of emissions from the facility's stacks between 2010 and 2013 as instructed by the Company's business license and the Israeli business license law. In the settlement, the Company and the concerned individuals undertook to refrain from repeating the described violations for a term of one year commencing on July 2019 and to conditional fines to be imposed in case these violations are repeated. In exchange, the MoEP agreed to a non-conviction by the court.

In June 2020, the Company was named as a defendant in a putative opioids-related class action pending in Israel, in which the claimant alleges that the Company did not provide sufficient disclosure regarding the risks associated with opioid use in violation of the Israeli Consumer Protection Act. The Company filed its defense to the application for class action approval on May 2, 2021.

In June 2020, the Company and Taro U.S.A. were named as defendants in a complaint filed in the Zantac/Ranitidine Multi-District Litigation ("MDL") consolidated in the U.S. District Court for the Southern District of Florida. The lawsuits name over 100 defendants, including brand manufacturers, generic manufacturers, repackagers, distributors, and retailers, involving allegations of injury caused by nitrosamine impurities. On September 4, 2020, and October 3, 2020, the Court dismissed the Company and Taro U.S.A., respectively, from the master complaints without prejudice, and both entities have now been dismissed from all individual complaints.

In July 2019, the Company received a motion to approve a class action against 30 companies located in Haifa Bay, Israel, including the Company. The claimant, a civil association in Haifa Bay, claims that the industrial activity of the 30 companies allegedly caused higher percentages of lung cancer among Haifa Bay residents compared to the average in Israel. At this stage, the claimant seeks to receive district court approval for the motion to approve a class action. The 30 companies have filed a procedural motion asking the court to determine whether the legal connection between the alleged conduct and the alleged damages should be resolved prior to the court's ruling on class certification.

Dividend Policy

We had never paid cash dividends until Fiscal Year 2019, and we do not anticipate paying any regular cash dividends in the foreseeable future. We currently intend to retain our earnings to finance the development of our business, but such policy may change depending upon, among other things, our earnings, financial condition and capital requirements.

B. SIGNIFICANT CHANGES

Subsequent to March 31, 2021, the Company received final approval from the FDA for one additional ANDA: Tavaborole Topical Solution, 5% in May 2021. The Company currently has a total of twenty ANDAs awaiting FDA approval, including five tentative approvals.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed on the NYSE as of March 22, 2012, under the symbol “TARO.”

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares have been listed on the NYSE under the symbol “TARO” since March 22, 2012. Our ordinary shares are not offered, listed or traded on any other exchange or regulated market.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Our registration number at the Israeli Registrar of Companies is 52-002290-6.

Objects and Purposes

Our Memorandum of Association provides that our main objects and purposes include any business connected with the developing, manufacturing, processing, supplying, marketing and distributing of Rx, OTC medical and other health care products.

In February 2000, the Israeli Companies Ordinance (New Version—1983) was replaced with the Israeli Companies Law. Because our Articles of Association were adopted before the enactment of the Israeli Companies Law, they are not always consistent with the provisions of the new law. In all instances in which the Israeli Companies Law changes or amends provisions in the Companies Ordinance, and, as a result, our Articles of Association are not consistent with the Israeli Companies Law, the provisions of the Israeli Companies Law apply unless specifically stated otherwise in the Israeli Companies Law.

Approval of Specified Related Party Transactions Under Israeli Law and Our Articles of Association

The Israeli Companies Law requires the approval of the audit committee, the board of directors and, in certain cases, the approval of the shareholders in that sequence, in order to effect specified related parties transactions, other than compensatory arrangements, for which the approval of the compensation committee, board of directors and, in certain cases, the shareholders is required.

Pursuant to the provisions of the Israeli Companies Law, our Audit Committee has (i) preapproved criteria for the classification of transactions with related parties as extraordinary or ordinary transactions, (ii) with respect to those classified as ordinary transactions, determined whether they are negligible or non-negligible, as defined in the Israel Companies Law, and (iii) determined the approval requirements for transactions that are not negligible. According to the Company's policy, if a transaction is deemed an ordinary transaction as per the preapproved criteria, the transaction will only require approval by our Board; if, however, a transaction is not covered by the preapproved criteria, it has to be first brought before the Audit Committee for its determination. Under the Israeli Companies Law, an "extraordinary transaction" is generally a transaction other than in the ordinary course of business, other than according to prevailing market terms, or that is likely to have a material impact on a company's profitability, assets or liabilities.

Fiduciary Duties of Office Holders

The Israeli Companies Law imposes fiduciary duties that "office holders" (as defined in the Israeli Companies Law and described above in this 2021 Annual Report) owe to a company. An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care that a reasonable office holder in the same position would have acted with under the same circumstances. The duty of care includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for the office holder's approval or performed by the office holder by virtue of his or her position; and
- all other information of importance with respect to these actions.

The duty of loyalty generally requires an office holder to act in good faith and for the benefit of the company, and this includes a duty to:

- refrain from any conflict of interest between the performance of his or her duties to the company and his or her other positions or personal affairs;
- refrain from any activity that is competitive with the company;
- refrain from exploiting any business opportunity of a company to receive personal gain for himself, herself or others; and
- disclose to the company any information or documents relating to the company's affairs that the office holder has received as a result of his or her position in the company.

Compensation of Office Holders

Under the Israeli Companies Law, arrangements as to compensation of a public company's office holders who are directors or the chief executive officer require the approval of the compensation committee, the board of directors and the shareholders, in that order, except where the regulations adopted under the Israeli Companies Law provide for certain easements from those requirements. Arrangements as to compensation of a public company's office holders who are not directors or the chief executive officer generally (assuming that the arrangement conforms to the then-effective compensation policy) require the approval of the compensation committee and the board of directors in that order as detailed above in *Item 6.C. –"Board Practices – Committees – Compensation Committee."*

Disclosure of Personal Interest of an Office Holder

The Company's Articles of Association provide that a director must disclose his or her interest in a contract or arrangement at the meeting of the Board of Directors at which such contract or arrangement is first taken into consideration. The Israeli Companies Law requires that an office holder (including a director) or a controlling shareholder who is aware that he or she has a personal interest in connection with any existing or proposed transaction by the company, promptly disclose to the company the nature of any conflict of interest (referred to as a "personal interest" under the Israeli Companies Law) that he or she may have, including all related material information or documents known to him or her. "Personal interest," as defined by the Israeli Companies Law, includes an interest of any person in an act or transaction of the company, including interest of his or her relative or of a corporate body in which such person or his or her relative is either a holder of 5% or more of the corporate body shares or voting power, is a director or the chief executive officer, or is entitled to appoint at least one director or the chief executive officer and including the personal interest of a person voting by a proxy granted to him or her by another person, even if the person so granting the proxy does not have a personal interest in the

transaction. In addition, the vote of a person who was granted a proxy from a shareholder who has a personal interest shall be deemed the vote of a shareholder having a personal interest, even if the proxy holder has discretion on how to vote. An interest stemming merely from ownership of shares in the company is not deemed a personal interest. In the case of a non-extraordinary transaction, the office holder's duty to disclose does not apply to a personal interest of the office holder's relative.

Under the Israeli Companies Law, the office holder must disclose his personal interest without delay and no later than the first meeting of the company's board that discusses the particular transaction. Once disclosure is made in compliance with the above disclosure requirement, the board of directors may approve the transaction between the company and an office holder or a third party in which an office holder has a personal interest, unless the company's articles of association provide otherwise. A transaction that is adverse to the company's interest or that is not performed by the officer holder in good faith may not be approved. Approval first by the company's audit committee and subsequently by the board of directors is required for an extraordinary transaction with an office holder. If the transaction concerns compensation, exemption, indemnification or insurance of an office holder, then it must first be approved by the company's compensation committee and then by the board of directors, and, under certain circumstances (for directors, the chief executive officer, and any executive officer whose compensation terms do not conform to the then-existing compensation policy), by the shareholders of the company, in that order. Compensation of an individual office holder, including the chief executive officer (but excluding a director), that does not conform to the company's compensation policy may be adopted under special circumstances despite failure to obtain shareholder approval if, following the relevant shareholder vote, the compensation committee followed by the board once again approves the compensation, based on renewed and specific analysis of relevant factors.

A director who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee (other than a non-extraordinary transaction) or the compensation committee may not be present at this meeting, unless the chairman of the audit committee, compensation committee or the board of directors determined that the participation of such director is required in order to present the transaction. A director who has a personal interest in a matter that is considered at a meeting of the board of directors, the audit committee or compensation committee may not vote on this matter, unless a majority of the members of the board of directors or such committee, as the case may be, has a personal interest in the matter, in which case shareholder approval is also required.

Disclosure of Personal Interests of a Controlling Shareholder

Under the Israeli Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. For these purposes, a controlling shareholder is a shareholder who has the ability to direct the activities of a company (other than solely from his or her position on the board of directors or any other position with the company), including a shareholder who holds 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights. For purposes of attribution, the Israeli Companies Law provides that if two or more persons, holding voting rights in the company, each have a personal interest in the approval of the same transaction, such persons will be deemed to be one holder.

Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, including a private offering in which the controlling shareholder has a personal interest, and the engagement of a controlling shareholder or his or her relative with a public company, as an office holder or employee, require the approval of the audit committee, the board of directors and the shareholders of the company, in that order. The compensation, indemnification of, or insurance covering a controlling shareholder or his or her relative with a public company requires the approval of the compensation committee, the board of directors and the shareholders, in that order (subject to certain leniencies with respect to the approval of directors and officers liability insurance, for which shareholder approval may not be required under certain circumstances).

The shareholder approval must, in each case be by a majority of the votes cast at the meeting, whether in person or by proxy, provided that:

- the majority includes at least the majority of the total votes of the shareholders who lack a conflict of interest (referred to as a personal interest under the Israeli Companies Law) in approval of the transaction or compensation (as applicable), or anyone voting on their behalf present at the meeting in person or by proxy; or
- the total number of votes of the disinterested shareholders that are voted against the transaction does not exceed two percent (2%) of the voting rights in the company.

To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years, unless the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto.

All transactions (other than compensatory transactions, which are subject to approval by the compensation committee) with a controlling shareholder, or in which a controlling shareholder has a personal interest, regardless of whether such transactions are

extraordinary, are subject to the oversight of the audit committee. The audit committee is required to establish procedures for a competitive process to be used by the company prior to entering into any such transaction, or other procedures where appropriate.

Director Qualifications

Our Articles of Association do not require directors to hold shares in the Company. According to the Articles, the number of directors of the Company should be not less than five or more than twenty-five. Under the Israeli Companies Law, we must have at least two statutory external directors on the Board of Directors. See *Item 6.C.—"Board Practices—Statutory External Directors—Qualifications of Statutory External Directors.*"

Voting, Rights Attached to Shares, Shareholders' Meetings and Resolutions

Our directors, other than our statutory external directors, are elected at annual general meetings of our shareholders. A director holds office until the next annual general meeting, unless he or she resigns or is earlier removed from office by an ordinary resolution passed at an extraordinary general meeting of our shareholders.

Our share capital is divided into founders' shares and ordinary shares. Holders of each paid-up share are entitled to participate equally in the payment of dividends and other distributions and, in the event of liquidation, in all distributions after the discharge of liabilities to creditors. All ordinary shares together entitle their holders to two-thirds of the voting power of our Company. All founders' shares together entitle their holders to one-third of the voting power of our Company. Under our Articles of Association, an increase to the share capital, creation of preferred shares or shares with special rights, consolidation or division of share capital, cancellation of shares and reduction in share capital, require a special resolution of the shareholders, i.e. an affirmative vote of 75% of the voting power voting in person or by proxy. The rights attached to any class of shares may be modified with the consent in writing of the holders of three-fourths of the issued shares of that class or by way of a special resolution of the shareholders.

Under our Articles of Association, dividends on our ordinary shares may be paid out of profits and other surplus, as defined in the Israeli Companies Law or as otherwise approved by a court of law, provided that there is no reasonable concern that the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

Under the Israeli Companies Law and our Articles of Association, an ordinary resolution of the shareholders (for example, with respect to the appointment of auditors) requires the affirmative vote of a majority of the voting power voting in person or by proxy, whereas a special resolution (for example, a resolution amending the Articles of Association or authorizing changes in capitalization or in the rights attached to a class of shares) requires the affirmative vote of at least 75% of the voting power voting in person or by proxy. Rights pertaining to a particular class of shares require the vote of 75% of such class of shares in order to change such rights in addition to the approval of 75% of the voting power of the shareholders voting in person, or by proxy, on such resolution. The quorum required for a meeting of shareholders consists of at least three shareholders present, in person or by proxy, who hold or represent between them at least one-third of the outstanding voting power unless otherwise required by applicable rules. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the board of directors may designate. If at such reconvened meeting the required quorum is not present, any two shareholders present in person, or by proxy, shall constitute a quorum.

Shareholder Meetings

Under our Articles of Association and the Israeli Companies Law, an annual general meeting of the shareholders must be held at least once in every calendar year, but not more than 15 months after the last preceding meeting. All general meetings must be held in Israel. The Board of Directors may call an extraordinary general meeting of the shareholders at any time. The Board shall convene an extraordinary general meeting of the shareholders, at the request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% of our outstanding voting power or (b) 5% or more of our outstanding voting power, provided that the request complies with the requirements provided by the Articles of Association, including but not limited to statement of the object of the meeting. Any shareholder may appoint by power of attorney a person to act as his or her representative at a meeting. The original instrument appointing a representative or a notarized copy must be deposited at the principal office of the Company at least 48 hours before the meeting.

The Israeli Companies Law requires that notice of any annual general meeting or extraordinary general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other matters, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the company's chief executive officer to serve as the chairman of its board of directors or an approval of a merger, notice must be provided at least 35 days prior to the meeting.

The Israeli Companies Law allows one or more of our shareholders holding at least 1% of the voting power of a company to request the inclusion of an additional agenda item for an upcoming shareholders meeting, assuming that it is appropriate for debate and action at a shareholders meeting (as determined by our Board of Directors). Under related regulations, such a shareholder request must be submitted within three days or, for certain requested agenda items, seven days following our publication of notice of the meeting. If the requested agenda item includes the appointment of director(s), the requesting shareholder must comply with particular procedural and documentary requirements. If our board of directors determines that the requested agenda item is appropriate for consideration by our shareholders, we must publish an updated notice that includes such item within seven days following the deadline for submission of agenda items by our shareholders. The publication of the updated notice of the shareholders meeting does not impact the record date for the meeting. In lieu of this process, we may opt to provide pre-notice of our shareholders meeting at least 21 days prior to publishing official notice of the meeting. In that case, our 1% shareholders are given a 14-day period in which to submit proposed agenda items, after which we must publish notice of the meeting that includes any accepted shareholder proposals.

Under the Israeli Companies Law, shareholders of a public company are not permitted to take action by way of written consent in lieu of a meeting.

Restriction on Voting

In order to reduce our risk of being classified as a Controlled Foreign Corporation under the Code, we amended our Articles of Association in 1999 to provide that no owner of any of our ordinary shares is entitled to any voting right of any nature whatsoever with respect to such ordinary shares if (a) the ownership or voting power of such ordinary shares was acquired, either directly or indirectly, by the owner after October 21, 1999, and (b) the ownership would result in our being classified as a Controlled Foreign Corporation. This provision has the practical effect of prohibiting each citizen or resident of the United States who acquired or acquires our ordinary shares after October 21, 1999, from exercising more than 9.9% of the voting power in our company, with respect to such ordinary shares, regardless of how many shares the shareholder owns. The provision may therefore discourage United States persons from seeking to acquire, or from accumulating, 15% or more of our ordinary shares (which, due to the voting power of the founders' shares, would represent 10% or more of the voting power of our company).

Duties of Shareholders

Under the Israeli Companies Law, each and every shareholder has a duty to act in good faith and in an acceptable manner in exercising his, her or its rights and fulfilling his, her, or its obligations towards the company and other shareholders and to refrain from abusing his, her or its power, such as in voting in the general meeting of shareholders and/or in a meeting of a different class of shares, on the following matters:

- any amendment to the articles of association;
- an increase of the authorized share capital;
- a merger; or
- the approval of actions of office holders in breach of their duty of loyalty and of interested party transactions.

In addition, each and every shareholder has the general duty to refrain from depriving other shareholders of their rights.

Furthermore, a duty to act in fairness towards the company applies to any controlling shareholder, any shareholder who knows that he or she possesses the power to determine the outcome of a shareholder vote and any shareholder that, pursuant to the provisions of the Articles of Association, has the power to appoint or to prevent the appointment of an office holder in the company or any other power in regard to the company. The Israeli Companies Law does not describe the substance of this duty to act in fairness.

These various shareholder duties may restrict the ability of a shareholder to act in what the shareholder perceives to be his, her or its own best interests.

Transfer of Shares

Fully paid ordinary shares are issued in registered form and may be freely transferred under our Articles of Association unless the transfer is restricted or prohibited by another instrument (or by any other limitation described herein).

Mergers and Acquisitions under Israeli Law

The Israeli Companies Law and the regulations promulgated thereunder include provisions that allow a merger transaction, in general, and require that each company that is a party to a merger has the transaction approved by its board of directors and a majority

of the voting power of its shares at a shareholders' meeting called on at least 35 days' prior notice. Under the Articles of Association, the required shareholder vote for approval of a merger is a supermajority of at least 75% of the shares voting in person or by proxy on the matter. A court may determine that a company duly approved a merger, in certain cases, upon the request of shareholders holding 25% or more of the voting power in the company. A court may not approve a merger unless it is convinced that the merger offer is fair and reasonable, in light of the valuation of the merging companies and the consideration which has been offered to the shareholders. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least 30 days have passed from the time that the shareholders of each company have approved the merger and 50 days have passed from the time that a merger proposal has been delivered to the Israeli Registrar of Companies.

In general, the Israeli Companies Law also provides that an acquisition of shares of a public company is required to be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of 25% or more of the voting rights in the company if there is no existing holder of 25% or more of the voting rights in the company. If there is no existing holder of more than 45% of the voting rights in the company, in general, the Israeli Companies Law provides that an acquisition of shares of a public company is required to be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company.

These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholders' approval (confirming that the purchaser would become a holder of 25% or greater than 45%, of the voting power in the company), (2) was from a holder of 25% or more, of the voting power in the company which resulted in the acquirer becoming a holder of 25% or more of the voting power in the company, or (3) was from a holder of greater than 45% of the voting power in the company which resulted in the acquirer becoming a holder of greater than 45% of the voting power in the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If as a result of any acquisition of shares, the acquirer will hold more than 90% of the company's issued and outstanding share capital or of a class of shares, or more than 90% of the voting power of the company, the acquisition must be made through a tender offer to acquire all of the shares or all of the shares of such class. If the shares represented by the shareholders who did not tender their shares in the tender offer constitute less than 5% of the issued and outstanding share capital of the company or of a class of shares (or voting power thereof), and a majority of the shareholders offered such tender who do not have a personal interest in receipt of such tender accepted such tender (which condition shall not apply if, following consummation of the tender offer, the acquirer holds at least 98% of all of the company's outstanding shares or voting rights), all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. If the dissenting shareholders hold 5% or more of the issued and outstanding share capital (or voting power) of the company or of a class of shares, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer to the extent that following such acquisition the acquirer would then own over 90% of the company's issued and outstanding share capital or of a class of shares. Shareholders may petition the court to alter the consideration for the acquisition to reflect a fair value. Such petition may be submitted within six months from the date the tender offer has been accepted. However, the acquirer may provide in the tender offer documents that a shareholder that accepts the offer may not seek such a court appraisal.

Israeli tax law may treat stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does United States tax law. For example, unless the stock-for-stock transaction is considered a tax-deferred merger which relates to a transfer of at least 80% of the shares in the transferred company, generally Israeli tax law subjects a shareholder who exchanges his ordinary shares for shares in another corporation (which is listed for trading on a stock exchange) to taxation on half of the shareholder's shares two years following the exchange and on the balance four years thereafter even if the shareholder has not yet sold the new shares.

Indemnification and Insurance of Office Holders

Insurance of Office Holders

Subject to the provisions of the Israeli Companies Law, our Articles of Association provide that we may enter into an insurance contract that would provide coverage in respect of liability imposed on any of our office holders with respect to an act performed in the capacity of an office holder for:

- a breach of the office holder's duty of care to the company or to another person, to the extent such a breach arises out of the negligent conduct of the officer holder;

- a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice the good of the company; or
- a financial liability imposed upon him or her in favor of another person.

We have obtained liability insurance covering our officers and directors. Under our current compensation policy approved by our shareholders at our December 2020 annual general meeting of shareholders, we have set (i) a maximum coverage level of $100 million for our D&O insurance policy and (ii) a requirement that premiums and deductibles paid by our company under our D&O insurance policy be consistent with market terms and not material to our company.

Indemnification of Office Holders

Subject to the provisions of the Israeli Companies Law, our Articles of Association provide that we may indemnify any of our office holders, in advance and retroactively, against the following liabilities imposed or expenses incurred on the office holder with respect to an act performed in the capacity of an office holder:

- a monetary obligation imposed on him or her in favor of another person by a court judgment, including a compromise judgment or an arbitrator's award approved by the court;
- reasonable litigation expenses, including attorneys' fees, expended by the office holder due to an investigation or a proceeding instituted against him or her by an authority competent to administer such an investigation or proceeding that was either finalized without the filing of an indictment (as defined in the Israeli Companies Law) against him or her and "without any monetary obligation imposed in lieu of criminal proceedings" (as defined in the Israeli Companies Law) or finalized "without the filing of an indictment" against him or her with a "monetary obligation imposed in lieu of criminal proceedings" relating to an offense that does not require proof of criminal intent; and
- reasonable litigation expenses, including attorneys' fees, expended by the office holder or charged to him or her by a court in connection with proceedings we institute against him or her or that are instituted on our behalf or by another person or a criminal charge from which he or she is acquitted, or a criminal charge in which he or she is convicted of an offense that does not require proof of criminal intent.

Under the Israeli Companies Law, indemnification in advance in respect to monetary liabilities to third parties are limited to those events which, in the opinion of the board of directors, are to be expected in light of the company's actual activities when the indemnification is granted and to a sum or a standard which the board of directors determines is reasonable in the circumstances.

Exemption of Office Holders

The Israeli Companies Law provides that a company may exempt an office holder in advance from liability for damages related to a breach of his duty of care to the company, but only if a provision authorizing such exemption is included in its articles of association. Our Articles of Association include such a provision. The company may not exempt in advance a director from liability arising out of a prohibited dividend or distribution to shareholders.

Limitations on Exemption, Insurance and Indemnification

The Israeli Companies Law provides that a company may not exempt or indemnify an office holder for, or enter into an insurance contract that would provide coverage for any monetary liability incurred as a result of, any of the following:

- a breach by the office holder of his or her duty of loyalty unless, with respect to indemnification and insurance coverage, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the good of the company;
- a breach by the office holder of his or her duty of care which was committed intentionally or recklessly, except when it was committed solely by negligence;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any civil fine, monetary sanction or forfeiture imposed against the office holder.

In addition, under the Israeli Companies Law, exemption, indemnification, and procurement of insurance coverage (except where the regulations provide for certain leniencies from such requirements with respect to insurance) for office holders must be approved by the compensation committee and board of directors of a company and, if the beneficiary is a director or the chief executive officer (or a controlling shareholder and his or her relative), by the shareholders, in that order.

Following approval by the Audit Committee and Board of Directors and, in the case of directors, approval by our shareholders, we entered into exemption and indemnification agreements with our directors and certain officers.

C. MATERIAL CONTRACTS

During the two years preceding the date of this 2021 Annual Report, neither we nor any of our affiliates and subsidiaries entered into any material contracts, other than contracts entered into in the ordinary course of business.

D. EXCHANGE CONTROLS

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares.

Dividends, if any, paid to our ordinary shareholders, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriated dollars at the rate of exchange prevailing at the time of conversion. Payments of dividends may be subject to withholding taxes.

E. TAXATION

General

The following is a brief summary of the material, current income tax aspects applicable to companies in Israel with reference to its effect on us. The following also contains a discussion of material Israeli and United States tax consequences to our shareholders and Israeli government programs benefiting us. We cannot assure you that the tax authorities, the courts or any other judicial or administrative authority will accept the views expressed in the discussion in question. This summary is based on the laws and regulations in effect as of the date hereof. The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations**. Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.**

Israeli Tax Considerations and Government Programs

General Corporate Tax Structure

Generally, Israeli companies are subject to corporate tax on their worldwide taxable income. As of calendar year 2021, 2020 and 2019, the corporate tax rate was 23.0%. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Benefited Enterprise, a Preferred/Special Preferred Enterprise or a Preferred/Special Preferred Technological Enterprise, as discussed below, may be considerably less. In general, Israeli companies are subject to regular corporate tax rate for their capital gain.

Tax Benefits under the Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investments, 5719-1959 (the "Investment Law"), provides certain incentives for productive activity, as under the regimes stipulated in the Investment Law. Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to as an Approved Enterprise, a Benefited Enterprise, a Preferred/Special Preferred Enterprise or a Preferred/Special Preferred Technological Enterprise, is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility within Israel or the election of the grantee. In order to qualify for these incentives, an Approved Enterprise, a Benefited Enterprise, a Preferred/Special Preferred Enterprise, or a Preferred/Special Preferred Technological Enterprise is required to comply with the requirements of the Investment Law. Several of our production and development facilities in Israel have been granted "Approved Enterprise" and "Benefited Enterprise" status, which provided certain benefits, including tax exemptions and reduced tax rates for a defined period. The "Approved Enterprise" and "Benefited Enterprise" statuses were applicable to our production and development facilities through the year ending on March 31, 2020, as the Company made an irrevocable election to forego previously granted benefits and apply the tax benefits under the 2011 Amendment and/or the 2017 Amendment (as defined below).

The Investment Law was significantly amended as of April 1, 2005 (the "2005 Amendment"), as of January 1, 2011 (the "2011 Amendment"), and as of January 1, 2017 (the "2017 Amendment"). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remained in force, but any benefits granted subsequently were subject to the provisions of the 2005 Amendment. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law in effect up to January 1, 2011, were entitled to

choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduced new benefits for Preferred/Special Preferred Technological Enterprises, alongside the existing tax benefits, as prescribed under previous amendments.

The following discussion is a summary of the Investment Law from the period prior to the 2005 Amendment through the 2017 Amendment as well as the relevant changes contained in such amendments and in the new legislation.

Tax Benefits Before the 2005 Amendment

An investment program that is implemented in accordance with the provisions of the Investment Law prior to the 2005 Amendment, generally referred to as an "Approved Enterprise", is entitled to certain benefits. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility within Israel in which the investment is made or the election of the grantee. A company that wished to receive benefits had to receive an approval from the Israeli Authority for Investments and Development of the Industry and Economy (formerly the Ministry of Industry, Trade and Labor) (the "Investment Center"), in order to obtain such Approved Enterprise status. Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets. The tax benefits available under any certificate of approval relate only to taxable income attributable to the specific program and are contingent upon meeting the criteria set forth in the certificate of approval. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits.

A company owning an Approved Enterprise may elect to forego certain government cash grants extended to an Approved Enterprises in return for an alternative package of tax benefits (the "Alternative Benefits Program"). Under the Alternative Benefits Program, a company's undistributed income derived from an Approved Enterprise is exempt from corporate tax for a period of between two and ten years (the "Exemption Period"), beginning on the first year in which the company derives taxable income under the program after the commencement of production, depending on the geographic location of the Approved Enterprise in Israel. After the Exemption Period, the company will be eligible for the reduced tax rates of 10% - 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. These tax benefits are granted for a limited period not exceeding seven years, or ten years for a company whose foreign investment level exceeds 25%, from the first year in which the Approved Enterprise has taxable income, after the year in which production commenced (as determined by the Investment Center). However, the benefits period may in no event exceed the lesser of 12 years from the year in which the enterprise commences its operations (as determined by the Investment Center) or 14 years from the year of receipt of Approved Enterprise status, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are approved, the company's effective tax rate reflects the weighted-average of the applicable rates. The tax benefits available under any certificate of approval relate only to taxable income attributable to the specific program and are contingent upon meeting the criteria set out in the certificate of approval.

The tax benefits under the Investment Law also apply to a company's income that is generated from (i) the grant of a right of use with respect to know-how developed by the Approved Enterprise, (ii) income generated from royalties and (iii) income derived from a service which is ancillary to such right of use or royalties, provided that such income is attributable to the Approved Enterprise's ordinary course of business. The tax benefits under the Investment Law may generally not be available with respect to income derived from products manufactured outside of Israel (subject to certain de-minims thresholds, and attribution formulas).

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors' Company ("FIC"). A FIC that is eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. A FIC that has an Approved Enterprise program will be eligible for an extension of the period during which it is entitled to tax benefits under its Approved Enterprise status (so that the benefit periods may be up to ten years) and for further tax benefits if the level of foreign investment is 49% or more. If a company that has an Approved Enterprise program is a wholly-owned subsidiary of another company, then the percentage of foreign investments is determined based on the percentage of foreign investment in the parent company.

The following table sets forth the corporate tax rates and related levels of foreign investments with respect to a FIC that has an Approved Enterprise program.

Percentage of non-Israeli ownership	Corporate Tax Rate
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

Dividends paid out of income attributed to an Approved Enterprise (or out of dividends received from a company whose income is attributed to an Approved Enterprise) are generally subject to withholding tax at source at the rate of 15% (in the case of non-Israeli shareholders, subject to the receipt of a valid certificate from the ITA allowing for such rate, or a lower rate under an applicable tax treaty). This withholding tax is deducted at source by the company. The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After such period, the withholding tax is applied at a rate of up to 30%, or at the lower rate under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA). In the case of a FIC, the 12-year limitation on reduced withholding tax on dividends does not apply. Under the Investment Law, a company that has elected the Alternative Benefits Program is not obligated to distribute retained profits, and to the extent that it decides to distribute dividends, may generally decide from which year's profits to declare dividends. In addition, a company that pays a dividend out of tax-exempt income attributed to its Approved Enterprise will be subject to tax in respect of the amount of the dividend distributed (grossed up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate that would have otherwise been applicable. This rate generally ranges from 10% to 25%, depending on the level of foreign investment in the company in each year, as explained above. We have elected to use the Alternative Benefits Program through the year ended March 31, 2020, but currently intend to reinvest any income derived from our Approved Enterprise program and not to distribute such income as a dividend.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an Approved Enterprise during the first five years in which the equipment is used. This benefit is an incentive granted by the Israeli government regardless of whether an Alternative Benefits Program is elected.

The benefits available to an Approved Enterprise are subject to the fulfillment of the conditions stipulated in the Investment Law and the regulations published thereunder and criteria in the specific certificate of approval with respect thereto, as described above. In the event of failure to comply with these conditions, the company is required to refund the amount of tax benefits, adjusted to the Israel consumer price index and interest, or other monetary penalty.

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to new investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the date on which the 2005 Amendment entered into effect (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise.

The 2005 Amendment provides that a certificate of approval from the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the Alternative Benefits Program. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment (a "Benefited Enterprise"). A company that has a Benefited Enterprise may, at its discretion, approach the ITA for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment for production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export (and subject to certain conditions stipulated under law). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment in fixed assets in the Benefited Enterprise that meets all the conditions set forth in the amendment for tax benefits and that exceeds a minimum investment amount specified in the Investment Law. Such investment entitles a company to receive a Benefited Enterprise status with respect to the investment, and may be made over a period of no more than three years ending on the year in which the company requested to have the tax benefits apply to the Benefited Enterprise (the "Year of Election"). Where a company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Benefited Enterprise and the company's effective tax rate will be the result of a weighted-average of the applicable rates.

The benefits period is subject to a limitation of 7 to 10 years from the Commencement Year (the "Commencement Year" being defined as the later of: (i) the first tax year in which the company derives income for tax purposes from the Benefited Enterprise or (ii) the Year of Election) provided that 12 years have not elapsed from the first day of the Year of Election. The tax benefits granted to a Benefited Enterprise depend on, among other things, the geographic location in Israel of the Benefited Enterprise, according to one of the following new tax routes, which may be applicable to a company:

- Similar to the Alternative Benefits Program, exemption from corporate tax on undistributed income for a period of 2 to 10 years, depending on the geographic location of the Benefited Enterprise in Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in a company in each year. The benefits period is limited to 12 or 14 years from the year the company requested to have the tax benefits apply,

depending on the location of the company. A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income attributed to its Benefited Enterprise during the tax Exemption Period, will be subject to corporate tax in respect of the amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid out of income attributed to a Benefited Enterprise (or out of dividends received from a company whose income is attributed to a Benefited Enterprise) are generally subject to withholding tax at source at a rate of 15% (in the case of non-Israeli shareholders, subject to the receipt of a valid certificate from the ITA allowing for such rate, or a lower rate as may be provided in an applicable tax treaty. The reduced rate of 15% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at a lower rate under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA). In the case of a FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

- A special tax route, which enables companies owning facilities in certain geographical locations in Israel to pay corporate tax at the rate of 11.5% on income of the Benefited Enterprise. The benefits period is 10 years. Upon payment of dividends, the company is required to withhold tax at source at a rate of 15% for Israeli residents and at a rate of 4% for foreign residents (subject to the receipt of a valid tax certificate from the ITA allowing for such a reduced tax rate).

The Investment Law also provides that a Benefited Enterprise is entitled to accelerated depreciation on its property and equipment that are productive assets as defined by the 2005 Amendment.

The benefits available to a Benefited Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, then it would be required to refund the amount of tax benefits, adjusted to the Israeli consumer price index and interest, or other monetary penalty.

Our facilities in Israel have received Approved Enterprise status which entitles us to receive certain tax benefits, which were applicable through the tax year ended on March 31, 2020. In the years ended March 31, 2020 and March 31, 2019, we had two active plans, one Approved Enterprise under the Alternative Benefits Program (Plan 5) and one Benefited Enterprise (Plan 6), granting us a package of benefits, subject to compliance with applicable requirements. Under Plan 5 (benefit period starting 2007), we were entitled to an exemption from corporate income tax on undistributed profits for a period of two years following implementation of such plan and to a reduced tax rate of 10% to 25% (depending on the level of foreign investment) for eight additional years thereafter. With respect to Plan 5, given the high level of investments in such plan, we met the conditions to qualify as a "High Level Foreign Investment Company" which entitled Plan 5 to an additional 5 years of benefits, subject to receipt of approval from the Israeli Investment Center (“IIC,” now called the "Authority for Investments and Development of the Economy and Industry"). On November 5, 2019, we received an approval for additional five years of reduced tax rates for such plan subject to meeting certain pre-agreed additional conditions that will be examined by the IIC at the end of the extension period. Under Plan 6 (benefit period starting 2010), we were entitled to an exemption from corporate income tax on undistributed profits for a period of two years and a reduced tax rate of 10% to 25% (depending on the level of foreign investment) for eight additional years thereafter.

All of these programs were subject to the time limits imposed by the Investment Law and based upon the level of foreign ownership in the company in each tax year.

Tax benefits under the 2011 Amendment and 2017 Amendment

The 2011 Amendment cancelled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its Preferred Enterprise (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly-owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to reduced corporate tax rates. These corporate tax rates were changed through the years and from 2017 and thereafter, the corporate tax rate for a Preferred Enterprise which is located in a specified development zone is 7.5% while the reduced corporate tax rate for other development zones is 16%. Income derived by a Preferred Company from a “Special Preferred Enterprise” (as that term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5%, if the Special Preferred Enterprise is located in a specified development zone.

Dividends paid out of preferred income attributed to a Preferred Enterprise or to a Special Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% (in the case of non-Israeli shareholders, subject to the receipt of a valid certificate from the ITA allowing for such tax rate or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax will be withheld (although if such dividends are subsequently distributed to individuals or a non-Israeli company, the previously mentioned tax rate will apply).

The 2011 Amendment also included transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment became effective, will remain subject to the provisions of the Investment Law as in effect immediately prior to the date of the 2011 Amendment, and subject to certain conditions; (ii) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an Alternative Benefits Program, before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect immediately prior to the date of the 2011 Amendment, provided that certain conditions are met.; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment became effective, provided that certain conditions are met.

On August 24, 2020, the Company submitted to the ITA an announcement declaring its irrevocable choice to forego the benefits granted to it prior to the 2011 Amendment, and the application of the tax benefits under the 2011 Amendment and/or the 2017 Amendment, starting with the fiscal year beginning on April 1, 2020.

The New Technological Enterprise Incentives Regime – Amendment 73 to the Investment Law

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment is based on OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project and introduced the incentive regimes of “Preferred Technological Enterprise” and of "Special Preferred Technological Enterprise", as described below. These new regimes are in addition to the other existing tax incentives regimes under the Investment Law. The new incentives regime will apply to "Preferred Technological Enterprises" that meet the "Preferred Enterprise" conditions and certain additional conditions, including, all of the following:

- The Enterprise’s R&D expenses in the three years prior to the current tax year must be greater than or equal to 7% on average, out of the total revenue of the Company owning the Enterprise or exceed NIS 75 million (approximately $23 million) per year; and
- The Company owning the Enterprise must also satisfy one of the following conditions: (1) at least 20% of the workforce (or at least 200 employees) are employees of which their salaries are fully allocated to R&D expenses; (2) a venture capital investment of an amount of NIS 8 million (approximately $2.4 million) was previously made in the company, provided that the company did not change its field of business after the investment; or (3) growth in sales (assuming the Company’s sales in the current tax year and in each of the three preceding years was at least NIS 10 million (approximately $3 million)) or workforce (assuming the Company’s workforce in the current tax year and in each of the three preceding years included a least 50 employees) by an average of 25% in the course of three years preceding the tax year in comparison to the prior tax year.

A "Special Preferred Technological Enterprise" is an enterprise that meets the "Preferred Technological Enterprises" conditions, and in addition is a part of a group of companies that have total annual consolidated revenues of at least NIS 10 billion (approximately $3 billion).

A “Preferred Technological Enterprise” satisfying the required conditions will enjoy a reduced corporate tax rate of 12% on income that qualifies as “Preferred Technological Income”, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technological Enterprise located in development zone A. These corporate tax rates shall generally be limited to the portion of intellectual property developed in Israel, subject to the “NEXUS approach.” In addition, a Preferred Technological Enterprise will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain “Benefited Intangible Assets” (as defined in the Investment Law) to a related foreign company if the Benefited Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, if the sale was pre-approved by the Authority.

A “Special Preferred Technological Enterprise” satisfying the required conditions will enjoy a further reduced corporate tax rate of 6% on “Preferred Technological Income” regardless of the company’s geographic location within Israel, subject to the “NEXUS approach”. In addition, a Special Preferred Technological Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefited Intangible Assets” to a related foreign company if the Benefited Intangible Assets were either developed by the Special Preferred Technological Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A Special Preferred Technological Enterprise that acquires Benefited Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technological Enterprise or a Special Preferred Technological Enterprise, paid out of Preferred Technological Income, are generally subject to withholding tax at source at the rate of 20% (in the case of non-Israeli shareholders, subject to the receipt of a valid certificate from the ITA allowing for such rate, or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such

dividends are distributed to a foreign company that holds solely or together with other foreign companies 90% or more in the Israeli company and other conditions are met, the withholding tax rate may be reduced to 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate).

We have evaluated the likely effect of the 2017 Amendment as well as the Company's compliance with the applicable threshold conditions and believe that the Company qualifies as a Special Preferred Technological Enterprise starting with the fiscal year beginning on April 1, 2020.

Tax Benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Law for the Encouragement of Industry (Taxes), 1969 (the "Industry Encouragement Law") provides several tax benefits for Industrial Companies. Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident company, and at least 90% of its income in any tax year (other than income from certain government loans), is generated from an "Industrial Enterprise" located in Israel that it owns. An Industrial Enterprise is defined as an enterprise whose major activity in a given tax year is industrial production.

Under the Industry Encouragement Law, an Industrial Company is entitled to certain corporate tax benefits, including:

- Deduction of the cost of purchase of know-how, patents and rights to use a patent or know-how used for the development or promotion of the Industrial Enterprise, over an eight-year period commencing on the year in which such rights were first exercised;
- The right to elect, under specified conditions, to file a consolidated tax return together with Israeli industrial companies controlled by it; and
- A straight-line deduction of expenses related to a public offering over a three-year period commencing in the year of offering.

Under some tax laws and regulations, an Industrial Enterprise may be eligible for special depreciation rates for machinery, equipment and buildings. These rates differ based on various factors, including the date the operations begin and the number of work shifts. An Industrial Company owning an Approved Enterprise may choose between these special depreciation rates and the depreciation rates available to the Approved Enterprise.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. As any unilateral tax position, we cannot assure that it will not be challenged, or that we will continue to qualify as an Industrial Company or that the benefits described above will be available to us in the future.

Grants under the Encouragement of Research, Development and Technological Innovation Law, 5744-1984

On January 1, 2016, the Encouragement of Research, Development and Technological Innovation Law, 5744-1984 (the "Research Law", as amended), was enacted, which amended the Encouragement of Industrial Research and Development Law, 1984. Under the Research Law development programs that meet specified criteria and are approved by the IIA are generally eligible for grants of up to 50% of the project's approved expenditures, as determined by the IIA, in exchange for the payment of royalties from the sale of products developed as part of the programs under which the grants were given.

The Company received grants from the IIA. Regulations under the Research Law, as amended generally provide for the payment of royalties to the IIA of 3-6% on sales of products and services derived from a technology developed using these grants until 100% of the dollar-linked grant is repaid. Our obligation to pay these royalties is contingent on our actual sale of such products and services. In the absence of such sales, no payment of such royalties is required. Effective for grants received from the IIA under programs approved after January 1, 1999, the outstanding balance of the grants will be subject to interest at a rate equal to the 12 month LIBOR applicable to dollar deposits that is published on the first business day of each calendar year in which the program has been approved. In July 2017, the IIA issued new directives, inter alia, regarding the royalty rates ("The New Directives"). According to the New Directives, the royalty rates range generally from 1.3% to 5%, depending on the company's size and sector. The New Directives are in effect starting from July 1, 2017, except for with respect to "Large Companies" (companies whose revenues exceed $70 million), for whom the New Directives are in effect starting from January 1, 2018. According to the New Directives, companies whose last IIA file was approved prior to January 1, 1994, will continue to be subject to the Old Regulations. Following the full repayment of all the outstanding liabilities in connection with such grants, including the accrued interest thereof, there is no further liability for such royalties. However, even after the repayment of such liabilities in full, we will remain subject to the limitations set

forth under the Research Law, including inter alia on the sale, transfer or assignment outside of Israel of know-how developed as part of the programs under which the grants were given. Grant recipients are required to notify the IIA of events enumerated in the Research Law.

The terms of the grants under the Research Law also require that generally the manufacture of products developed as part of the programs under which the grants were given be undertaken in Israel. However, under the regulations pursuant to the Research Law, the manufacturing may be undertaken outside of Israel, assuming we receive prior approval from the IIA for the foreign manufacturing, which approval is given in special circumstances upon the fulfillment of certain conditions. If we receive that approval and manufacture outside of Israel, we may be required to pay royalties at an increased rate and an increased cap of royalties. The increased cap depends upon the extent of the manufacturing volume that is performed outside of Israel, as follows:

Extent of manufacturing volume outside of Israel	Royalties to the Authority as a percentage of grant
Less than 50%	120%
between 50% and 90%	150%
90% and more	300%

Despite the general approval requirement, a transfer outside of Israel of up to 10% of the manufacturing rights will not require the pre-approval of the IIA, but rather a notification to the IIA, which may block such transfer within 30 days.

The know-how developed within the framework of the IIA programs may not be transferred to third parties outside Israel without the prior approval of the IIA. The approval, however, is not required for the export of any products developed using grants received from the IIA. The IIA approval to transfer know-how created, in whole or in part, in connection with an IIA-funded program to a third party outside Israel is subject to payment of a redemption fee to the IIA calculated according to a formula provided under the IIA directives, which cannot exceed 6 times of the total grant amount plus interest. Upon payment of such redemption fee, the know-how and the production rights for the products supported by such funding cease to be subject to the Research Law.

The New Directives contains new rules for licensing know-how developed with IIA funding outside of Israel (the “Licensing Rules”), which allow grant recipient to enter into licensing arrangements or grant other rights in know-how developed under IIA programs outside of Israel, subject to the prior consent of IIA and payment of license fees, calculated in accordance with the Licensing Rules. The payment of the license fees will not discharge grant recipient from the obligations to pay royalties or other payments to the IIA. The maximum amount payable to the IIA under the Licensing Rules shall not exceed 6 times the amount of the grants received plus LIBOR interest.

Transfer of know-how within Israel is subject to an undertaking of the recipient Israeli entity to comply with the provisions of the Research Law and related regulations, including the restrictions on the transfer of manufacturing rights or know-how and the obligation to pay royalties, if applicable, as further described in the Research Law and related regulations.

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under certain conditions, a deduction of research and development expenditures in the year in which they are incurred, subject to a pre-approval. The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects.

Expenditures not so approved, but otherwise qualifying for deduction, are deductible over a three-year period, from the first year that the expenditures were made. However, the amount of any government grants made available are subtracted from the amount of expenses which may be deducted.

Taxation of Non-Israeli Resident Holders of our Ordinary Shares

The following is a brief summary of the material Israeli tax consequences concerning the ownership and disposition of our ordinary shares by our shareholders. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his, her or its personal investment circumstances or to some types of investors which are subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which may have retroactive effect.

Taxation of Non-Israeli Resident Shareholders on Receipt of Dividends. Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25% or 30% (if the dividend recipient is a "Substantial Shareholder" at the time of distribution or at any time during the preceding 12-month period). Such dividends are generally subject to Israeli withholding tax at the rate of 25% so long as the shares are traded on a stock exchange and are registered with a Nominee Company (whether the recipient is a substantial shareholder or not). A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally includes the right to vote, receive profits, nominate a director or an officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, and all regardless of the source of such right. However, distribution of dividends from income attributed to an Approved Enterprise or a Benefited Enterprise is subject to Israeli income tax at a rate of 15% (and 20% with respect to Preferred/Special Preferred Enterprise or Preferred/Special Preferred Technological Enterprise), unless a further reduced tax rate is provided under an applicable tax treaty. All subject to the receipt in advance of a valid certificate from the ITA allowing for such reduced rate. For example, under the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended (the "U.S.-Israel Tax Treaty"), the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by an Approved Enterprise that are paid to a U.S. corporation holding 10% or more of the outstanding voting rights throughout the tax year in which the dividend is distributed as well as the previous tax year, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise are subject, under certain conditions stipulated in the treaty, to withholding at the rate of 15%. We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability. If the dividend is partly attributable to income derived from an Approved Enterprise, Benefited Enterprise, Preferred/Special Preferred Technological Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the various types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in U.S. tax legislation.

A non-Israeli resident who receives dividends from which tax was duly withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided that (i) such income was not derived from a business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed and (iii) the taxpayer is not obliged to pay excess tax (as further explained below).

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders. Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli company, (iii) represent, directly or indirectly, rights to assets located in Israel, or (iv) right in a foreign resident company, which in essence represents, directly or indirectly, right to property located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is, generally, a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index, between the date of purchase and the date of sale (under certain circumstances, linkage to a foreign currency may or shall be used to determine the inflationary surplus). The real gain is the excess of the total capital gain over the inflationary surplus. Real capital gain on a disposition of listed shares is generally subject to tax at the corporate tax rate of 23.0% as of calendar year 2019 (in 2020 and 2019, the corporate tax rate was 23.0%), if generated by a company, or at the rate of 25.0% (or 30.0% for Substantial Shareholder), if generated by an individual from the sale of an asset purchased on or after January 1, 2012. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2020 and 2021).

Notwithstanding the foregoing, shareholders that are not Israeli residents (individuals and corporations) are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of shares of Israeli resident Company, listed on a non-Israeli stock exchange, provided, inter alia, that certain conditions are met. The main conditions are that (i) such gains are not derived through a permanent establishment that the non-Israeli resident maintains in Israel; (ii) the shares were purchased after being listed and were not purchased from a "relative" or as part of a tax-exempt reorganization; and (iii) the capital gains from shares being sold are neither subject to section 101 of the Israeli Income Tax Ordinance, nor to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly, alone or together with another. Furthermore, such an exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Additionally, a sale of shares may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA). For example, under the U.S.-Israel Tax Treaty, the sale,

exchange (whether from merger, acquisition or similar transaction) or disposition of our ordinary shares by a shareholder who is both a U.S. resident (for purposes of that treaty) holding the ordinary shares as a capital asset and entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty (called a "Treaty U.S. Resident") is generally exempt from Israeli capital gains tax unless either (i) such Treaty U.S. Resident if an individual has been present in Israel for a period or periods aggregating to 183 days or more during the applicable taxable year; or (ii) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting rights during any part of the 12-month period preceding such sale, exchange or disposition, subject to certain conditions; or (iii) the capital gain arising from such sale, exchange or disposition is attributable to a permanent establishment of the Treaty U.S. Resident maintained in Israel; or (iv) the capital gains arising from such sale, exchange or disposition is attributed to real estate located in Israel or to royalties. In any of these cases, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for the tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

In some instances, whether or not our shareholders are liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gain in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the ITA to confirm their status as a non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Excess Tax. Individuals who are subject to tax in Israel are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 651,600 in 2020 and NIS 647,640 in 2021 (the amount is linked to the annual change in the Israeli consumer price index). Such excess tax is imposed on almost any type of income, including, but not limited to, dividends, interest and capital gain.

Israeli Transfer Pricing Regulations

Section 85A of the Tax Ordinance and the regulations promulgated thereunder generally require that all cross-border transactions carried out between related parties be conducted on an arm's length principle basis and will be taxed accordingly.

United States Federal Income Tax Considerations

Subject to the limitations described in the next paragraph, the following discussion describes the material United States federal income tax consequences to a holder of our ordinary shares (a "U.S. Holder") that is:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is includable in gross income for United States federal income tax purposes regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or if the trust has validly elected to be treated as a United States person under applicable Treasury regulations.

In addition, certain material aspects of United States federal income tax relevant to a holder who is not a partnership and is not a U.S. Holder (a "Non-U.S. Holder") are discussed below.

If a partnership, or other entity or arrangement treated as a partnership for United States federal income tax purposes, holds ordinary shares, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that holds ordinary shares is urged to consult its own tax advisor regarding the specific tax consequences of owning and disposing of ordinary shares.

This summary is for general information purposes only. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to each person's decision to own our ordinary shares.

This discussion is based on current provisions of the Code, current and proposed Treasury regulations promulgated thereunder, and administrative and judicial decisions as of the date hereof, all of which are subject to change, possibly on a retroactive basis. Any such change could materially affect the continued validity of this discussion and the tax consequences described herein. This

discussion does not address all aspects of United States federal income taxation that may be relevant to any particular shareholder based on such shareholder's individual circumstances. In particular, this discussion considers only U.S. Holders that will own ordinary shares as capital assets and does not address the potential application of the alternative minimum tax or United States federal income tax consequences to U.S. Holders that are subject to special treatment, including U.S. Holders that:

- are broker-dealers or insurance companies;
- are certain former citizens or long-term residents of the United States;
- are persons subject to the alternative minimum tax;
- have elected mark-to-market accounting;
- are tax-exempt organizations;
- are financial institutions or financial services entities;
- hold ordinary shares as part of a straddle, hedge or conversion transaction with other investments;
- own directly, indirectly or by attribution at least 10% of our company (by vote or value);
- have a functional currency that is not the U.S. dollar;
- are carrying on a trade or business in Israel through a permanent establishment; or
- acquire ordinary shares as compensation.

In addition, this discussion does not address any aspect of state, local or non-United States tax laws and does not consider the possible application of United States federal gift or estate tax or the Medicare tax on net investment income.

Each holder of ordinary shares is advised to consult such person's own tax advisor with respect to the specific tax consequences to such person of purchasing, holding or disposing of our ordinary shares.

Taxation of Ordinary Shares

Taxation of Distributions Paid On Ordinary Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," a U.S. Holder will be required to include in gross income as ordinary income the amount of any distribution paid on our ordinary shares, including any Israeli taxes withheld from the amount paid, on the date the distribution is actually or constructively received to the extent the distribution is paid out of our current or accumulated earnings and profits as determined for United States federal income tax purposes. Distributions in excess of such earnings and profits will be applied against and will reduce the U.S. Holder's basis in the ordinary shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of ordinary shares.

With respect to non-corporate U.S. Holders, including individual U.S. Holders, dividends may constitute "qualified dividend income" eligible to be taxed at the preferential rate applicable to long-term capital gains (currently a maximum rate of 20%), provided that (1) (a) our ordinary shares are readily tradable on an established securities market in the United States or (b) we qualify for benefits under an income tax treaty with the United States which includes an information exchange program and such treaty is determined by the United States Internal Revenue Service ("IRS"), to be satisfactory, (2) we are not a passive foreign investment company ("PFIC") (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, and (3) the U.S. holders satisfy certain minimum holding period requirements. Our shares are now traded on the NYSE and we believe the requirements of 1(a), (1)(b) and (2) are met. Therefore, dividends on our shares would qualify as qualified dividend income so long as a U.S. Holder meets requirement (3).

You should consult your tax advisor regarding the availability of the lower rate for any dividends paid with respect to our ordinary shares.

Any dividends paid by us to a U.S. Holder on our ordinary shares will be treated as foreign source income and will generally be categorized as "passive income" for United States foreign tax credit purposes. Subject to the limitations in the Code, as modified by the U.S.-Israel Tax Treaty, a U.S. Holder may elect to claim a foreign tax credit against its United States federal income tax liability for Israeli income tax withheld from dividends received in respect of ordinary shares. U.S. Holders who do not elect to claim the foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only for a year in which the U.S. Holder elects to do so with respect to all foreign income taxes. A deduction does not reduce United States tax on a dollar-for-dollar basis like a tax credit. The deduction, however, is not subject to the limitations applicable to foreign tax credits. The rules relating to the determination of the foreign tax credit are complex. Accordingly, if you are a U.S. Holder of ordinary shares you should consult your own tax advisor to determine whether and to what extent you would be entitled to the credit.

Taxation of the Disposition of Ordinary Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," upon the sale, exchange or other taxable disposition of our ordinary shares, a U.S. Holder will recognize a capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in the ordinary shares, which is usually the cost of such shares in USD, and the amount realized on the disposition in USD. Any gain or loss recognized upon the sale, exchange or other taxable disposition of the ordinary shares will be treated as long-term capital gain or loss if, at the time of the sale, exchange or other taxable disposition, the holding period of the ordinary shares exceeds one year. In the case of individual U.S. Holders, capital gains generally are subject to United States federal income tax at preferential rates if specified minimum holding periods are met. The deductibility of capital losses is subject to significant limitations. U.S. Holders should consult their own tax advisors in this regard.

In general, gain or loss recognized by a U.S. Holder on the sale, exchange or other taxable disposition of our ordinary shares will be United States source income or loss for United States foreign tax credit purposes. In certain instances, a U.S. Holder who is subject to tax in Israel on the sale of our shares and who is entitled to the benefits of the U.S.–Israel Tax Treaty may treat such gain as Israeli source income and thus could, subject to other United States foreign tax credit limitations, credit the Israeli tax on such sale against such U.S. Holder's United States federal income tax on the gain from that sale.

Tax Consequences if We Are a Passive Foreign Investment Company

We will be a PFIC if 75% or more of our gross income in a taxable year, including the pro rata share of the gross income of any company, United States or foreign, in which we are considered to own, directly or indirectly, 25% or more of the shares by value, is passive income. Alternatively, we will be considered to be a PFIC if at least 50% of our assets in a taxable year, averaged quarterly over the year and ordinarily determined based on fair market value and including the pro rata share of the assets of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value, are held for the production of, or produce, passive income. Passive income includes, among other amounts, amounts derived by reason of the temporary investment of funds raised in our public offerings.

Based on our income, assets, and business activities, we do not believe that we are a PFIC. However, the tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC. If we were characterized as a PFIC for any taxable year, a U.S. Holder would suffer adverse tax consequences. These consequences may include having the gains that are realized on the disposition of ordinary shares treated as ordinary income rather than capital gains and being subject to punitive interest charges with respect to certain dividends and gains and on the sale or other disposition of the ordinary shares. Furthermore, dividends paid by a PFIC are not eligible to be treated as "qualified dividend income" (as discussed above). In addition, if a U.S. Holder holds ordinary shares in any year in which we are treated as a PFIC, such U.S. Holder will be subject to additional tax form filing and reporting requirements (including additional filing requirements under recently-enacted legislation).

If we determine that we have become a PFIC, we will notify our U.S. Holders and provide them with the information necessary to comply with the "qualified electing fund" ("QEF") rules (which can mitigate some of the adverse effects of our being a PFIC). U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making any elections with respect to our ordinary shares in the event that we qualify as a PFIC.

Tax Consequences for Non-U.S. Holders of Ordinary Shares

Except as described in "Information Reporting and Backup Withholding" below, a Non-U.S. Holder of ordinary shares will not be subject to United States federal income or withholding tax on the payment of dividends on, and the proceeds from the sale, exchange or other taxable disposition of our ordinary shares, unless:

- such item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and, in the case of a resident of a country which has a tax treaty with the United States, such item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States;
- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met; or
- the Non-U.S. Holder is subject to tax pursuant to the provisions of United States tax law applicable to United States expatriates.

Information Reporting and Backup Withholding

U.S. Holders generally are subject to information reporting requirements with respect to dividends paid in the United States on, or the proceeds from the taxable disposition of, our ordinary shares, unless the U.S. Holder is an exempt recipient. U.S. Holders are

also generally subject to backup withholding on dividends paid in the United States on, or the proceeds from the taxable disposition of, our ordinary shares unless the U.S. Holder provides IRS Form W-9 or otherwise establishes an exemption.

Non-U.S. Holders generally are not subject to information reporting or backup withholding with respect to dividends paid on, or upon the taxable disposition of, ordinary shares. Such holders, however, may be required to provide certification of non-U.S. status (generally on IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

The amount of any backup withholding may be allowed as a credit against a U.S. or Non-U.S. Holder's United States federal income tax liability and may entitle such holder to a refund, provided that certain required information is timely furnished to the IRS.

U.S. Holders should also be aware that additional reporting requirements apply with respect to the holding of certain foreign financial assets, including stock of foreign issuers that is not held in an account maintained by a financial institution, if the aggregate value of all such assets exceeds U.S. $50,000. U.S. Holders should consult their own tax advisors regarding the application of these and other information reporting rules applicable to an investment in our ordinary shares based on their particular situation.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligation with respect to such requirements by filing reports with the SEC. You may inspect and copy such material at the public reference facilities maintained by the SEC, 100 F Street, N.E., Washington, D.C. 20549. The SEC maintains an Internet website at http://www.sec.gov that contains reports, proxy statements, information statements and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. A copy of each report submitted in accordance with applicable United States law is available for public review at our principal executive offices and on our website at www.taro.com. The information contained on our website does not constitute part of this 2021 Annual Report.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, which primarily consists of interest rate and foreign exchange risk. We use derivative instruments to partially mitigate our exposure to these risks. Our objective is to reduce volatility in cash flows due to changes in interest and foreign exchange rates.

Foreign Exchange Rate Risk

We and Taro U.S.A. use the USD as our reporting currency and are exposed to foreign exchange rate risk from transactions conducted in different currencies.

In 2021, 70% of our revenue was generated in USD. However, the remainder of our sales was denominated in the local currencies of the countries in which the sales occurred. As a result, our reported profits and cash flows are exposed to changing exchange rates. If these foreign currencies weaken relative to the USD, the earnings generated in these foreign currencies will, in effect, decrease when converted into USD, and vice versa. Therefore, from time to time we attempt to manage exposures that arise in the normal course of business related to fluctuations in foreign currency exchange rates by entering into offsetting positions through the use of foreign exchange forward contracts.

Due to the relatively low level of non-USD revenues, the effects of currency fluctuations on consolidated net sales and operating income were not significant in 2021.

Foreign Exchange Transactions

During the year ended March 31, 2021, Taro Canada recorded a gain of $0.1 million compared to a gain of $14.8 million in 2020, reflecting the unfavorable impact of the change in foreign currency exchange rates related primarily to cash and cash equivalents and marketable securities in Canada. Prior to April 1, 2019, the functional currency of the Company's Canadian subsidiary was the CAD. Effective as of the Company's fiscal year beginning April 1, 2019, Taro Canada's functional currency became the USD. As a result of this change, there is no longer an effect of exchange differences on intercompany balances related to Taro Canada's transactions with Taro U.S.A. Refer to Item 5 and Note 2.b. for additional details on Taro Canada's change in functional currency.

During the year ended March 31, 2021, Taro Israel recorded a loss of $0.5 million compared to a gain of $0.02 million in 2020.

The Company enters into separate forward contracts to purchase the NIS and the CAD on a monthly basis at agreed upon spot rates to hedge the variability of cash flows in USD due to changes in the respective exchange rates.

At March 31, 2021, the forward contracts to purchase the NIS are for a total amount of $54,500, at a weighted-average forward rate of 3.33 NIS per USD, which are settled in seventeen (17) monthly settlements of $3,750 for ten (10) months, $2,500 for six (6) months, and $2,000 for one (1) month. The Company recorded a net gain (loss) of $190, $178 and ($2,530) for the years ended March 31, 2021, 2020, and 2019, respectively, for the contracts to purchase the NIS.

The forward contracts to purchase the CAD are for a total amount of $10,203, at a weighted-average forward rate of CAD 1.26 per USD, which are settled in seven (7) monthly installments of approximately $2,066 for four (4) months, $821 for two (2) months, and $298 for one (1) month. The Company recorded a net gain (loss) of $267, ($629) and $2,545 for the years ended March 31, 2021, 2020, and 2019, respectively, for the contracts to purchase the CAD.

At March 31, 2021, the Company had derivative instruments designated as hedging instruments. Refer to Note 10 for additional details on hedging instruments. There is no collateral for these hedges.

Interest Rate Risk

Under current conditions, we do not believe that our exposure to market risks will have a material impact on future earnings.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

a. ***Disclosure Controls and Procedures***

Taro's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of Taro's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this 2021 Annual Report, have concluded that, as of such date, Taro's disclosure controls and procedures were effective to ensure that the information required in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to its Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. ***Report of Taro Management on Internal Control Over Financial Reporting***

Taro's Management is responsible for establishing and maintaining adequate internal control over financial reporting. Taro's internal control system was designed to provide reasonable assurance to Taro's Management and Board regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Taro's Management assessed the effectiveness of the Group's internal control over financial reporting as of March 31, 2021. In making this assessment, it used the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such assessment, Management has concluded that, as of March 31, 2021, Taro's internal control over financial reporting is effective based on those criteria.

c. ***Attestation Report of the Registered Public Accounting Firm***

Taro's internal control over financial reporting as of March 31, 2021, has been audited by Ziv Haft, a BDO Member Firm ("Ziv Haft"), an independent registered public accounting firm in Israel, as stated in their report, which is included on pages F-2 and F-3 of this 2021 Annual Report.

d. ***Changes in Internal Control Over Financial Reporting***

There were no changes to Taro's internal control over financial reporting that occurred during the fiscal year ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, Taro's internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board has determined that Linda Benshoshan, the Chairwoman of the Audit Committee, is an audit committee financial expert, as defined by applicable SEC regulations, and is independent in accordance with applicable SEC and NYSE regulations. See Item 6.A. for a summary of Linda Benshoshan's relevant professional experience.

ITEM 16B. CODE OF ETHICS

We have adopted a code of conduct applicable to our directors and all employees ("Code of Conduct"). We have also adopted a code of ethics that applies to our Chief Executive Officer, Chief Financial Officer and other senior officers ("Code of Ethics"). A copy of the Code of Conduct or the Code of Ethics may be obtained, without charge, upon a written request addressed to: Corporate Affairs Department, Taro Pharmaceutical Industries Ltd., c/o Taro Pharmaceuticals U.S.A., Inc., 3 Skyline Drive, Hawthorne, NY 10532. The Code of Conduct and the Code of Ethics are also available on the Company's website at www.taro.com. Any waivers of the Code of Conduct or the Code of Ethics will be disclosed through the filing of a Report on Form 6-K.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal Accountant Fees and Services

We paid the following fees for professional services rendered by Ziv Haft – BDO Member Firm, for the years ended March 31, 2021 and 2020, respectively.

	Year ended March 31, 2021	Year ended March 31, 2020
	(in millions)	
Audit fees	$ 0.74	$ 0.70
Tax fees	0.03	0.03
Other fees	0.02	0.03
Total	$ 0.79	$ 0.76

The audit fees for the years ended March 31, 2021 and 2020, respectively, represent fees for professional services rendered for the audits of our annual consolidated financial statements, statutory or regulatory audits of us and our subsidiaries, consents and assistance with review of documents filed with the SEC. All services provided by the Company's independent auditors, including those set forth in the table above, were approved by the Audit Committee.

Tax fees represent fees for professional services related to tax compliance, including the preparation of tax returns and claims for refund, and tax planning and tax advice, including assistance with tax audits and appeals, tax services for employee benefit plans and assistance with respect to requests for rulings from tax authorities.

Other fees represent fees for additional professional services performed for certain legal entities.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditors

Our Audit Committee is responsible for the oversight of our independent auditors' work. The Audit Committee's policy is to pre-approve all audit and non-audit services provided by our independent registered public accounting firm, Ziv Haft. These services may include audit services, audit-related services, tax services and other services, as further described below. The Audit Committee sets forth the basis for its pre-approval in detail, listing the particular services or categories of services that are pre-approved, and setting forth a specific budget for such services. Additional services may be pre-approved by the Audit Committee on an individual basis. Once services have been pre-approved, Ziv Haft and our management then report to the Audit Committee on a periodic basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On November 23, 2016, the Company announced that its Board of Directors approved a $250 million repurchase of ordinary shares, which was completed on January 11, 2019. Under the program, the Company bought back 2,493,378 of its ordinary shares in open market transactions, in accordance with a Rule 10b5-1 program, at an average price of $100.28 per share.

On November 4, 2019, the Company announced that its Board of Directors approved a $300 million share repurchase of ordinary shares. On November 15, 2019, the Company commenced a modified "Dutch auction" tender offer to repurchase up to $225 million in value of its ordinary shares. In accordance with the terms and conditions of the tender offer, which expired on December 16, 2019, the Company accepted for payment 280,719 ordinary shares at the final purchase price of $91.00 per share. During the year ended March 31, 2021, in accordance with a Rule 10b5-1 program, the Company repurchased 332,033 shares at an average price of $75.23 per share. Through May 31, 2021, under the $300 million authorization, the Company has repurchased, in total, 788,727 shares (280,719 at an average price of $91.00 and 508,008 at an average price of $74.70), leaving $236.5 million remaining under the current board authorization.

The table below presents a summary of the ordinary shares repurchased by the Company under the new authorization and classified as treasury stock:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Current Program	Dollar Value of Shares that May Yet be Purchased Under the Program (in thousands)
November 1, 2019 - November 30, 2019	—	$ —	—	
December 1, 2019 - December 31, 2019 (1)	280,719	$ 91.00	280,719	
January 1, 2020 - November 30, 2020	—	$ —	280,719	
December 1, 2020 - December 31, 2020 (2)	53,328	$ 71.29	334,047	
January 1, 2021 - January 31, 2021	95,816	$ 76.23	429,863	
February 1, 2021 - February 28, 2021	85,345	$ 76.17	515,208	
March 1, 2021 - March 31, 2021	97,544	$ 75.58	612,752	
April 1, 2021 - April 30, 2021	92,360	$ 74.41	705,112	
May 1, 2021 - May 31, 2021	83,615	$ 72.94	788,727	
Total	788,727	$ 80.50		$ 236,504

(1) Shares repurchased in December 2019 were in accordance with a modified "Dutch auction" tender offer.

(2) Shares repurchased during December 2020 through May 2021 were in accordance with a Rule 10b5-1 program.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Under the NYSE Listed Company Manual, foreign private issuers may elect to be subject to a more limited set of corporate governance requirements than U.S. domestic issuers. Despite any such election, Taro, as a foreign private issuer, must comply with four principal NYSE corporate governance rules: (1) Taro must satisfy the requirements of Exchange Act Rule 10A-3; (2) Taro's Chief Executive Officer must promptly notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with the applicable NYSE corporate governance rules; (3) Taro must provide the NYSE with annual and interim written affirmations as required under the NYSE corporate governance rules; and (4) Taro must provide a brief description of any significant differences between its corporate governance practices and those followed by U.S. companies under NYSE listing standards. The table below briefly describes the significant differences between Taro's domestic practice and the NYSE corporate governance rules.

Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Taro's Approach
303A.01	A listed company must have a majority of independent directors. "Controlled companies" are not required to comply with this requirement.	Taro is a controlled company because more than a majority of its voting power is controlled by Sun. As a controlled company, Taro would not be required to comply with the majority of independent directors' requirements if it were a U.S. domestic issuer. There is not a similar requirement under Israeli practice or the Israeli Companies Law that requires Taro to have a majority of independent directors. Rather, the statutory external director provisions under the Israeli Companies Law only require Taro, as a public company, to have at least two external directors.
303A.03	The non-management directors of a listed company must meet at regularly scheduled executive sessions without management.	There is not a similar requirement under Israeli practice or the Israeli Companies Law, and non-management directors of Taro do not meet at regularly scheduled executive sessions without management.
303A.04	A listed company must have a nominating/corporate governance committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. "Controlled companies" are not required to comply with this requirement.	Taro does not have a nominating committee. As a controlled company, Taro would not be required to comply with the nominating/corporate governance committee requirements if it were a U.S. domestic issuer. There is not a similar requirement under the Israeli Companies Law.
303A.05	A listed company must have a compensation committee composed entirely of independent directors, with a written charter that covers certain minimum specified duties. "Controlled companies" are not required to comply with this requirement.	Taro has a compensation committee currently comprised of three directors. Under the Israeli Companies Law, which provides standards for the independence of the compensation committee, the compensation committee shall have no less than three members and all of the statutory external directors shall be members thereof.
303A.06/303A.07	A listed company must have an audit committee with a minimum of three independent directors who satisfy the independence requirements of Rule 10A-3 under the Exchange Act, with a written charter that covers certain minimum specified duties.	Taro has an Audit Committee currently comprised of three directors. Under the Israeli Companies Law, which provides standards for the independence of the audit committee, the Audit Committee shall have no less than three members and all of the statutory external directors shall be members thereof. All of the directors that are members of the Audit Committee meet the NYSE independence requirements as well as the SEC independence requirements that would apply to the Audit Committee members in absence of our reliance on the exemption provided by Exchange Act Rule 10A-3(c)(3).

Section	NYSE Corporate Governance Rule for U.S. Domestic Issuers	Taro's Approach
303A.07	The audit committee of a listed company must be directly responsible, to the extent permitted by law, for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services, and each such firm must report directly to the audit committee.	Pursuant to the Israeli Companies Law, Taro's Audit Committee is responsible for determining the scope of the work of, and the compensation to be paid to, Taro's external auditors, whereas the actual appointment of the external auditors and approval of their compensation is carried out by Taro's shareholders at the annual meeting of shareholders. Furthermore, pursuant to the Israeli Companies Law, Taro's Audit Committee is responsible for supervising the work of Taro's external auditors with respect to the audit of Taro's financial statements, whereas actual final approval of the financial statements is provided by Taro's Board as a whole.
303A.08	Shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules.	Under the Israeli Companies Law, shareholder pre-approval is not required for the adoption or material amendment of equity compensation plans. Shareholder approval is required prior to any grants under the plan to directors or the chief executive officer of Taro.
303A.09	A listed company must adopt and disclose corporate governance guidelines that cover certain minimum specified subjects.	Taro does not have formal corporate governance guidelines that address all of the matters specified in the NYSE rules. There is not a similar requirement under the Israeli Companies Law.
303A.10	A listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Taro has adopted a formal code of ethical and compliant conduct, which applies to its directors, officers and employees. Taro reports each year under Item 16B of its Annual Report on Form 20-F any waivers of the code of ethical conduct granted for directors and executive officers. Taro's code of ethical conduct has a scope that is similar, but not identical, to that required for a U.S. domestic company under the NYSE rules. Taro also has a Code of Ethics that applies specifically to Taro's Chief Executive Officer, Chief Financial Officer and other senior officers.
303A.12	Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards.	Taro's CEO will promptly notify the NYSE in writing if any executive officer of Taro becomes aware of any material noncompliance with any applicable provisions of the NYSE corporate governance rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 – "*Financial Statements*" in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

The financial statements required by this item are found at the end of this 2021 Annual Report, beginning on page F-1.

The Financial Statement Schedule II—Valuation and Qualifying Accounts is found on page S-1 following the financial statements.

ITEM 19. EXHIBITS

The exhibits filed with or incorporated into this 2021 Annual Report are listed on the index of exhibits below.

Exhibit No.	Description
1.1	Memorandum of Association of Taro Pharmaceutical Industries Ltd. (1) (P)*
1.2	Articles of Association of Taro Pharmaceutical Industries Ltd., as amended (2)
2.1	Form of ordinary share certificate (1) (P)*
2.2	Description of Taro Pharmaceutical Industries Ltd. Ordinary Shares
4.1	Taro Pharmaceutical Industries 1999 Stock Incentive Plan (3) (P)*
4.2	Amendment No. 1 to Taro Pharmaceutical Industries 1999 Stock Incentive Plan (4)
4.3	Amendment No. 2 to Taro Pharmaceutical Industries 1999 Stock Incentive Plan (4)
8	List of Subsidiaries (See "Organizational Structure" in Item 4.C of this Form 20-F)
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13	Certification of the Chief Executive Officer, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101 SCH	Inline XBRL Taxonomy Extension Schema Document
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(1) Previously filed as an exhibit to our Registration Statement on Form F-4 (No. 333-63464), as amended, and incorporated herein by reference.
(2) Previously filed as an exhibit to our Annual Report on Form 20-F for the fiscal year ended March 31, 2013, and incorporated herein by reference.
(3) Previously filed as an exhibit to our Registration Statement on Form S-8 (No. 333-13840) and incorporated herein by reference.
(4) Previously filed as an exhibit to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005, and incorporated herein by reference.
(5) Previously filed as an exhibit to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 and incorporated herein by reference.

* filed herewith
(P) Paper exhibits

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this 2021 Annual Report on its behalf.

TARO PHARMACEUTICAL INDUSTRIES LTD.

By: /s/ Daphne Huang
Daphne Huang
Vice President, Chief Financial Officer and Chief Accounting Officer

Dated: June 17, 2021

TARO PHARMACEUTICAL INDUSTRIES LTD.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Taro Pharmaceutical Industries Ltd.
Haifa, Israel

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Taro Pharmaceutical Industries Ltd. and its subsidiaries (the "Group") as of March 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Group's internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated June 15, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue recognition – sales deductions

As described in Notes 2 and 5 to the consolidated financial statements, when the Group records revenue from the sale of its pharmaceutical products, the Group records an estimate of various sale deductions in the same financial reporting period. These sales deductions include chargebacks, product returns, rebates and other sale deductions and require significant management's judgment. These sale deductions mainly apply to the sales within the United States. As of March 31, 2021, the consolidated reserves for chargebacks, product returns, rebates and other sale deductions were $266 million.

We identified management's judgments and assumptions used in recording sales deductions as a critical audit matter. The principle considerations included measurement uncertainty involved in developing these estimates, as the sales deductions are based on judgments and assumptions developed using estimated wholesaler inventory, historical data, contractual terms and customer

purchasing activity. Auditing these judgments involved especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included the following:

- Testing the design and operating effectiveness of controls related to management's assessment of: (i) the reasonableness of assumptions used to estimate sales deductions, and (ii) the reasonableness of the methodology used and appropriateness of the computations of sales deductions.
- Evaluating the reasonableness of management's assumptions relating to sales deductions through: (i) evaluating the reasonableness of the methodology and the accuracy of computations used by management, (ii) assessing historical accuracy of the Group's estimates in previous years and the effect of any adjustments to prior years' accruals in the current year's results, (iii) assessing the reasonableness of assumptions used against current year activity and other relevant data, (iv) assessing the completeness and accuracy of inventory information at wholesale customers, and (v) testing a sample of sales deductions processed by the Group, including evaluating those deductions for consistency with the contractual terms of the Group's revenue arrangements.

Contingent liabilities

As described in Note 13 to the consolidated financial statements, the Group has several significant legal actions including, generic drug industry pricing investigations and related litigation. Management's assessment as to whether or not to recognize contingent liabilities involved a series of complex judgments about future events and relied heavily on estimates and assumptions. This requires significant judgment by management when assessing the likelihood of a loss being incurred and management's determination of whether a reasonable estimate of the loss or range of loss for each claim can be made.

We identified management's judgments used in evaluating contingent liabilities as a critical audit matter due to the complex and significant auditor judgments required to assess the magnitude and probability of potential losses identified and evaluate the progress of and changes to expected outcomes. Auditing these judgments involved especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the methodology, assumptions and criteria used by the Group in the recognition, measurement and disclosure of contingent liabilities in the consolidated financial statements.
- Obtaining and evaluating letters of audit inquiry with internal and external legal counsel with knowledge of the proceedings to evaluate: (i) the existence and current status of the proceedings, and (ii) the respective assessment of ranges of losses involved based on the appropriateness of legal positions asserted by the Group.

Assessment of recognition of uncertain tax positions

As discussed in Notes 2 and 15 to the consolidated financial statements, the Group has recognized uncertain tax positions including associated interest and penalties. The Group's tax positions are subject to audit by local taxing authorities across multiple global subsidiaries and the resolution of such audits may span multiple years. Tax law is complex and often subject to varied interpretations, accordingly, the ultimate outcome with respect to taxes the Group may owe may differ from the amounts recognized.

We identified the evaluation of uncertain tax positions as a critical audit matter because a higher degree of auditor judgment was required in evaluating the Group's interpretation of, and compliance with tax law globally across its multiple subsidiaries. In addition, a higher degree of auditor judgment was required in evaluating the Group's estimate of the ultimate resolution of its tax positions. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of auditor judgment required in evaluating the Group's interpretation of, and compliance with global tax laws across its multiple global subsidiaries, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included the following:

- Testing certain internal controls over the Group's process to assess uncertain tax positions to: (i) interpret tax law and identify uncertain tax positions, (ii) evaluate which of the Group's tax positions may not be sustained upon audit, and (iii) estimate the uncertain tax positions.
- Utilizing personnel with specialized skill and knowledge in tax to assist in evaluating technical merits, reasonableness of management's judgments and assumptions used in uncertain tax positions calculations and the overall reasonableness of conclusions reached through: (i) obtaining an understanding and assessing tax filed positions, transfer pricing studies and the

Group's compliance with applicable laws and regulations, (ii) developing an independent assessment based on our understanding and interpretation of tax laws, (iii) inspecting settlement documents with applicable taxing authorities, and (iv) assessing the expiration of statutes of limitations.

/s/ Ziv Haft
Ziv Haft
Certified Public Accountants (Isr)
BDO Member Firm

We have served as the Group's auditor since 2010.

Tel Aviv, Israel
June 15, 2021

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors of
Taro Pharmaceutical Industries Ltd.
Haifa, Israel

Opinion on Internal Control over Financial Reporting

We have audited Taro Pharmaceutical Industries Ltd. and its subsidiaries (the "Group's") internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Group as of March 31, 2021 and 2020, the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2021, and the related notes and our report dated June 15, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 15, Controls and Procedures. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Group in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A group's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the group are being made only in accordance with authorizations of management and directors of the group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ziv Haft
Ziv Haft
Certified Public Accountants (Isr)
BDO Member Firm

Tel Aviv, Israel
June 15, 2021

CONSOLIDATED BALANCE SHEETS

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

	March 31,	
	2021	**2020**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 605,177	$ 513,354
Marketable securities	418,480	595,383
Accounts receivable and other:		
Trade, net	213,539	235,221
Other receivables and prepaid expenses	53,347	35,567
Inventories	180,292	153,073
TOTAL CURRENT ASSETS	1,470,835	1,532,598
LONG-TERM MARKETABLE SECURITIES	557,209	459,639
PROPERTY, PLANT AND EQUIPMENT, NET	205,508	209,961
DEFERRED INCOME TAXES	142,007	106,693
OTHER ASSETS	31,314	32,361
TOTAL ASSETS	$ 2,406,873	$ 2,341,252

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

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

	March 31,	
	2021	**2020**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade payables	$ 61,166	$ 28,858
Other current liabilities	615,135	193,873
TOTAL CURRENT LIABILITIES	676,301	222,731
LONG-TERM LIABILITIES:		
Deferred income taxes	1,907	3,395
Other long-term liabilities	33,208	5,367
TOTAL LONG-TERM LIABILITIES	35,115	8,762
COMMITMENTS AND CONTINGENT LIABILITIES		
TOTAL LIABILITIES	711,416	231,493
SHAREHOLDERS' EQUITY:		
Taro shareholders' equity:		
Ordinary shares of NIS 0.0001 par value:		
Authorized at March 31, 2021 and March 31, 2020: 200,000,000 shares;		
Issued at March 31, 2021 and March 31, 2020: 45,116,262 shares		
Outstanding at March 31, 2021 and March 31, 2020:		
37,926,044 and 38,258,077 shares, respectively	679	679
Founders' shares of NIS 0.00001 par value:		
Authorized, issued and outstanding at March 31, 2021 and March 31, 2020:		
2,600 shares	1	1
Additional paid-in capital	262,445	262,445
Accumulated other comprehensive loss, net of taxes	(151,621)	(163,037)
Treasury stock at March 31, 2021 and March 31, 2020:		
7,190,218 and 6,858,185 shares, respectively	(746,472)	(721,494)
Accumulated earnings	2,338,617	2,725,270
Taro shareholders' equity	1,703,649	2,103,864
Non-controlling interest	(8,192)	5,895
TOTAL SHAREHOLDERS' EQUITY	1,695,457	2,109,759
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,406,873	$ 2,341,252

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars and shares in thousands (except per share data)

	Years ended March 31,		
	2021	**2020**	**2019**
Sales, net	$ 548,970	$ 644,769	$ 669,893
Cost of sales	252,314	245,044	224,169
Gross profit	296,656	399,725	445,724
Operating expenses:			
Research and development	60,152	59,777	63,238
Selling, marketing, general and administrative	91,355	93,413	89,971
Settlements and loss contingencies	558,924	—	(3,678)
	710,431	153,190	149,531
Operating (loss) income	(413,775)	246,535	296,193
Financial income, net	(19,809)	(48,482)	(58,851)
Other gain, net	2,893	3,018	1,810
(Loss) income before income taxes	(391,073)	298,035	356,854
Tax expense	9,667	53,485	74,732
Net (loss) income	(400,740)	244,550	282,122
Net (loss) income attributable to non-controlling interest	(14,087)	309	345
Net (loss) income attributable to Taro	$ (386,653)	$ 244,241	$ 281,777
Net (loss) income per ordinary share attributable to Taro:			
Basic and Diluted	$ (10.12)	$ 6.35	$ 7.23
Weighted-average number of ordinary shares used to compute net (loss) income per share:			
Basic and Diluted	38,210	38,460	38,990

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Years ended March 31,		
	2021	**2020**	**2019**
Net (loss) income attributable to Taro	$ (386,653)	$ 244,241	$ 281,777
Other comprehensive income (loss):			
Change in unrealized gain (loss) from marketable securities	7,738	(16,415)	11,919
Change in unrealized gain (loss) from hedging instruments	3,678	(2,513)	—
Foreign currency translation adjustments	—	(1)	(45,742)
Total other comprehensive income (loss) attributable to Taro	11,416	(18,929)	(33,823)
Total comprehensive (loss) income attributable to Taro	$ (375,237)	$ 225,312	$ 247,954

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars and shares in thousands

	Taro Shareholders' Equity								
	Number of Shares	Share Capital	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss)	Treasury Shares	Retained Earnings	Total Taro Shareholders' Equity	Non-controlling Interest	Total Shareholders' Equity
Balance at March 31, 2018	39,428	$ 680	$ 262,445	$ (110,285)	$ (610,009)	$ 2,662,327	$ 2,205,158	$ 5,241	$ 2,210,399
Repurchase of treasury stock	(889)	—	—	—	(84,501)	—	(84,501)	—	(84,501)
Comprehensive loss, net of tax	—	—	—	(33,823)	—	—	(33,823)	—	(33,823)
Dividend paid	—	—	—	—	—	(500,000)	(500,000)	—	(500,000)
Cumulative-effect adjustment for income taxes resulting from intra-entity transfers	—	—	—	—	—	36,925	36,925	—	36,925
Net income	—	—	—	—	—	281,777	281,777	345	282,122
Balance at March 31, 2019	38,539	$ 680	$ 262,445	$ (144,108)	$ (694,510)	$ 2,481,029	$ 1,905,536	$ 5,586	$ 1,911,122
Repurchase of treasury stock	(281)	—	—	—	(26,984)	—	(26,984)	—	(26,984)
Comprehensive loss, net of tax	—	—	—	(18,929)	—	—	(18,929)	—	(18,929)
Net income	—	—	—	—	—	244,241	244,241	309	244,550
Balance at March 31, 2020	38,258	$ 680	$ 262,445	$ (163,037)	$ (721,494)	$ 2,725,270	$ 2,103,864	$ 5,895	$ 2,109,759
Repurchase of treasury stock	(332)	—	—	—	(24,978)	—	(24,978)	—	(24,978)
Comprehensive income, net of tax	—	—	—	11,416	—	—	11,416	—	11,416
Net loss	—	—	—	—	—	(386,653)	(386,653)	(14,087)	(400,740)
Balance at March 31, 2021	37,926	$ 680	$ 262,445	$ (151,621)	$ (746,472)	$ 2,338,617	$ 1,703,649	$ (8,192)	$ 1,695,457

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Years ended March 31,		
	2021	**2020**	**2019**
Cash flows from operating activities:			
Net (loss) income	$ (400,740)	$ 244,550	$ 282,122
Adjustments required to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	23,680	21,383	18,597
Realized loss on sale of long-lived assets	92	28	27
Change in derivative instruments, net	(236)	(2,649)	3,115
Effect of exchange differences on intercompany balances	—	—	(2,517)
Foreign exchange effect of marketable securities and bank deposits	(4,588)	(11,600)	(27,016)
Deferred income taxes, net	(38,413)	7,584	12,262
Decrease (increase) in trade receivables, net	21,683	2,724	(32,088)
(Increase) decrease in other receivables, prepaid expenses and other	(7,235)	1,247	675
Increase in inventories, net	(27,219)	(4,994)	(5,515)
(Increase) decrease in income tax receivables	(9,090)	10,890	73,581
Increase (decrease) in trade payables	32,308	(6,202)	9,881
Increase (decrease) in other accounts payable and accrued expenses	454,609	1,423	(5,683)
(Decrease) increase in income tax payables	(4,397)	5,561	(3,669)
Expense (income) from amortization of marketable securities bonds, net	5,316	1,660	(63)
Net cash provided by operating activities	45,770	271,605	323,709

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Years ended March 31,		
	2021	**2020**	**2019**
Cash flows from investing activities:			
Purchase of property, plant and equipment	(16,991)	(26,631)	(26,992)
Investment in other intangible assets	(161)	(1,783)	(3,666)
Proceeds from short-term bank deposits, net	—	—	225,503
Proceeds from long-term deposits and other assets	—	—	70,685
Investment in marketable securities	(1,132,501)	(1,222,190)	(1,165,685)
Proceeds from marketable securities	1,217,386	952,421	1,157,317
Proceeds from (investment in) sale of long-lived assets	8	21	(26)
Net cash provided by (used in) investing activities	67,741	(298,162)	257,136
Cash flows from financing activities:			
Repurchase of treasury stock	(24,196)	(26,984)	(88,849)
Dividends paid	—	—	(500,000)
Net cash used in financing activities	(24,196)	(26,984)	(588,849)
Effect of exchange rate changes on cash and cash equivalents	2,508	(556)	(1,156)
Increase (decrease) in cash and cash equivalents	91,823	(54,097)	(9,160)
Cash and cash equivalents at the beginning of the period	513,354	567,451	576,611
Cash and cash equivalents at the end of the period	$ 605,177	$ 513,354	$ 567,451
Supplemental disclosure of cash flow transactions:			
Cash paid during the year for:			
Income taxes	$ 29,377	$ 54,536	$ 71,096
Cash received during the year for:			
Income taxes	$ 4,093	$ 24,331	$ 69,436
Non-cash investing transactions:			
Purchase of property, plant and equipment included in accounts payable	$ 2,997	$ 1,477	$ 4,740
Investment in intangible assets on credit	$ 15	$ —	$ —
Non-cash financing transactions:			
Purchase of treasury stock	$ 782	$ —	$ —
Purchase of marketable securities	$ 9,417	$ 9,159	$ 2,003

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: — GENERAL

Taro Pharmaceutical Industries Ltd. (the "Company" or "Taro") is an Israeli corporation, which operates in Israel and elsewhere through its Israeli, North American, and European subsidiaries (the "Group"). The principal business activities of the Group are the production, research, development and marketing of pharmaceutical products. As of March 22, 2012, the Company's ordinary shares are traded on the New York Stock Exchange (the "NYSE"), under the symbol "TARO." As used herein, the terms "we," "us," "our," "Taro," and the "Company" mean Taro Pharmaceutical Industries Ltd. and its subsidiaries, unless otherwise indicated.

The activities of the Group in North America are performed by Taro Pharmaceuticals Inc. ("Taro Canada") and Taro Pharmaceuticals U.S.A., Inc. ("Taro U.S.A."). Taro International Ltd. in Israel is engaged in the pharmaceutical activities of the Group outside North America.

The Group manufactures generic and proprietary drug products in facilities located in Israel and Canada, and manufactures bulk active pharmaceutical ingredients in its Israel facility. The Group's research and development facilities are located in Israel and Canada. The majority of the Group's sales are in North America, primarily in the U.S.A.

In North America, the Company sells and distributes its products principally to drug industry wholesalers, drug store chains and mass merchandisers. In Canada, the Group also sells and distributes to hospitals. In Israel, the Group sells and distributes its products principally to healthcare institutions, drug store chains, and private pharmacies.

In the generic pharmaceutical industry, selling prices and related profit margins tend to decrease as products mature due to increased competition from other generic pharmaceutical manufacturers as they gain approval from the U.S. Food and Drug Administration (the "FDA"), the Canadian Health Products and Food Branch Inspectorate, and the Israeli and other Ministries of Health ("Government Agencies") to manufacture equivalent products. The Group's future operating results are dependent on, among other things, its ability to introduce new products and maintain its approvals to market existing drugs.

While non-compliance with Government Agencies' regulations can result in refusal to allow country entry, seizure, fines or injunctive actions to prevent the sale of products, no material actions against the Group or its products have recently occurred. The Group believes that it is in material compliance with all Government Agencies' regulations.

While the majority of the Company's products are either synthesized by the Company itself or are derived from multiple source materials, some raw materials and certain products are currently obtained from single suppliers. The Company does not believe that any interruption of supply from a single supplier would have a material adverse effect on the Company's results of operations and financial position. To date, the Group has not experienced difficulties in obtaining raw materials or other materials.

Sun Pharmaceutical Industries Ltd. ("Sun"), the Company's majority shareholder, owns, or controls as of March 31, 2021, 29,497,813, or 77.8%, of the Company's ordinary shares, and with the Company's founders' shares, 85.2% of the vote attributable to the share equity of the Company. As of May 31, 2021, Sun owns, or controls 78.1% of the Company's ordinary shares and 85.4% of the voting power in the Company.

On November 23, 2016, the Company announced that its Board of Directors authorized a $250,000 repurchase of ordinary shares, which was completed on January 11, 2019. Under the program, the Company bought back 2,493,378 of its ordinary shares in open market transactions, in accordance with a Rule 10b5-1 program, at an average price of $100.28 per share.

On November 5, 2018, the Company announced that its Board of Directors declared a $500,000 special cash dividend on Taro ordinary shares. The special dividend of $12.86 per share was paid on December 28, 2018, to shareholders of record at the close of business on December 11, 2018.

On November 4, 2019, the Company announced that its Board of Directors approved a $300 million share repurchase of ordinary shares. On November 15, 2019, the Company commenced a modified "Dutch auction" tender offer to repurchase up to $225 million in value of its ordinary shares. In accordance with the terms and conditions of the tender offer, which expired on December 16, 2019, the Company accepted for payment 280,719 ordinary shares at the final purchase price of $91.00 per share. During the year ended March 31, 2021, in accordance with a Rule 10b5-1 program, the Company repurchased 332,033 shares at an average price of $75.23 per share. Through May 31, 2021, under the $300 million authorization, the Company has repurchased, in total, 788,727 shares (280,719 at an average price of $91.00 and 508,008 shares at an average price of $74.70), leaving $236.5 million remaining under the current board authorization.

In December 2019, COVID-19, a disease caused by a strain of coronavirus, was first reported, and later declared a pandemic by the World Health Organization in March 2020, spreading globally. It has affected Israel and Canada, where most of our manufacturing takes place, and spread throughout each state in the United States, our largest market. The COVID-19 pandemic has disrupted global supply chains, created significant volatility of global financial markets, impacted negatively the global economy, and also our U.S. sales. Additionally, it has impacted our business and may materially affect our operations, including manufacturing, supply chain, pre-commercial launch and clinical trial activities should the pandemic persist. Countries, states and local governments instituting measures to reduce the spread of COVID-19 have impacted our operations with significant disruptions, uncertainty and economic volatility, higher costs, and capital expenditures. Such measures include quarantines, government restrictions on movement, business closures and suspensions, canceled events and activities, self-isolation, and other voluntary and/or mandated changes in behavior. Our offices are or have been operating under work from home protocols, and our manufacturing and distribution facilities have instituted policies and procedures to protect our employees and operations, including social distancing, the supply and use of personal protective equipment, split shifts and health assessments. We had and, in some instances, continue to have to suspend in-person activities of our field employees because of restrictions on meetings instituted by our customers. These protocols, policies, procedures, and suspension of activities have affected our business operations.

On July 31, 2020, Taro Pharmaceuticals, Inc. completed the purchase of Aquinox Pharmaceuticals (Canada) Inc. ("Aquinox"), a wholly-owned subsidiary of Neoleukin Therapeutics, Inc., including intellectual property rights to various early stage molecules. Pursuant to the agreement, Taro acquired all issued and outstanding shares of Aquinox for $8.2 million.

NOTE 2: — SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

a. Use of estimates:

The consolidated financial statements are prepared in conformity with U.S. GAAP. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgements and assumptions. Management believes that the estimates, judgements and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgements and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Group's most critical estimates are used in its determination of its sales incentives reserves, inventory reserves, income taxes, fixed assets, intangible assets, derivative instruments and contingencies.

b. Financial statements in U.S. dollars ("USD"):

A majority of the revenue of the Company and certain of its subsidiaries is generated in USD. In addition, a substantial portion of the costs of the Company and these subsidiaries is incurred in USD. Management believes that the USD is the primary currency of the economic environment in which the Company and these subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the USD, requiring re-measurement from the local currency into USD for each of these entities. All exchange gains and losses resulting from the re-measurement are reflected in the Consolidated Statements of Operations as financial income or expense, as appropriate.

Prior to April 1, 2019, the functional currency of the Company's Canadian subsidiary was the Canadian dollar ("CAD"). Accordingly, the financial statements of the Canadian subsidiary were translated into USD. All balance sheet accounts were translated using the exchange rates in effect at the balance sheet date. Amounts recorded in the Consolidated

Statements of Operations were translated using the average exchange rate prevailing during the year. The resulting translation adjustments were reported as a component of shareholders' equity under accumulated other comprehensive income.

Effective as of the Company's fiscal year beginning April 1, 2019, Taro Canada's functional currency became the USD. FASB ASC Topic 830, "*Functional Currency Matters*," requires a change in functional currency to be reported as of the date it is determined there has been a change, and it is generally accepted practice that the change is made at the start of the most recent period that approximates the date of the change. Management determined it would enact this change effective on April 1, 2019. While the change was based on a factual assessment, the determination of the date of the change required management's judgement given the change in the primary economic and business environment, in which Taro Canada operates, have evolved over time. As part of management's functional currency assessment, changes in economic facts and circumstances were considered. This included analysis of changes in: management of operations, process, and in the composition of cash and marketable securities balances. The Company has centralized different functions, including treasury and investment portfolio measurement, which resulted in a stronger focus on the USD currency for Taro Canada. Additionally, as budgeting has also been centralized for the Company, Taro Canada has implemented budgeting in USD, whereas this was previously performed in CAD. Taro Canada's cash inflows consist primarily of USD cash balances and less of CAD, as also reflected in the budget. The transfer of significant intangible assets to Taro Canada, as a result of the winding down of TNA, has reduced the relevance of the foreign currency position on the balance sheet of Taro Canada. The Group decided to focus Taro Canada's sales market as the US market, with the majority of all sales to the US denominated in USD. This was followed by centralizing budgets and facilitating effective netting and hedging activities. Assuming current business operating model stays constant, management believes that the USD cash balances will continue to increase, while CAD cash balances will continue to produce a net outflow.

Management re-evaluated all indicators established in ASC 830-10-55-5 to determine the functional currency of Taro Canada. Such indicators include i) cash flow, ii) sales price, iii) sales market, iv) expense, v) financing and vi) intercompany transactions and arrangements. Management determined that the cash flow indicators and the sales market indicators were most relevant to Taro Canada operations and its primary economic environment. At the time of the assessment adopted on April 1, 2019, cash flows generated by Taro Canada that relate to its individual assets and liabilities now directly affect the Company's cash flows and are readily available for remittance to the Company. The majority of cash flow from Taro Canada's operations is denominated in USD, with the sales market for Taro Canada's products now mostly in the U.S. Approximately 75% of Taro Canada's revenue is to the U.S. market, with over 80% of Taro Canada's plant production, in terms of units, being produced for the US market. Significant asset and liability line items on Taro Canada's balance sheet are comprised almost solely (greater than 90%) of USD denominated transactions. Furthermore, most of Taro Canada's generated cash flows are now invested in USD based cash and cash equivalents or marketable securities. Since such investments are short-term, cash is readily available for remittance to other Taro entities. Thus, the USD is the primary currency from which Taro Canada generates and accumulates cash.

When considering all relevant facts together, management concluded that the USD best reflects the currency of the primary economic environment in which Taro Canada currently operates. Therefore, USD is the functional currency as a result of the change in the most significant economic facts and circumstances from cash flow and sales market indicators, as well as intra-entity transactions and arrangements, which are material to Taro Canada. As a result, the Company adopted USD as the functional currency for Taro Canada effective April 1, 2019.

The change was accounted for prospectively from the date of the change in accordance with FASB ASC Topic 830, "*Foreign Currency Matters.*" The translated balances of monetary and nonmonetary assets and liabilities recorded in Taro Canada's financial statements as of the end of the prior reporting period became the new accounting basis for those assets and liabilities in the period of the change. To the extent the entity had monetary assets and liabilities denominated in the old functional currency, such balances created transactional gains and losses subsequent to the change in functional currency. The amount recorded in the currency translation adjustment account for prior periods was not reversed upon the change in functional currency. The exchange rate on the date of the change became the historical rate for subsequent re-measurement of nonmonetary assets and liabilities into the new functional currency.

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

The following table summarizes the impact on both consolidated net income and other comprehensive income (loss) utilizing USD as the functional currency of Taro Canada as of March 31, 2020, compared to the related impact if the functional currency of Taro Canada would have remained CAD (excluding FX from transactions denominated in CAD recorded in the respective period):

	USD as Functional Currency *(in USD)**	**CAD as Functional Currency *(in USD)***
		(Unaudited Pro Forma)
Financial (income) expense, net - attributed to foreign translation gain	$ (14,838)	$ (46,667)
Other comprehensive loss - attributed to foreign currency translation adjustments	$ (1)	$ (92,959)

*Based on consolidated amounts of the Group for the fiscal year ended March 31, 2020, which was the first fiscal year Taro Canada utilized USD as the functional currency. Includes Taro Canada amounts reported in USD with USD as functional currency.

**Based on unaudited pro forma consolidated amounts of the Group for the fiscal year ended March 31, 2020. Includes Taro Canada unaudited pro forma amounts reported in USD with CAD as functional currency.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation and non-controlling interest is included in shareholders' equity.

Sun, through its wholly owned subsidiary, Taro Development Corporation ("TDC") owns 3.1% of the shares that have economic rights and has 50.0% of the voting rights in Taro U.S.A.; with the Company owning the remaining shares and voting rights. In 1993, TDC signed an agreement with the Company to vote all of its shares in Taro U.S.A. in all elections of directors of Taro U.S.A. as the Company shall instruct. In April 2021, TDC renewed its commitment to the Company. TDC may terminate the agreement upon one year written notice and no such notice of termination has been provided. TDC is a minority shareholder in the Company by way of its ownership of Taro U.S.A. shares that have economic rights.

d. Cash and cash equivalents:

Cash equivalents are highly-liquid investments that are readily convertible into cash.

Short-term bank deposits:

Bank deposits with maturities of more than three months, but less than one year, are included in short-term deposits. Such deposits are stated at cost which approximates market value. The Company does not have any short-term deposits at March 31, 2021, or 2020.

e. Marketable securities:

Marketable securities, consisting of both debt securities and equity securities, are comprised primarily of corporate bonds, government securities, U.S. Treasuries, certificates of deposit, municipal bonds, preferred stock and commercial paper. The marketable debt securities were designated as available-for-sale ("AFS"). Accordingly, these securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income, a separate component of shareholders' equity. The equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in consolidated statements of operation.

Realized gains and losses on the sale of investments are included in financial income, net and are derived using the specific identification method for determining the cost of securities.

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization together with interest and dividends on securities are included in financial income, net.

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities results in the value of the investments being below the cost basis of such securities and when such decline is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in financial income, net in the Consolidated Statements of Operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

The Company adopted ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326)*" on April 1, 2020. In accordance with ASC 326-30, for an AFS debt security for which there is neither an intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance, rather than a write-down of the amortized cost basis. As a result, entities will be able to record reversals of credit losses in current period income as they occur. Additionally, the allowance is limited by the amount that the fair value is less than the amortized cost basis, considering that an entity can sell its investment at fair value to avoid realization of credit losses. An entity should not consider the length of time that the security has been in an unrealized loss position to avoid recording a credit loss. Further, in determining whether a credit loss exists, the historical and implied volatility and recoveries or additional declines in the fair value after the balance sheet date should no longer be considered. Changes in the allowance will be recorded in the period of the change as credit loss expense (or reversal of credit loss expense). As of March 31, 2021, the adoption of ASU 2016-13 did not have a material impact on our financial position and results of operations.

During the years ended March 31, 2021, 2020 and 2019, the Company did not own or sell any marketable securities previously impaired.

The Company adopted ASU No. 2016-01, "*Financial Instruments – Overall (Subtopic 825-10).*" The amended guidance focuses on the recognition and measurement of financial assets and liabilities. The adoption of ASU 2016-01 does not have a material impact on our financial position and results of operations.

f. Allowance for doubtful accounts:

The allowance for doubtful accounts is calculated primarily with respect to specific balances, for which, in the opinion of management, collection of such balances is doubtful. The allowance, in the opinion of management, is sufficient to cover probable uncollectible balances.

The Company adopted ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326)" on April 1, 2020. The new guidance requires an entity to measure the allowance for expected credit losses by utilizing information including historical data and current economic conditions, plus the use of reasonable supportable forecasts. As of March 31, 2021, the adoption of ASU 2016-13 did not have a material impact on our financial position and results of operations.

g. Inventories:

Inventories are stated at the lower of cost or net realizable value. Inventory reserves are provided to cover risks arising from slow-moving items, short-dated inventory, excess inventory or obsolescence. Changes in these provisions are charged to cost of sales. Cost is determined as follows:

Raw and packaging materials – weighted-average cost basis.

Finished goods and work in progress – weighted-average production costs including materials, labor and direct and indirect manufacturing expenses.

Purchased products for commercial purposes – weighted-average cost basis.

h. Taxes:

(1) Deferred income taxes:

Deferred income taxes are determined utilizing the "asset and liability" method based on the estimated future tax effects of temporary differences between the financial accounting and tax basis of assets and liabilities under the applicable tax laws, and on tax rates anticipated to be in effect when the deferred taxes are expected to be paid or realized. A valuation allowance is provided if, based upon the weight of available evidence, it is "more likely than not" that a portion of the deferred tax assets will not be realized. For the years ended March 31, 2021 and 2020, in accordance with the required updates in ASU No. 2015-17, all deferred tax liabilities and assets are classified as non-current.

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

(2) Tax contingencies:

The Company follows a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. In addition, the Company classifies interest and penalties recognized in the financial statements relating to uncertain tax positions under the provision for income taxes. A liability for unrecognized tax benefits was recorded in accordance with ASC 740 amounting to $26,921 and $25,258 as of March 31, 2021 and 2020, respectively.

(3) Income taxes:

Income taxes are accounted for in accordance with the use of the liability method, whereby deferred tax asset and liability account balances are determined for temporary differences between the financial reporting and tax basis of assets and liabilities, and for carryforward losses and credits. Deferred taxes are measured using tax rates and laws that will be in effect when the differences are expected to reverse. In certain cases management determined that it was more likely than not that the Company will not benefit from the deferred tax assets in subsidiaries, and a valuation allowance was provided against the deferred tax assets carried by such subsidiaries. In future years, if it is more likely than not that the subsidiary will be in a position to utilize its deferred tax asset, the valuation allowance for such assets will be modified.

i. Property, plant and equipment:

(1) Property, plant and equipment is stated at cost, net of accumulated depreciation. Payroll and other costs that are direct incremental costs necessary to bring an asset to the condition of its intended use incurred during the construction and validation period of property, plant and equipment are capitalized to the cost of such assets.

(2) Depreciation is calculated utilizing the straight-line method over the estimated useful lives of the assets, from the date the assets are ready for their intended use, at the following annual rates:

	%
Building	2.5 - 10
Machinery and equipment	5 - 10
Motor vehicles	20
Furniture, fixtures, office equipment, computer equipment and software	6 - 33

Leasehold improvements are depreciated using the straight-line method over the shorter of their useful lives or the terms of the leases (generally 5-10 years).

(3) Certain costs incurred for computer software developed or obtained for internal use is required to be capitalized. As of March 31, 2021 and 2020, the Group capitalized $17,332 and $13,912 of software costs, respectively. Software costs are amortized using the straight-line method over their estimated useful life (generally 3 - 5 years).

j. Lease of land from the Israel Land Authority (“ILA”):

The Company leases several parcels of land from the ILA. The lease period of the industrial parcels ends between 2018 and 2060. The Company has the right to extend the lease agreement ending 2018 for an additional period of 49 years and is currently in the process of extending the lease agreement. The ILA lease agreements are standard agreements covering substantial portions of the land of Israel. The standard agreements call for a Lease Period of 49 years, with an option for one additional Lease Period (i.e., total of 98 years). A majority of the Company’s leases are in the beginning of the second 49 year period, and the remaining leases still in the first 49 year period have the option for the one additional lease period. The ownership of the land is not transferred at the end of the lease period, however, in certain conditions the lessee may purchase the land from the ILA. The expectation, based on practice and accumulated experience is that the renewal price would be substantially below fair market value. Since such leases do not qualify as a capital lease, they are being accounted for as operating leases. The prepaid lease amount is included in long-term receivables and other assets and amortized over the term of the lease.

As of April 1, 2019, the Company commenced lease accounting in accordance with ASU 2016-02, "*Leases (Topic 842)*." Refer to Note 9 and Note 13 for additional details on lease accounting.

k. Goodwill:

The goodwill of the Company is not amortized, but rather is subject to an annual impairment test (or more frequently if impairment indicators arise).

The Group operates in one operating segment, comprising its only reporting unit. As of April 1, 2020, the Company adopted ASU 2017-04 in which the goodwill impairment tests are now conducted in one step. In this step, if it is determined that the net book value of the reporting unit exceeds its fair value, impairment will be recorded for the difference.

The Company determined the fair value using the market approach, which is based on the market capitalization by using the share price of the Company on the NYSE and an appropriate control premium. As of March 31, 2021 and 2020, the market capitalization of the Company was significantly higher than the net book value, therefore no impairment was recorded.

l. Contingencies:

The Company may be involved in various patent, product liability, consumer, commercial or environmental claims, government investigations, and other legal proceedings that arise from time to time in the ordinary course of business. Except for income tax contingencies, the Company records accruals for these types of contingencies to the extent that the Company concludes their occurrence is probable and that the related liabilities are estimable. The Company records anticipated recoveries under existing insurance contracts that are virtually certain of occurring and at the gross amount that is expected to be collected.

m. Intangible assets and deferred charges and long-lived assets:

Intangible assets and deferred charges:

Acquired intangible assets and product rights to be held and used are amortized over their useful life of a weighted-average amortization period of between 5 to 20 years using a straight-line method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up.

Long-lived assets:

The Group's long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment exists when the carrying amount of the asset exceeds the aggregate future undiscounted cash flows expected to be generated by the asset. The impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the asset. During the years ended March 31, 2021 and 2020, the Company did not record any impairment charge.

n. Comprehensive income:

The comprehensive income statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income relates to unrealized gains and losses on available for sale securities and foreign currency translation adjustments.

o. Treasury shares:

The Company repurchases its ordinary shares from time to time on the open market and holds such shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity. During the years ended March 31, 2021, 2020 and 2019, the Company repurchased 332,033 shares, 280,719 shares, and 888,719 shares, respectively.

During the year ended March 31, 2021, in accordance with a Rule 10b5-1 program, the Company repurchased 332,033 shares at an average price of $75.23 per share.

On November 15, 2019, the Company commenced a modified "Dutch auction" tender offer to repurchase up to $225.0 million in value of its ordinary shares. In accordance with the terms and conditions of the tender offer, which expired on December 16, 2019, the Company accepted for payment 280,719 ordinary shares at the final purchase price of $91.00 per share.

When treasury stock is reissued, the Company charges the excess of the purchase cost, including related share-based compensation expenses, over their issuance price (loss) to retained earnings. The purchase cost is calculated based on the specific identification method. The Company did not reissue treasury shares during the three years ended March 31, 2021.

In cases where the purchase cost is lower than the re-issuance price, the Company credits the difference to additional paid-in capital.

p. Revenue recognition:

The Company ships products to its customers only in response to, and to the extent of, the orders that customers submit to the Company. Depending on the terms of our customer arrangements, revenue is generally recognized when the product is received by the customer ("FOB Destination Point") or at the time of shipment ("FOB Shipping Point").

When the Company recognizes and records revenue from the sale of its pharmaceutical products, the Company, in the same financial reporting period, records an estimate of various future deductions related to the sale. This has the effect of reducing the amount of reported product sales. These deductions include the Company's estimates, which may require significant judgement of chargebacks, product returns, rebates and other sales deductions.

Chargebacks result from pricing arrangements the Company has with end-user customers establishing contract prices which are lower than the wholesalers' acquisition costs or invoice prices. When these customers buy the Company's products from their wholesaler of choice, the wholesaler issues a credit memo (chargeback) to the Company for the difference between the invoice price and the end-user contract price. Chargeback reserves are estimated using current wholesaler inventory data and historical data.

Product returns result from agreements allowing the Company's customers to return unsold inventory that is expired or close to expiration and such returns are deducted from revenue. Product return reserves are calculated using the average lag period between sales and product expiry, historical product returns experience, and specific return exposures to estimate the potential obligation for returns of inventory in the distribution channel.

Rebates result from contractual agreements with the Company's customers and are earned based on the Company's direct sales to customers or the Company's customers' sales to third parties. Rebate reserves from the Company's direct sales to customers and the Company's customers' sales to third parties are estimated using historical and contractual data.

The Company generally offers discounts to its customers for payments within a certain period of time. Cash discount reserves are calculated by multiplying the specified discount percentage by the outstanding receivable at the end of each period.

Reserves for returns, Medicaid and indirect rebates are included in current liabilities. All other sales deductions allowances are recorded as accounts receivable reserves. The reserve for returns is included in current liabilities as substantially all of these returns will not be realized until after the year-end accounts receivable balances are settled. Medicaid and indirect rebates are included in current liabilities because the Company does not have direct customer relationships with any of the payees.

The Company offers incentives to certain resellers and retailers through various marketing programs where the Company agrees to reimburse them for advertising costs incurred to include the Company's products. The Company accounts for these in accordance with FASB ASU No. 2014-09, "*Revenue from Contracts with Customers (Topic 606)*," as reductions of revenue unless the customer receives an identifiable benefit in exchange for the consideration that is sufficiently separable from the customer's purchase of the products and the fair value of the benefits can be reasonably estimated.

q. Research and development:

Research and development expenses are charged to expense as incurred. Payments made for research and development services prior to the services being rendered are recorded as prepaid expenses on our Consolidated Balance Sheet and expensed as provided.

r. Royalty-bearing grants:

Royalty-bearing grants from the government of Israel through the National Technological Israel Innovation Authority (the "Authority" or "IIA") (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel) for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the related costs incurred. The Company did not earn any grants during the years ended March 31, 2021, 2020 and 2019.

s. Advertising expenses:

The Group expenses advertising costs as incurred. Product samples are recorded within prepaid expenses on the Consolidated Balance Sheet and recorded within advertising expenses when provided to potential customers. Advertising expenses were $5,681, $4,902, and $6,527 for the years ended March 31, 2021, 2020 and 2019, respectively.

t. Sales and other taxes collected and remitted to governmental authorities:

The Company collects various taxes from customers and remits them to governmental authorities. These taxes are recorded on a net basis and therefore do not impact the Statement of Operations.

u. Basic and diluted net (loss) income per ordinary share attributable to Taro:

Basic net (loss) income per ordinary share is calculated based on the weighted-average number of ordinary shares outstanding during each year. Diluted net (loss) income per ordinary share is calculated based on the weighted-average number of ordinary shares outstanding during each year, plus potential dilutive ordinary shares considered outstanding during the year (except where anti-dilutive).

v. Freight and distribution costs:

The Company's accounting policy is to classify shipping and handling costs as a part of sales and marketing expense. Freight, distribution costs, and distribution warehousing costs related to shipping and handling to customers, primarily through the use of common carriers or external distribution services amounted to $13,202, $11,954, and $13,187 for the years ended March 31, 2021, 2020 and 2019, respectively.

w. Concentrations of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short and long-term marketable securities, and trade receivables. Cash and cash equivalents are principally invested in major banks in Israel, the United States and Canada. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Group's cash and cash equivalents, and the investments that comprise the short and long-term marketable securities, are financially sound and a low credit risk therefore exists with respect to these financial instruments. These deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Group's trade accounts receivables are mainly derived from sales to customers in the United States, Canada, Europe and Israel. At March 31, 2021, two different customers represented approximately 41.6% and 22.6% of the Company's trade accounts receivable. The Group has adopted credit policies and standards intended to mitigate inherent risk while accommodating sales growth. The Group performs ongoing credit evaluations of its customers' financial condition when deemed necessary, but does not require collateral for its customers' accounts receivable.

x. Fair value of financial instruments:

The carrying amount of cash and cash equivalents, trade and other receivables, trade payables and other payables approximate their fair value, due to the short-term maturities of these instruments.

As of March 31, 2021 and 2020, the Company did not have any amounts outstanding under borrowing arrangements.

The fair value of currency and interest rate contracts is determined by discounting to the present all future cash flows of the currencies to be exchanged at interest rates prevailing in the market for the period the currency exchanges are due and expressing the results in USD at the current spot foreign currency exchange rate.

y. Accounting for derivatives:

The Company recognizes all of its derivative instruments as either assets or liabilities at fair value, in the Consolidated Balance Sheet. The accounting for changes (i.e., gains or losses) in the fair value of a derivative instrument depends on whether the instrument has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship. For derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation. For derivatives which qualify as a fair value hedge, changes in fair value are reported with the carrying amount of the hedged asset or liability with cash flows reported on the Consolidated Statement of Cash Flows consistent with the classification of cash flows from the underlying items being hedged. For derivatives that qualify as a cash flow hedge, the effective portion of these derivatives' fair value is initially reported as a component of other comprehensive income with cash flows reported on the Consolidated Statement of Cash Flows consistent with the classification of cash flows from the underlying items being hedged. The designation is based upon the nature of the exposure being hedged. At March 31, 2021, 2020, and 2019, the Company had derivative instruments designated as hedging instruments.

As of October 1, 2018, the Company commenced hedging accounting for Israel in accordance with ASU No. 2017-12, "*Derivatives and Hedging (Topic 815)*." The effective date of this standard is for annual periods beginning after December 15, 2018, however the Company early adopted as a result of hedging accounting implementation. The Company elected to designate the entire change in the hedging derivatives' value including the forward component, using the "critical terms match" method. Since the Company uses the "critical terms match," no effectiveness test is needed and the entire change in the designated value of the derivative is assumed to be effective. The Company assesses the critical terms as follows: the forward is for the purchase of the same quantity, at the same currency, at the same time and at the same location as the hedged forecasted payment.

According to ASU 2017-12, for purposes of assessing whether the qualifying criteria for the critical terms match method are met for a group of forecasted transactions, an entity may assume that the hedging derivative matures at the same time as the forecasted transactions if both the derivative maturity and the forecasted transactions occur within the same 31-day period or fiscal month. The Company elected to deem the time criterion as qualified according to the 31-day period method. The company is aware that if any of the critical terms cease to exist or if the counterparty credit rating becomes significant, then the critical terms method cannot be continued. In such a case the company will use a "long haul method" in order to assess the hedge effectiveness or will discontinue the hedging relationship. The effective portion of the designated value is reported under a hedging reserve in other comprehensive income during the hedge period. Once the hedged item affects P&L, the hedging reserve value is reclassified to the same item. The ineffective portion, if any, is reported in P&L.

For derivative instruments not designated as hedging instruments for accounting purposes, the gain or loss is recognized in financial income, net in the Consolidated Statement of Operations during the period of change with the cash flows reported on the Consolidated Statements of Cash Flows consistent with the classification of cash flows from the underlying items being hedged. See Note 10.

z. Fair value measurements:

There is a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity's own assumptions (unobservable inputs). Additional disclosure about fair value measurements is also required.

aa. Impact of recently adopted accounting standards:

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement (Topic 820)*." The guidance focuses on modification of disclosures, which includes the consideration of costs and benefits. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year. The adoption of ASU 2018-13 does not have a material impact on our financial position or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles – Goodwill and Other (Topic 35*0)." The new guidance reduces the complexity of goodwill impairment tests by no longer requiring entities to determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year on a prospective basis. The adoption of ASU 2017-04 does not have a material impact on our financial position or results of operations.

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

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments – Credit Losses (Topic 326).*" The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Guidance in Topic 326 applies to our financial instruments, such as investments that are generally of high credit quality, and trade receivables. Prior to Topic 326, under U.S. GAAP, an entity generally considered past events and current conditions when measuring credit losses. The new guidance requires an entity to measure the allowance for expected credit losses by utilizing information including historical data and current economic conditions, plus the use of reasonable supportable forecasts. The guidance was effective for the Company's fiscal year beginning April 1, 2020, including interim periods within that year. The adoption of ASU 2016-13 does not have a material impact on our financial position or results of operations.

Impact of recently issued accounting standards not yet adopted:

In March 2020, the FASB issued ASU 2020-04 "*Reference Rate Reform (Topic 848).*" The guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. In January 2021, the FASB issued ASU No. 2021-01, "*Reference Rate Reform - Scope (Topic 848)*" which focuses on expanding the scope of Topic 848 to include derivative instruments impacted by discounting transition. The guidance will be effective for the Company fiscal year beginning April 1, 2021, including interim periods within that year. The Company is currently assessing the impact of the adoption on our financial position and results of operations.

In December 2019, the FASB issued ASU No. 2019-12, "*Simplifying the Accounting for Income Taxes.*" The guidance focuses on simplifying accounting for income taxes by removing certain exceptions and simplifying certain requirements under Topic 740. The guidance will be effective for the Company's fiscal year beginning April 1, 2021. The Company does not currently anticipate the adoption to have a material impact on our financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-14, "*Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20).*" The guidance focuses on additional disclosure of reasons for significant gains and losses to changes in the benefit obligation for the period, in addition to removal and clarification of existing disclosures. The guidance will be effective for the Company's fiscal year beginning April 1, 2021, on a retrospective basis. The Company does not currently anticipate the adoption to have a material impact on our financial position or results of operations.

NOTE 3: — MARKETABLE SECURITIES

a. Marketable securities:

	March 31,	
	2021	**2020**
Short-term marketable securities	$ 418,480	$ 595,383
Long-term marketable securities	557,209	459,639
	$ 975,689	$ 1,055,022

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

b. The following is a summary of both short-term and long-term marketable securities by type:

	March 31,							
	2021				2020			
	Amortized Cost	Gross Unrealized Gain (Loss) through Other Comprehensive Income	Gross Unrealized Gain (Loss) through Profit & Loss	Market Value	Amortized Cost	Gross Unrealized Gain (Loss) through Other Comprehensive Income	Gross Unrealized Gain (Loss) through Profit & Loss	Market Value
Marketable securities:								
Corporate bonds	$ 679,315	$ 4,823	$ —	$ 684,138	$ 686,365	$ (6,305)	$ —	$ 680,060
Government securities	146,057	249	—	146,306	271,004	2,438	—	273,442
Commercial paper	47,934	4	—	47,938	45,329	(21)	—	45,308
Certificates of deposit	42,897	27	—	42,924	33,276	(78)	—	33,198
Municipal bonds	23,479	82	—	23,562	—	—	—	—
Preferred stock - equity instrument	10,475	—	77	10,553	7,099	—	(1,098)	6,001
Preferred stock - debt instrument	2,990	44	—	3,033	6,195	(1,129)	—	5,066
Other securities	17,115	120	—	17,235	12,129	(182)	—	11,947
Total marketable securities	$ 970,262	$ 5,350	$ 77	$ 975,689	$ 1,061,397	$ (5,277)	$ (1,098)	$ 1,055,022

At March 31, 2021 and 2020, the gross unrealized gain (loss) excludes $423 and $2,502 of other comprehensive income relating to marketable securities for foreign exchange gain, respectively.

As of March 31, 2021, no other than temporary impairment charges were recorded.

c. The estimated fair value of marketable securities as of March 31, 2021 and 2020, by contractual maturity, are as follows:

	March 31,			
	2021		2020	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Available-for-sale marketable securities:				
Matures in less than five years	$ 956,797	$ 962,103	$ 1,044,537	$ 1,040,549
Matures in more than five years	2,990	3,033	9,761	8,472
	959,787	965,136	1,054,298	1,049,021
Investment at fair value through Profit & Loss	10,475	10,553	7,099	6,001
	$ 970,262	$ 975,689	$ 1,061,397	$ 1,055,022

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

NOTE 4: — ACCOUNTS RECEIVABLE AND OTHER

a. Trade, net:

The following table summarizes the impact of accounts receivable reserves and allowance for doubtful accounts on the gross trade accounts receivable balances at each balance sheet date:

	March 31,	
	2021	2020
Trade accounts receivable, gross	$ 409,198	$ 410,403
Reserves for sales deductions:		
Chargebacks	(119,090)	(104,552)
Other sales deductions	(53,058)	(50,844)
Customer rebates	(22,498)	(17,012)
Allowance for doubtful accounts	(1,013)	(2,774)
Trade accounts receivable, net	$ 213,539	$ 235,221

b. Other receivables and prepaid expenses:

	March 31,	
	2021	2020
Government authorities	$ 26,112	$ 16,257
Prepaid expenses	12,891	6,638
Due from related parties	9,835	9,074
Advances to suppliers	1,134	1,868
Interest receivable	143	760
Other	3,232	970
	$ 53,347	$ 35,567

NOTE 5: — SALES INCENTIVES

When the Company recognizes and records revenue from the sale of its pharmaceutical products, it records an estimate in the same financial reporting period for product returns, chargebacks, rebates and other sales deductions, which are reflected as reductions of the related gross revenue. The Company regularly monitors customer inventory information at its three largest wholesale customers to assess whether any excess product inventory levels may exist. The Company reviews this information together with historical product and customer experience, third-party prescription data, industry and regulatory changes and other relevant information and revises its estimates as necessary.

The Company’s estimates of inventory in the distribution channel are based on inventory information reported to it by its major wholesale customers, historical shipment and return information from its accounting records, and third-party data on prescriptions filled. The Company’s estimates are subject to inherent limitations pertaining to reliance on third-party information.

The Company considers all information available subsequent to the balance sheet date, but before the issuance of the financial statements, that provides additional evidence with respect to conditions existing at the balance sheet date and adjusts the reserves accordingly.

Product returns:

Consistent with industry practice, the Company generally offers its customers the right to return inventory within three to six months prior to product expiration and up to 12 months thereafter (the "return period"). Product returns are identified by their manufacturing lot number. Because the Company manufactures in bulk, lot sizes are generally large and, therefore, shipments of a particular lot may occur over a one-to-six month period. As a result, although the Company cannot associate a product return with the actual shipment in which such lot was included, the Company can reasonably estimate the period (in months) over which the entire lot was shipped and sold. The Company uses this information to estimate the average time period between lot shipment (and sale) and return for each product, which the Company refers to as the "return lag." The shelf life of most of the Company's products ranges between 18-36 months. Because returns of expired products are heavily concentrated during the return period, and given the Company's historical data, it is able to reasonably estimate return lags for each of its products. These return lags are periodically reviewed and updated, as necessary, to reflect the Company's best knowledge of facts and circumstances. Using sales and return data (including return lags), the Company determines a return rate to estimate its returns reserve. The Company supplements this calculation with additional information including customer and product specific channel inventory levels, competitive developments, external market factors, the Company's planned introductions of similar new products and other qualitative factors in evaluating the reasonableness of the returns reserve. The Company continuously monitors factors that could affect its estimates and revises the reserves as necessary. The Company's estimates of expected future returns are subject to change based on unforeseen events and uncertainties.

The Company monitors the levels of inventory in its distribution channels to assess the adequacy of the product returns reserve and to identify potential excess inventory on hand that could have an impact on its revenue recognition. The Company does not ship products to its wholesalers when it appears they have an excess of inventory on hand, based on demand and other relevant factors, for that particular product.

Chargebacks:

The Company has arrangements with certain customers that allow them to buy its products directly from its wholesalers at specific prices. Typically, these price arrangements are lower than the wholesalers' acquisition costs or invoice prices. In exchange for servicing these third party contracts, the Company's wholesalers can submit a "chargeback" claim to the Company for the difference between the price sold to the third party and the price at which they purchased the product from us. The Company generally pays chargebacks on generic products, whereas branded proprietary products are typically not eligible for chargeback claims. The Company considers many factors in establishing its chargeback reserves including inventory information from its largest wholesale customers and the completeness of their reports, estimates of Taro inventory held by smaller wholesalers and distributors, processing time lags, contract and non-contract sales trends, average historical contract pricing, actual price changes, actual chargeback claims received from the wholesalers, Taro sales to the wholesalers and other relevant factors. The Company's chargeback provision and related reserve varies with changes in product mix, changes in pricing, and changes in estimated wholesaler inventory. The Company reviews the methodology utilized in estimating the reserve for chargebacks in connection with analyzing its product returns reserve each quarter and makes revisions as considered necessary to reasonably estimate its potential future obligation.

Rebates and other deductions:

The Company offers its customers various rebates and other deductions based primarily on their volume of purchases of its products. Chain wholesaler rebates are rebates that certain chain customers claim for the difference in price between what the chain customer paid a wholesaler for a product purchase and what the chain customer would have paid if such customer had purchased the same product directly from the Company. Cash discounts, which are offered to the Company's customers, are generally 2% of the gross sales price, and provide the Company's customers an incentive for paying within a specified time period after receipt of invoice. Medicaid rebates are earned by states based on the amount of the Company's products dispensed under the Medicaid plan. Billbacks are special promotions or discounts provided over a specific time period to a defined customer base and for a defined product group. Distribution allowances are a fixed percentage of gross purchases for inventory shipped to a national distribution facility that the Company pays to its top wholesalers on a monthly basis. Administration fees are paid to certain wholesalers, buying groups, and other customers for stocking the Company's products and managing contracts and servicing other customers. Shelf-stock adjustments, which are customary in the generic pharmaceutical industry, are based on customers' existing levels of inventory and the decrease in the market price of the related product. When market prices for the Company's products

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

decline, the Company may, depending on its contractual arrangements, elect to provide shelf-stock adjustments and thereby allow its customers with existing inventories to compete at the lower product price. The Company uses these shelf-stock adjustments to support its market position and to promote customer loyalty.

The Company establishes reserves for rebates and other various sales deductions based on contractual terms and customer purchasing activity, tracking and analysis of rebate programs, processing time lags, the level of inventory in the distribution channel and other relevant information. Based on the Company's historical experience, substantially all claims for rebates and other sales deductions are received within 24 months.

As discussed above, the Company believes it has the experience and information necessary to reasonably estimate the amounts of reserves for its sales incentives programs. Several of the assumptions used by the Company for certain estimates are based on information received from third parties, such as wholesale customer inventory levels, market data, and other factors beyond the Company's control. The most critical estimates in determining these reserves, and the ones therefore that would have the largest impact if these estimates were not accurate, are related to contract sales volumes, average contract price, customer inventories and return volumes. The Company regularly reviews the information related to these estimates and adjusts its reserves accordingly, if and when actual experience differs from previous estimates.

Use of estimates in reserves:

The Company believes that its reserves, allowances and accruals for items that are deducted from gross revenue are reasonable and appropriate based on current facts and circumstances. Changes in actual experience or changes in other qualitative factors could cause the Company's allowances and accruals to fluctuate, particularly with newly launched or acquired products. The Company regularly reviews the rates and amounts in its reserve estimates. If future estimated rates and amounts are significantly greater than those reflected in the Company's recorded reserves, the resulting adjustments to those reserves would decrease the Company's reported net revenue; conversely, if actual product returns, rebates and chargebacks are significantly less than those reflected in the Company's recorded reserves, the resulting adjustments to those reserves would increase the Company's reported net revenue. If the Company were to change its assumptions and estimates, its reserves would change, impacting the net revenue that the Company reports. The Company regularly reviews the information related to these estimates and adjusts its reserves accordingly, if and when actual experience differs from previous estimates.

The following tables summarize the activities for sales deductions and product returns for the years ended March 31, 2021, 2020, and 2019:

For the year ended March 31, 2021

	Beginning balance	Provision recorded for current period sales (1)	Credits processed / Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (104,552)	$ (1,173,810)	$ 1,159,272	$ (119,090)
Rebates and Other	(70,630)	(180,079)	174,140	(76,569)
Total	$ (175,182)	$ (1,353,889)	$ 1,333,412	$ (195,659)
Current Liabilities				
Returns	$ (61,406)	$ (37,011)	$ 46,181	$ (52,236)
Other (2)	(41,562)	(26,036)	49,038	(18,560)
Total	$ (102,968)	$ (63,047)	$ 95,219	$ (70,796)

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

For the year ended March 31, 2020	Beginning balance	Provision recorded for current period sales (1)	Credits processed / Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (109,763)	$ (1,104,946)	$ 1,110,157	$ (104,552)
Rebates and Other	(113,657)	(305,098)	348,125	(70,630)
Total	$ (223,420)	$ (1,410,044)	$ 1,458,282	$ (175,182)
Current Liabilities				
Returns	$ (63,818)	$ (37,258)	$ 39,670	$ (61,406)
Other (2)	(33,497)	(77,537)	69,472	(41,562)
Total	$ (97,315)	$ (114,795)	$ 109,142	$ (102,968)

For the year ended March 31, 2019	Beginning balance	Provision recorded for current period sales (1)	Credits processed / Payments	Ending balance
Accounts Receivable Reserves				
Chargebacks	$ (116,632)	$ (1,086,800)	$ 1,093,669	$ (109,763)
Rebates and Other	(133,221)	(377,568)	397,132	(113,657)
Total	$ (249,853)	$ (1,464,368)	$ 1,490,801	$ (223,420)
Current Liabilities				
Returns	$ (70,865)	$ (38,247)	$ 45,294	$ (63,818)
Other (2)	(40,968)	(64,405)	71,876	(33,497)
Total	$ (111,833)	$ (102,652)	$ 117,170	$ (97,315)

(1) Includes immaterial amounts of reversals of provisions recorded for prior years' sales.

(2) Includes Medicaid, indirect rebates, and amounts due to customers.

NOTE 6: — INVENTORIES

	March 31,	
	2021	2020
Finished goods	$ 85,956	$ 63,686
Raw and packaging materials	60,299	49,970
Work in progress	28,185	34,084
Other	5,852	5,333
	$ 180,292	$ 153,073

As of March 31, 2021 and 2020, reserves recorded against inventories for slow-moving, short-dated, excess and obsolete inventory totaled $32,423 and $28,902, respectively.

As of March 31, 2021 and 2020, there were no pledges of inventory.

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

NOTE 7: — PROPERTY, PLANT AND EQUIPMENT

a. Composition of assets grouped by major classifications are as follows:

	March 31,	
	2021	2020
Cost:		
Land	$ 7,628	$ 7,628
Buildings	190,617	187,570
Leasehold improvements	3,552	3,383
Machinery and equipment	219,210	212,480
Computer software and equipment	46,087	39,156
Motor vehicles	80	80
Furniture, fixtures and office equipment	15,542	15,047
	482,716	465,344
Accumulated depreciation and impairment charges:		
Buildings	$ 85,139	$ 78,150
Leasehold improvements	2,084	1,847
Machinery and equipment	153,628	144,437
Computer software and equipment	25,445	20,857
Motor vehicles	80	80
Furniture, fixtures and office equipment	10,832	10,012
	277,208	255,383
Depreciated cost	$ 205,508	$ 209,961

b. Depreciation expenses were $21,849, $19,161, and $17,017 for the years ended March 31, 2021, 2020 and 2019, respectively.

c. Cost of property, plant and equipment includes capitalized interest expense, capitalized direct incremental costs (such as payroll and related expenses) and other internal costs incurred in order to bring the assets to their intended use in the amount of $15,333 as of March 31, 2021 and 2020. There were no additional capitalized interest and other costs as of March 31, 2021 and 2020.

d. Cost of computer equipment includes capitalized development costs of computer software developed for internal use in the amount of $17,332 and $13,912 as of March 31, 2021 and 2020, respectively.

e. Asset disposals were $124 and $279 for the years ended March 31, 2021 and 2020, respectively, mainly relating to the write-off of fully depreciated computer equipment, software and production equipment.

NOTE 8: — INTANGIBLE ASSETS AND DEFERRED COSTS

a. Composition:

	March 31,	
	2021	2020
Cost:		
Product and distribution rights	$ 85,359	$ 85,174
	85,359	85,174
Accumulated amortization:		
Product and distribution rights	78,593	76,762
	78,593	76,762
	$ 6,766	$ 8,412

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

b. Amortization expenses related to product and distribution rights were $1,831, $2,222 and $1,580 for the years ended March 31, 2021, 2020 and 2019, respectively.

c. As of March 31, 2021, the estimated amortization expense of product and distribution rights for 2022 to 2026 is as follows: 2022—$1,846; 2023—$1,726; 2024—$323; 2025—$328; 2026—$324.

d. The weighted-average amortization period for product rights is approximately 5 years.

e. During the years ended March 31, 2021 and 2020, the Company did not record any impairment charge.

NOTE 9: — OTHER ASSETS

	March 31,	
	2021	2020
Prepayment of land leased from ILA (1)	$ 13,020	$ 13,250
Goodwill (2)	7,191	7,191
Intangible assets and deferred costs, net (3)	6,766	8,412
Right-of-use (ROU) assets (4)	2,729	2,195
Severance pay fund (5)	1,211	1,187
Other	397	126
	$ 31,314	$ 32,361

(1) The ILA lease agreements are standard agreements covering substantial portions of the land of Israel. The standard agreements call for a Lease Period of 49 years, with an option for one additional Lease Period (i.e., total of 98 years). A majority of the Company's leases are in the beginning of the second 49 year period, and the remaining leases still in the first 49 year period have the option for the one additional lease period. This amount was prepaid. See Note 2.j.

(2) See Note 2.k.

(3) See Note 8.

(4) As of April 1, 2019, the Company commenced lease accounting in accordance with ASU 2016-02, "*Leases (Topic 842)*." The Company currently has leased offices, warehouse space and equipment under operating leases for periods through 2026. See Note 13.

(5) Under Israeli law, the Company is required to make severance or pension payments to dismissed employees and to employees terminating employment under certain other circumstances. Deposits are made with a pension fund or other insurance plans to secure pension and severance rights for the employees in Israel. These amounts represent the balance of the deposits in those funds (including profits) that will be used to cover the Company's severance obligations. See Note 12.b.

Taro U.S.A. maintains defined contribution retirement savings plans covering substantially all of their employees. Taro Canada maintains a Registered Retirement Savings Plan ("RRSP"). Under the plans, contributions are based on specific percentages of pay and are subject to statutory limits. The Company's matching contribution to the plans was $1,369, $1,133 and $1,254 for the years ended March 31, 2021, 2020 and 2019, respectively.

	Years ended March 31,		
	2021	2020	2019
Pension, retirement savings and severance expenses	$ 8,064	$ 6,654	$ 5,924

NOTE 10: — DERIVATIVE INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's operations are exposed to market risks from changes in interest rates and currency exchange rates. Exposure to these risks is managed through normal operating and financing activities and, when appropriate, through derivative instruments.

Currency exchange rates:

The Company manages its exposure to debt obligations denominated in currencies other than its functional currency by opportunistically using cross-currency hedges to convert its foreign currency payments into its functional currency.

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

The following table sets forth the annual rate of inflation, the devaluation (appreciation) rate of the New Israeli Shekel ("NIS") and the CAD against the USD and the exchange rates between the USD and each of the NIS and the CAD at the end of the year indicated:

	Rate of Inflation		Rate of Devaluation (Appreciation) Against USD		Rate of Exchange of USD	
Period ended	**Israel (1)**	**Canada (2)**	**Israel (1)**	**Canada (2)**	**Israel (1)**	**Canada (2)**
3/31/2021	0.20%	2.20%	(6.72%)	(10.64%)	3.33	1.26
3/31/2020	0.00%	0.89%	(1.65%)	6.02%	3.57	1.41

(1) Per Bank of Israel.
(2) Per J.P. Morgan Chase.

The Company enters into separate forward contracts to purchase the NIS and the CAD on a monthly basis at agreed upon spot rates to hedge the variability of cash flows in USD due to changes in the respective exchange rates. At March 31, 2021, the forward contracts to purchase the NIS are for a total amount of $54,500, at a weighted-average forward rate of 3.33 NIS per USD, which are settled in seventeen (17) monthly settlements of $3,750 for ten (10) months, $2,500 for six (6) months, and $2,000 for one (1) month. The Company recorded a net gain (loss) of $190, $178 and ($2,530) for the years ended March 31, 2021, 2020, and 2019, respectively, for the contracts to purchase the NIS.

The forward contracts to purchase the CAD are for a total amount of $10,203, at a weighted-average forward rate of CAD 1.26 per USD, which are settled in seven (7) monthly installments of approximately $2,066 for four (4) months, $821 for two (2) months, and $298 for one (1) month . The Company recorded a net gain (loss) of $267, ($629) and $2,545, for the years ended March 31, 2021, 2020, and 2019, respectively, for the contracts to purchase the CAD.

There is no collateral for these hedges.

At March 31, 2021, the Company had derivative instruments designated as hedging instruments, which have been accounted for in accordance with ASU No. 2017-12, "*Derivatives and Hedging (Topic 815)*."

NOTE 11: — FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 defines fair value as the price that would be received for an asset or paid to transfer a liability, from a selling party's perspective, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets and liabilities. Active market means a market in which transactions for assets or liabilities occur with "sufficient frequency" and volume to provide pricing information on an ongoing unadjusted basis.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets primarily include derivative instruments. The Level 2 asset values are determined using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and consider counterparty credit risk in the assessment of fair value.

Level 3: Significant unobservable inputs that are not corroborated by market data. The Company has no Level 3 assets or liabilities.

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The fair value of the Company's financial assets measured at fair value on a recurring basis as of March 31, 2021 and 2020 were as follows:

	March 31, 2021		March 31, 2020	
	Quoted Market Prices of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Quoted Market Prices of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets				
Short-term marketable securities *	$ 418,480	$ —	$ 595,383	$ —
Long-term marketable securities *	543,623	—	448,572	—
Long-term debt instruments *	3,033	—	5,066	—
Long-term equity instruments *	10,553	—	6,001	—
Forward contracts	—	680	—	35
	$ 975,689	$ 680	$ 1,055,022	$ 35
Liabilities				
Forward contracts	$ —	$ (591)	$ —	$ (4,667)

*Refer to Note 3 for additional details on marketable securities.

NOTE 12: — OTHER LIABILITIES

a. Other current liabilities:

	March 31,	
	2021	2020
Settlements and loss contingencies (1)	$ 457,674	$ 961
Returns reserve	52,236	61,406
Accrued expenses	20,557	15,616
Employees and payroll accruals	20,179	20,195
Accrued income taxes	18,114	22,511
Medicaid and indirect rebates	16,796	37,110
Marketable securities	10,266	9,168
Deferred revenue	7,583	237
Suppliers of property, plant and equipment	2,951	1,418
Royalties	2,911	8,523
Due to customers	1,764	4,452
Lease liability	1,689	1,514
Legal and audit fees	1,197	2,743
Derivative instruments	299	3,811
Other	919	4,208
	$ 615,135	$ 193,873

(1) See Note 13.

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

b. Other long-term liabilities:

	March 31,	
	2021	2020
Deferred credits	$ 29,227	$ 1,100
Accrued severance pay	1,315	1,278
Deferred revenue	1,095	1,347
Other	1,571	1,642
	$ 33,208	$ 5,367

NOTE 13: — COMMITMENTS AND CONTINGENT LIABILITIES

a. Companies of the Group have leased offices, warehouse space and equipment under operating leases for periods through 2026. The minimum annual rental payments, under non-cancelable lease agreements, are as follows:

	March 31, 2021
3/31/2022	$ 1,279
3/31/2023	792
3/31/2024	494
3/31/2025	315
3/31/2026	136
	$ 3,016

Total rent expenses were $1,951, $1,875 and $2,905 for the years ended March 31, 2021, 2020 and 2019, respectively.

Effective April 1, 2019, the Company adopted ASU 2016-02, using the modified retrospective method. The adoption of ASU 2016-02 does not have a material impact on our financial position or results of operations.

b. Royalty commitments:

The Company is committed to pay royalties at the rate of 3.0% to 3.5% to the government of Israel through the Authority on proceeds from the sale of products in which the government participates in the research and development by way of grants. The obligation to pay these royalties is contingent on actual sales of the products and, in the absence of such sales, no payment is required. The commitment is on a product by product basis, in an amount not exceeding the total of the grants received by the Company, including interest accrued thereon, and is linked to the USD. Grants are subject to interest at a rate of LIBOR (cost of borrowing funds in USD). As of March 31, 2021 and 2020, the aggregate contingent liability to the Authority was $13,805 and $12,950, respectively. In March 2020, the FASB issued ASU 2020-04 "*Reference Rate Reform (Topic 848)*." The guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The guidance will be effective for the Company fiscal year beginning April 1, 2021, including interim periods within that year. The Company is currently assessing the impact of the adoption on our financial position and results of operations.

Royalty payments to the Authority were $0, $0 and $89 for the years ended March 31, 2021, 2020 and 2019, respectively.

c. Legal proceedings:

From time to time, we are a party to routine litigation incidental to our business, including patent litigation resulting from our use of the patent challenge procedures set forth in the Hatch Waxman Act, product liability litigations, and employment litigations, none of which, individually or in the aggregate, are expected to have a material effect on our financial position or profitability. Other litigation, as disclosed herein, may have a material adverse effect on our financial position or profitability. The Company records a provision in its financial statements to the extent that it concludes that a contingent liability is probable and the amount thereof is estimable. Because litigation outcomes and contingencies are unpredictable, and because excessive verdicts can occur, these assessments involve complex judgments about future events and can rely heavily on estimates and assumptions.

1. Legal actions commenced by the Company:

As part of an on-going audit by the Israel Tax Authority ("ITA"), with respect to the years ending on March 31, 2016 and through the year ending on March 31, 2019, in March 2021, the ITA announced its intention to issue a tax assessment for the fiscal year ending March 31, 2016. The Company reached a settlement with the ITA under which the Company paid a tax assessment of $2.0 million. The settlement finalized all tax disputes between the parties for the fiscal year ending March 31, 2016. The fiscal years ending March 31, 2017, March 31, 2018 and March 31, 2019 remain under tax audit.

2. Generic drug industry pricing investigations and related litigation:

On July 23, 2020, Taro U.S.A. came to a global resolution with the DOJ Antitrust Division and Civil Division in connection with DOJ's multi-year investigation into the U.S. generic pharmaceutical industry. Under a Deferred Prosecution Agreement (the "Agreement") reached with the DOJ Antitrust Division, the DOJ filed an information relating to conduct that occurred between 2013 and 2015. If Taro U.S.A. adheres to the terms of the Agreement, including paying a penalty of $205.7 million, the DOJ will dismiss the information after three years. Taro U.S.A. also reached a framework understanding with the DOJ Civil Division, subject to final agreement and agency authorization, in which Taro U.S.A. has agreed to pay $213.3 million to resolve all claims related to federal healthcare programs. Accordingly, an amount of $418.9 million was reserved in the quarter ended June 30, 2020.

The Company, its subsidiaries and, with respect to a complaint brought by U.S. State Attorneys General ("AG") and a complaint brought by putative classes of indirect reseller plaintiffs ("IRPs"), a former member of Taro U.S.A.'s commercial team have been named as defendants in numerous putative class action lawsuits and additional lawsuits brought by and/or on behalf of purchasers and payors of several generic pharmaceutical products in the U.S. and Canada. The lawsuits allege that the Company, its subsidiaries, and/or, in the AG and IRP complaints, the concerned individual, have conspired with competitors to fix prices, rig bids, or allocate customers with respect to certain products, and also allege an industry-wide conspiracy as to nearly all generic pharmaceutical products. Each of the cases that were filed in U.S. federal court has been transferred to the United States District Court for the Eastern District of Pennsylvania for coordinated proceedings under the caption In re: Generic Drug Pricing Antitrust Litigation, MDL No. 2724. The Court had sequenced the lawsuits into separate groups for purposes of briefing motions to dismiss. Defendants filed motions to dismiss complaints in the first group. On October 16, 2018, the Court denied the motions with respect to the federal law claims. On February 15, 2019, the Court granted in part and denied in part the motions with respect to the state law claims. Certain cases are proceeding in discovery. In May 2021, the Court designated certain complaints naming Taro U.S.A. as "bellwether" cases to begin the sequencing of proceedings.

Further, the Company has made a provision of $140.0 million for ongoing multi-jurisdiction civil antitrust matters. An amount of $60.0 million was accounted for in the quarter ended June 30, 2020, and an additional provision of $80.0 million was recognized in the quarter ended March 31, 2021; however, the ultimate outcome of these matters cannot be predicted with certainty. These provisions have been disclosed in the consolidated financial statements.

The Company and two of its former officers are named as defendants in a putative shareholder class action entitled Speakes v. Taro Pharmaceutical Industries, Ltd., filed October 25, 2016, which is now pending in the United States District Court for the Southern District of New York and asserts claims under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") against all defendants and Section 20(a) of the Exchange Act against the individual defendants. It generally alleges that the defendants made material misstatements and omissions in connection with an alleged conspiracy to fix drug prices. On September 24, 2018, the Court granted in part and denied in part the Company's motion to dismiss. The case is proceeding with limited discovery.

On June 22, 2020, a motion seeking documents before filing a shareholder derivative action was filed by a single shareholder against the Company 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 the Company 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 Company has filed a motion to stay proceedings pending resolution of the related U.S. litigation.

3. Other matters:

In April 2019, the Company entered into a conditional settlement with the Israeli Ministry of Environmental Protection (the "MoEP") and submitted it to the Haifa Magistrate's Court, which approved the settlement in July 2019. The conditional settlement concerns one current and one former employees' and the Company's non-compliance with the performance obligations of periodic sampling of emissions from the facility's stacks between 2010 and 2013 as instructed by the Company's business license and the Israeli business license law. In the settlement, the Company and the concerned individuals undertook to refrain from repeating the described violations for a term of one year commencing on July 2019 and to conditional fines to be imposed in case these violations are repeated. In exchange, the MoEP agreed to a non-conviction by the court.

In June 2020, the Company was named as a defendant in a putative opioids-related class action pending in Israel, in which the claimant alleges that the Company did not provide sufficient disclosure regarding the risks associated with opioid use in violation of the Israeli Consumer Protection Act. The Company filed its defense to the application for class action approval on May 2, 2021.

In June 2020, the Company and Taro U.S.A. were named as defendants in a complaint filed in the Zantac/Ranitidine Multi-District Litigation ("MDL") consolidated in the U.S. District Court for the Southern District of Florida. The lawsuits name over 100 defendants, including brand manufacturers, generic manufacturers, repackagers, distributors, and retailers, involving allegations of injury caused by nitrosamine impurities. On September 4, 2020 and October 3, 2020, the Court dismissed the Company and Taro U.S.A., respectively, from the master complaints without prejudice, and both entities have now been dismissed from all individual complaints.

In July 2019, the Company received a motion to approve a class action against 30 companies located in Haifa Bay, Israel, including the Company. The claimant, a civil association in Haifa Bay, claims that the industrial activity of the 30 companies allegedly caused higher percentages of lung cancer among Haifa Bay residents compared to the average in Israel. At this stage, the claimant seeks to receive district court approval for the motion to approve a class action. The 30 companies have filed a procedural motion asking the court to determine whether the legal connection between the alleged conduct and the alleged damages should be resolved prior to the court's ruling on class certification.

d. Other:

Payments to pharmacies for Medicaid-covered outpatient prescription drugs are set by the states. For many multiple source drugs with respect to which FDA has rated at least three drugs as therapeutically equivalent, the amount that states may reimburse pharmacies in the aggregate is subject to a Federal upper limit (FUL) ceiling price. Health care reform legislation enacted in March 2010 changed the methodology by which the Centers for Medicare & Medicaid Services (CMS) calculates the FULs so that the FUL is based on no less than 175 % of the weighted-average of the monthly average manufacturer prices (AMPs) reported to the government by manufacturers of each of the therapeutically equivalent multiple source drugs. In addition, under the Medicaid Drug Rebate Program, manufacturers are required, as a condition of Federal payment for their drugs under Medicaid and Medicare Part B, to pay rebates to state Medicaid programs on drugs dispensed to Medicaid beneficiaries in the state. The amount of the rebate is calculated for non-innovator multiple source drugs as 13 % of AMP and for innovator drugs as the lower of 23.1 % of AMP or AMP minus the best price of the drug. Both innovator and non-innovator drugs are also subject to an additional rebate if price increases exceed the rate of inflation.

Before implementation of the new FUL methodology on April 1, 2016, CMS used average wholesale price ("AWP") or Wholesale Acquisition Cost ("WAC") in the calculation of FULs. States have also historically used AWP or WAC in setting Medicaid reimbursement rates for drugs. Effective April 1, 2017, states are now required to use actual acquisition cost as the basis of reimbursement. Many of the legislative changes noted above stemmed from civil lawsuits being brought by states against pharmaceutical manufacturers in which there were allegations that the defendants overstated AWPs or WACs, which were used by state agencies to calculate drug reimbursements to healthcare providers.

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The Collective Bargaining Agreement dated April 6, 2011, as amended and extended by the collective bargaining dated January 5, 2017 and July 2, 2020, among Taro Israel, the Histadrut Trade Union and Taro Israel's Employees Committee (the "Collective Bargaining Agreement"). The Collective Bargaining Agreement is valid until December 31, 2023, and automatically renews for one-year periods unless notice is provided by a party three months prior to the end of a term. The Collective Bargaining Agreement memorializes current employee-employer relations practices of Taro as well as additional rights relating to job security, compensation and other benefits.

NOTE 14: — SHAREHOLDERS' EQUITY

a. Pertinent rights and privileges of ordinary shares:

1. 100% of the rights to profits are allocated to the ordinary shares.
2. 100% of the dissolution rights are allocated to the ordinary shares.
3. Two-thirds of the voting power of all of the Company's shares is allocated to the ordinary shares.

b. Founders' shares:

One-third of the voting power of all of the Company's shares is allocated to the founders' shares.

c. Stock option plans:

The Company's 1999 Stock Incentive Plan ("1999 plan") provided for the issuance of incentive stock options, non-qualified stock options, or stock appreciation rights to key employees and associates of the Group.

As of March 31, 2021, 2020 and 2019, no options were outstanding and no further options are available for future grants.

d. Net (loss) income per share:

	Year ended March 31, 2021			Year ended March 31, 2020			Year ended March 31, 2019		
	Net (loss) attributable to Taro (numerator)	Shares (denominator)	Per Share Amount	Net income attributable to Taro (numerator)	Shares (denominator)	Per Share Amount	Net income attributable to Taro (numerator)	Shares (denominator)	Per Share Amount
Basic and diluted EPS	$ (386,653)	38,209,726	$ (10.12)	$ 244,241	38,460,056	$ 6.35	$ 281,777	38,990,058	$ 7.23

e. As of March 31, 2021, the accumulated other comprehensive (loss) comprised of unrealized (loss) from hedge accounting of ($156,905) and unrealized gain from available for sale securities of $5,284. As of March 31, 2020, the accumulated other comprehensive (loss) comprised of unrealized loss from hedge accounting of ($160,583), and unrealized loss from available for sale securities of ($2,454). Unrealized gains (losses) on marketable securities reclassified out of accumulated other comprehensive (loss) to financial income (expense) on the income statement were $2,421, $420, and ($1,003) during the years ended March 31, 2021, 2020, and 2019, respectively.

NOTE 15: — INCOME TAXES

a. Corporate income tax rate in Israel:

Taxable income of Israeli companies is subject to corporate income tax at the rate of 23.0% for the years ended March 31, 2021, 2020 and 2019.

b. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company is an "industrial company" as defined by this law and, as such, is entitled to certain income tax benefits, mainly increased depreciation rates in respect of machinery and equipment (as prescribed by regulations published under the Inflationary Adjustments Law) and the right to claim public issuance expenses, amortization of acquired patents and other intangible property rights as deductions for tax purposes.

c. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Investments Law"):

Various production and development facilities of the Company have been granted "Approved Enterprise" and "Benefited Enterprise" status, which provided certain benefits, including tax exemptions and reduced tax rates for a defined period. The benefits available to an Approved Enterprise and Benefited Enterprise relate only to taxable income attributable to the specific investment program and are conditioned upon terms stipulated in the Investments Law and the related regulations and the criteria set forth in the applicable certificate of approval (for an Approved Enterprise). If the Company does not fulfill these conditions, in whole or in part, the benefits can be cancelled and the Company may be required to pay additional tax to refund the benefits, in an amount linked to the Israeli consumer price index plus interest and potential penalties.

The Company qualified as a foreign investors' company, or FIC. FICs are entitled to further reductions in the tax rate normally applicable to Approved or Benefited Enterprises, depending on the level of foreign ownership. The tax rate ranges between 10% (when foreign ownership is 90% or more) to 25% (when the foreign ownership is below 49%).

In the years ended March 31, 2020 and 2019, the Company had two active plans, one Approved Enterprise under the Alternative Benefits Program (Plan 5) and one Benefited Enterprise (Plan 6), granting us a package of benefits, subject to compliance with applicable requirements. Under Plan 5 (benefit period starting 2007), the Company was entitled to an exemption from corporate income tax on undistributed profits for a period of two years following implementation of such plan and to a reduced tax rate of 10% to 25% (depending on the level of foreign investment) for eight additional years thereafter. With respect to Plan 5, given the high level of investments in such plan, we met the conditions to qualify as a "High Level Foreign Investment Company" which entitled Plan 5 to an additional 5 years of benefits, subject to receipt of approval from the Israeli Investment Center ("IIC," now called the "Authority for Investments and Development of the Economy and Industry"). On November 5, 2019, we received the approval from the IIC regarding the 5 year extension of Plan 5, subject to meeting certain pre-agreed additional conditions that will be examine by the IIC at the end of the extension period. Under Plan 6 (benefit period starting 2010), the Company was entitled to an exemption from corporate income tax on undistributed profits for a period of two years and a reduced tax rate of 10% to 25% (depending on the level of foreign investment) for eight additional years thereafter.

The entitlement to these benefits was conditional upon the Company fulfilling the requirements of the Investments Law, regulations published thereunder and the certificate of approval for the specific investments in the case of Approved Enterprises. In the event of failure to comply with these requirements, the benefits may be reduced or canceled and the Company may be required to refund the amount of the benefits it received, in whole or in part, including linkage and interest. As of March 31, 2021, Management believes that the Company complied with all of the aforementioned requirements.

The "Approved Enterprise" and "Benefited Enterprise" statuses were applicable to our production and development facilities through the year ending on March 31, 2020, as the Company made an irrevocable election to forego previously granted benefits and apply the tax benefits under the 2011 Amendment and/or the 2017 Amendment.

If the Company pays a dividend, the source of which is income derived from the Approved and/or Benefited Enterprises during the tax exempt period, the Company will be subject to corporate tax at the rate ordinarily applicable to the Approved/Benefited Enterprise from which it was exempt, on the gross amount of such dividend.

The Company has decided not to declare dividends out of such tax-exempt income. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Approved and/or Benefited Enterprises.

Dividends paid by a company, the source of which is income derived from the Approved Enterprise accrued during the benefits period, are generally subject to withholding tax at a rate of 15% (which is withheld and paid by or on behalf of the company paying the dividend), and such withholding tax may be reduced by an applicable treaty if such dividends were paid during the benefits period or at any time up to 12 years thereafter. The 12-year limitation does not apply to a FIC.

For the years ended March 31, 2021 and 2020, income not eligible for Approved/Benefited/Special Preferred Technological Enterprise benefits is taxed at the regular corporate income tax rate.

d. The New Incentives Regime—Amendment 68 to the Investment Law

Under Amendment 68 to the Investment Law ("Amendment 68"), upon an irrevocable election made by a company, a uniform corporate tax rate will apply to all qualifying industrial income of such company (an "Industrial Company"), as opposed to the previous law's incentives, which were limited to income from Approved/Benefited Enterprises during the benefits period. Under the law, when the election is made, the uniform tax rate for 2014 and onwards will be 9% in areas in Israel designated as Development Zone A (decreased to 7.5% as of January 1, 2017) and 16% elsewhere in Israel. The decrease of the uniform tax rate to 7.5% was effective for the reporting periods starting April 1, 2017. The profits of these Industrial Companies will be freely distributable as dividends, subject to withholding tax of 20% or lower, under an applicable tax treaty and a certificate from the ITA allowing for such withholding taxes. Certain "Special Preferred Enterprise" that meet more stringent criteria (significant investment, R&D or employment thresholds), and will enjoy further reduced tax rates of 5% in Zone A and 8% elsewhere. In order to be classified as a "Special Preferred Enterprise," the approval of three governmental authorities in Israel is required.

On August 24, 2020, the Company submitted to the ITA an announcement declaring its irrevocable choice to forego the benefits granted to it prior to the 2011 Amendment, and the application of the tax benefits under the 2011 Amendment and/or the 2017 Amendment, starting with the fiscal year ending March 31, 2020.

e. The New Technological Enterprise Incentives Regime – 2017 Amendment to the Investment Law

Amendment 73 to the Investment Law ("the 2017 Amendment"), was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment is based on the OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project and introduced the incentive regimes of "Preferred Technological Enterprise" and of "Special Preferred Technological Enterprise", as described below. These new regimes are in addition to the other existing post Amendment 68 tax incentives regimes under the Investment Law.

The new incentives regime will apply to "Preferred Technological Enterprises" that meet the "Preferred Enterprise" requirements and certain additional conditions, including all of the following:

1. The Enterprise's R&D expenses in the three years prior to the current tax year must be greater than or equal to 7%, on average, out of the total revenue of the Company owning the Enterprise or exceed NIS 75 million (approximately $23 million) per year; and
2. The Company which owns the Enterprise must also satisfy one of the following conditions:
    - at least 20% of the workforce (or at least 200 employees) are employees of which their salaries are fully allocated to R&D expenses;
    - a venture capital investment of an amount of NIS 8 million (approximately $2.4 million) was previously made in the company, provided that the company did not change its field of business after the investment; or
    - growth in sales (assuming the Company's sales in the current tax year and in each of the three preceding years was at least NIS 10 million (approximately $3 million)) or workforce (assuming the Company's workforce in the current tax year and in each of the three preceding years included at least 50 employees) by an average of 25% in the course of three years preceding the tax year in comparison to the prior tax year.

A "Special Preferred Technological Enterprise" is an enterprise that meets the "Preferred Technological Enterprise" conditions, and in addition is a part of a group of companies that have total annual consolidated revenues of at least NIS 10 billion (approximately $3 billion).

Preferred Technological Enterprises will be subject to a corporate tax rate of 7.5% for operations in Development Zone A or 12% for operations outside of Development Zone A with respect to the portion of their income derived from certain types of proprietary IP as defined within the Investment Law and which were generally developed in Israel, while Special Preferred Technological Enterprises will be subject to 6% with respect to income related to such IP, all subject to the "NEXUS approach". The withholding tax on dividends from these enterprises will be 4% for dividends paid to a foreign company and the distributing company is held by foreign companies at a rate of at least 90% and for other dividend distributions, the withholding tax rate shall be 20% or a lower rate under a tax treaty, if applicable, and subject to a certificate from the ITA allowing for such withholding taxes.

We have evaluated the likely effect of the 2017 Amendment, as well as the Company's compliance with the applicable threshold conditions, and believe that the Company qualifies as a Special Preferred Technological Enterprise starting with the fiscal year beginning on April 1, 2020.

f. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985 of Israel:

With respect to the Israeli entity, commencing in taxable year 2003, the Company elected to measure its taxable income and file its tax returns in USD in keeping with Israeli Income Tax Regulations, 1986 (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income). Such an election was binding to the Company for three years. Accordingly, commencing taxable year 2003, results for tax purposes are measured in USD terms. After the initial three-year term, the Company must make the election on an annual basis. Through taxable year 2020, the Company has consistently elected, for tax purposes, to measure its earnings in USD.

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

g. (Loss) income before income taxes is comprised of the following:

	Year ended March 31,		
	2021	2020	2019
Domestic (Israel)	$ 14,338	$ 99,182	$ 184,410
Foreign (North America and the Cayman Islands)	(405,411)	198,853	172,444
(Loss) income before taxes	$ (391,073)	$ 298,035	$ 356,854

h. Taxes on income are comprised of the following:

	Year ended March 31,		
	2021	2020	2019
Current taxes	$ 5,234	$ 55,895	$ 60,203
Prior years' benefits	(3,462)	(9,995)	(2,980)
Deferred income taxes	7,895	7,585	17,509
	$ 9,667	$ 53,485	$ 74,732
Domestic (Israel)	$ 7,459	$ 4,177	$ 33,183
Foreign (North America)	2,208	49,308	41,549
	$ 9,667	$ 53,485	$ 74,732

Included within current and deferred income tax expense are benefits relating to research and development tax credits in Taro Canada of $649, $664 and $867 for the years ended March 31, 2021, 2020 and 2019, respectively. Taro Canada uses the “flow-through” method and therefore records the benefits in earnings in the period the tax credits are utilized.

On March 27, 2020, the U.S. enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) which, among other provisions, allows U.S. corporations to carry existing losses back to the preceding five years. The Company expects to receive a benefit due to the increased value of its losses when carried back to preceding years in which the U.S. federal corporate income tax rate was 35% versus the current 21%.

i. Reconciliation of the statutory tax rate of the parent company in Israel to the effective consolidated tax rate:

	Year ended March 31,		
	2021	2020	2019
Statutory tax rate (in Israel)	23.0%	23.0%	23.0%
(Decrease) increase in effective tax rate due to:			
Utilization of net operating losses	2.6%	—	(0.4%)
FX on tax payments	0.8%	0.4%	(0.3%)
Write-down and amortization of TNA transferred IP	0.1%	—	—
Taxable capital gain	0.1%	—	—
Non-deductible expenses (unrecognized income)	(0.1%)	—	—
Change in deferred taxes due to change in tax rate	(0.3%)	—	—
Taxes from prior years	(0.5%)	(0.8%)	0.6%
Uncertain tax positions, net	(0.9%)	(0.6%)	3.4%
Change in valuation allowance on deferred tax asset	(1.2%)	—	—
Different tax rates applicable to non-Israeli subsidiaries	(2.5%)	1.3%	0.8%
Non-deductible portion of settlements	(23.6%)	—	—
Net operating loss carryback (1)	—	(1.3%)	—
Tax benefits from reduced tax rates under benefit programs and other	—	(4.1%)	(6.2%)
Effective consolidated tax rate	(2.5%)	17.9%	20.9%

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

(1) Net operating loss carryback is attributed to the CARES Act which was enacted in the U.S. on March 27, 2020. The CARES Act, among other provisions, allows U.S. corporations to carry existing losses back to the preceding five years. The Company expects to receive a benefit due to the increased value of its losses when carried back to preceding years in which the U.S. federal corporate income tax rate was 35% versus the current 21%.

j. Current taxes are calculated at the following combined federal and local rates:

	Year ended March 31,		
	2021	2020	2019
On Israeli operations (not including "Approved Enterprise")	23.0%	23.0%	23.0%
On U.S. operations *	21.0%	21.2%	21.2%
On Canadian operations *	25.0%	25.0%	25.0%

* The U.S. and Canadian subsidiaries are taxed on the basis of the tax laws prevailing in their countries of residence. The Canadian subsidiary qualifies for research and development tax credits and manufacturing and processing credits, thereby reducing its effective tax rate.

k. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and carryforward losses.

	March 31,	
	2021	2020
Deferred tax assets:		
Operating loss carryforward	$ 35,404	$ 548
Capital loss carryforward	17,705	17,749
Deferred revenue	17,169	24,765
Property, plant, and equipment	1,438	1,440
Intangible assets	34,836	36,612
Accrued expenses	60,862	45,756
Bad debt allowance	212	583
Hedge accounting	—	792
Marketable securities	—	262
Other, net	10,077	8,506
Total deferred tax assets	177,704	137,013
Valuation allowance for deferred tax assets	(27,857)	(23,338)
Net deferred tax assets	149,847	113,675
Deferred tax liabilities:		
Property, plant, and equipment	(8,991)	(10,178)
Marketable securities	(541)	—
Hedge accounting	(17)	—
Other, net	(198)	(199)
Total deferred tax liabilities	(9,747)	(10,377)
Net deferred tax assets	$ 140,100	$ 103,298
Domestic (Israel)	$ 4,888	$ 4,224
Foreign (North America)	135,212	99,074
	$ 140,100	$ 103,298

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

The deferred income taxes are presented on the Consolidated Balance Sheets as follows:

	March 31,	
	2021	**2020**
Among non-current assets	$ 142,007	$ 106,693
Among long-term liabilities	(1,907)	(3,395)
	$ 140,100	$ 103,298

l. Carryforward tax losses:

1. The Company:

As of March 31, 2021, the Company has $76,978 carryforward capital losses. Please refer to Note 15.p. for additional information relating to Israel's carryforward capital losses.

2. Canadian subsidiary:

As of March 31, 2021, this subsidiary has carryforward losses of $136,714.

3. U.S. subsidiary

As of March 31, 2021, this subsidiary has carryforward losses of $5,833.

m. The Company's Board of Directors has determined that its U.S. subsidiary will not pay any dividends for the foreseeable future.

n. At March 31, 2021, deferred income taxes were not provided for on a cumulative total of $1.3 billion of the undistributed earnings of Taro Canada, which are not taxable provided earnings remain undistributed.

o. Foreign withholding taxes have been accrued as necessary by the Company and its subsidiaries.

p. Federal tax assessments:

The Company completed its tax assessments with the Israeli tax authorities for years through March 31, 2016. The Company is under examination by the Israeli tax authorities for the years ending March 31, 2017 through March 31, 2019. The Company may be subject to examination by the Israeli tax authorities for the years ending March 31, 2020 and onward. The Company believes that its tax provision is adequate to satisfy any assessments resulting from examination of these years.

Taro U.S.A. completed its tax assessments with the U.S. tax authorities for the years through March 31, 2015. The period in which Taro U.S.A.'s tax return for the years ending March 31, 2016 and March 31, 2017 may be examined have expired and these years are no longer subject to federal audit.

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

Taro Canada completed its tax assessments with the Canadian tax authorities for the periods through March 15, 2017. The Company's tax provision was materially adequate to satisfy these assessments. Taro Canada remains subject to examination by the Canadian tax authorities for periods after March 15, 2017, according to the statute of limitations. The Company believes that its tax provision is adequate to satisfy any assessments resulting from examinations related to these years.

q. Uncertain tax positions:

The Company adopted FASB ASC Section 740-10-25, "*Income Taxes-Overall-Recognition*," effective January 1, 2007, which prescribes a model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. See Note 2.h.

	Year ended March 31,		
	2021	2020	2019
Unrecognized tax exposure at beginning of year	$ 25,258	$ 28,188	$ 16,810
Increases as a result of positions taken in prior period	769	382	1,689
Decreases as a result of positions taken in prior period	(5,025)	(7,913)	(128)
Increases as a result of positions taken in current period	5,919	4,601	9,817
Unrecognized tax exposure at end of year	$ 26,921	$ 25,258	$ 28,188

The total amount of interest and linkage to Consumer Price Index recognized on the Consolidated Statement of Operations for the three years ended March 31, 2021, 2020, and 2019 were $1,236, $1,224, and $323, respectively. The total amount of interest and linkage to Consumer Price Index recognized on the Consolidated Balance Sheets at March 31, 2021 and 2020 were $3,783 and $2,548, respectively.

The total amount of unrecognized tax benefits, which would impact the effective tax rate if recognized, was $26,921 and $25,258 at March 31, 2021 and 2020, respectively.

NOTE 16: — SELECTED STATEMENTS OF INCOME DATA

	Year ended March 31,		
	2021	2020	2019
Sales, net	$ 548,970	$ 644,769	$ 669,893
Selling, marketing, general and administrative expenses:			
Selling and marketing	$ 32,861	$ 31,754	$ 39,495
Advertising	5,681	4,902	6,527
General and administrative *	52,813	56,757	43,949
Settlements and loss contingencies	558,924	—	(3,678)
	$ 650,279	$ 93,413	$ 86,293
* Including provision for doubtful accounts	$ (1,761)	$ 2,382	$ 144
Financial (income) expenses:			
Interest and exchange differences on long-term liabilities	$ 1,363	$ 725	$ 256
Income in respect of deposits	(2,432)	(11,714)	(14,107)
Interest from marketable securities	(19,105)	(22,655)	(19,691)
Foreign currency transaction (loss) gain	365	(14,838)	(25,309)
	$ (19,809)	$ (48,482)	$ (58,851)

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

NOTE 17: — SEGMENT INFORMATION

a. Geographic Area Information:

The Group operates in one industry segment, which produces, researches, develops and markets pharmaceutical products. Management organizes the Company's operations based on geographic segments, which are presented below in accordance with FASB ASC Paragraph 280-10-50-1, "*Segment Reporting – Overall – Disclosure – Operating Segments.*"

	Israel	Canada	U.S.A.	Other	Consolidated
Year ended March 31, 2021 and as of March 31, 2021:					
Net sales *	$ 46,574	$ 110,167	$ 383,829	$ 8,400	$ 548,970
Long-lived assets **	$ 122,983	$ 61,027	$ 35,455	$ —	$ 219,465
Year ended March 31, 2020 and as of March 31, 2020:					
Net sales *	$ 42,817	$ 97,997	$ 495,673	$ 8,282	$ 644,769
Long-lived assets **	$ 123,679	$ 63,506	$ 38,379	$ —	$ 225,564
Year ended March 31, 2019 and as of March 31, 2019:					
Net sales *	$ 40,050	$ 83,970	$ 537,111	$ 8,762	$ 669,893
Long-lived assets **	$ 123,698	$ 59,108	$ 39,479	$ —	$ 222,285

* Based on customer's location, including sales to unaffiliated customers and Sun.
** Includes property, plant and equipment, net; goodwill and intangible assets, net.

b. For the year ended March 31, 2021, the Company had net sales to two different U.S. customers of 12.6% and 10.5% of consolidated net sales. For the year ended March 31, 2020, the Company had net sales to two different U.S. customers of 13.0% and 11.5% of consolidated net sales. For the year ended March 31, 2019, the Company had net sales to two different U.S. customers of 12.1% and 11.0% of consolidated net sales.

c. Sales by therapeutic category, as a percentage of total net sales for the years ended March 31, 2021, 2020 and 2019, were as follows:

	Year ended March 31,		
Category	**2021**	**2020**	**2019**
Dermatological and topical	58%	63%	61%
Neuropsychiatric	16%	17%	18%
Cardiovascular	7%	6%	7%
Anti-inflammatory	3%	3%	3%
Other	16%	11%	11%
Total	100%	100%	100%

NOTE 18: — RELATED PARTY TRANSACTIONS

In addition to Sun controlling 85.2% of the voting power in the Company as of March 31, 2021, the Company has substantial relationships with Sun. Certain Taro Board members are also members of various Sun entities board of directors, including Taro's Chairman, Dilip Shanghvi who is also Managing Director of Sun Pharma's board of directors. In addition, certain Taro officers and executives are also executives of Sun.

Arrangements with Sun

Since 2013, in the ordinary course of business, Taro has entered into various commercial transactions, including product distribution and logistics, manufacturing and service agreements, with Sun. The Company reviews each of these transactions and believes that the terms of these transactions are comparable to those offered by or that could be obtained from unrelated third parties. Pursuant to Israeli requirements, all material transactions were presented to the Audit

Committee, which determined that each such transaction was not considered extraordinary, as defined in the Israeli Companies Law and therefore did not require shareholder approval. The Audit Committee further determined the approval requirements for the different types of transactions.

Sun and Taro renewed a services arrangement (the "Services Agreement") effective April 1, 2020, that allows the companies to share the services of certain employees of the respective companies involved in certain North American management and operations functions in North America.

The companies are required to maintain records (the "Service Reports") of the costs associated with the provision of the services under the Services Agreement, and allocate such costs between the companies, based upon approved allocation methodologies. The Services Agreement requires our Audit Committee to review the Service Reports on a semi-annual basis and, the Services Agreement, as a whole, on an annual basis to determine its efficacy and whether it is in the Company's best interests.

Each of the employees providing services under the Services Agreement is required to sign a written acknowledgment of his/her receipt of, and agreement to be bound by (a) the confidentiality and non-disclosure agreement between Sun and Taro, and (b) guidelines for consideration in the performance of such services, including the identification of potential conflicts of interest.

In April 2017, the Board of Directors approved for Taro to negotiate an agreement with Sun whereby Taro's U.S. branded products team advertised and promoted a combined portfolio of Taro and Sun corticosteroid products. The agreement between Taro U.S.A., and Sun went into effect on May 1, 2017. Under this agreement, Sun sold its products to customers and paid Taro a percentage of the net sales for Taro's promotional services. Taro discontinued the promotion of its U.S. branded products effective March 31, 2019, and terminated the corticosteroid agreement.

In May 2018, Taro Canada signed an agreement with Sun's affiliate Ranbaxy Pharmaceuticals Canada Inc., now Sun Pharma Canada Inc., under which Taro Canada acts as the exclusive distributor for a portfolio of Sun and Ranbaxy, Inc. products in Canada. Under this agreement, Taro Canada purchases and controls inventory; additionally, Sun and Ranbaxy Inc. pay Taro Canada a sales and distribution fee.

NOTE 19: — SUBSEQUENT EVENTS

Subsequent to March 31, 2021, the Company received final approval from the FDA for one additional ANDA:
Tavaborole Topical Solution, 5% in May 2021. The Company currently has a total of twenty ANDAs awaiting FDA approval, including five tentative approvals.

Subsequent to March 31, 2021, through May 31, 2021, under the $300 million authorization, the Company has repurchased 175,975 ordinary shares at an average price of $73.71, leaving $236.5 million remaining under the current board authorization. Sun's beneficial ownership increased to 78.1% of the Company's ordinary shares and 85.4% of the voting power in the Company.

Subsequent to March 31, 2021, the Company and TDC each transferred its ownership of the shares of Taro U.S.A. to Taro Canada. Taro U.S.A. is now 100% owned by Taro Canada, which remains 100% owned by the Company.

End of consolidated financial statements.

SCHEDULE II: — VALUATION AND QUALIFYING ACCOUNTS

Schedules have been omitted as the required information is provided elsewhere in these financial statements.

Exhibit 2.2

Description of Taro Pharmaceutical Industries Ltd. Ordinary Shares Registered Under Section 12 of the Exchange Act

As of March 31, 2021, Taro Pharmaceuticals Industries Ltd. (hereinafter, "we," "us," "our," "our company" or similar expressions) had one class of securities registered under Section 12(b) of the Securities Exchange Act of 1934 – ordinary shares, NIS 0.0001 par value per share.

Authorized Share Capital

Our authorized share capital consists of NIS 20,000.026, divided into 2,600 founders' shares, par value NIS 0.00001 each, and 200,000,000 ordinary shares, par value NIS 0.0001 each. As of June 1, 2021, 2,600 founders' shares and 37,750,069 ordinary shares were issued and outstanding.

Memorandum and Articles of Association

Registration Number and Purposes of the Company

Our registration number with the Israeli Registrar of Companies is 52-002290-6. Our main object and purpose, as set forth in our memorandum of association, is any business connected with the developing, manufacturing, processing, supplying, marketing and distributing of Rx, OTC medical and other health care products.

Voting Rights

One-third of the voting power of all of our voting shares is allocated to our founders' shares. Two-thirds of the voting power of all of our voting shares is allocated to our ordinary shares. Each ordinary share possesses identical voting rights as every other ordinary share.

Restriction on Voting

In order to reduce our risk of being classified as a Controlled Foreign Corporation under the Internal Revenue Code of 1986, as amended, we amended our articles of association, or articles, in 1999 to provide that no owner of any of our ordinary shares is entitled to any voting right of any nature whatsoever with respect to such ordinary shares if (a) the ownership or voting power of such ordinary shares was acquired, either directly or indirectly, by the owner after October 21, 1999, and (b) the ownership would result in our being classified as a Controlled Foreign Corporation. This provision has the practical effect of prohibiting each citizen or resident of the United States who acquired or acquires our ordinary shares after October 21, 1999, from exercising more than 9.9% of the voting power in our company, with respect to such ordinary shares, regardless of how many shares the shareholder owns. The provision may therefore discourage United States persons from seeking to acquire, or from accumulating, 15% or more of our ordinary shares (which, due to the voting power of the founders' shares, would represent 10% or more of the voting power of our company).

Transfer of Shares

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our articles, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our articles or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

Election of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders' meeting have the power to elect all of our directors, subject to the special approval requirements for the election of statutory external directors.

Under our articles, our board of directors, or Board, must consist of not less than 5 but no more than 25 directors, including two statutory external directors who serve pursuant to the Israeli Companies Law, 5759-1999, or the Companies Law. Pursuant to our articles, each of our directors (other than statutory external directors, for whom special election requirements apply under the Companies Law) is elected on an annual basis by a simple majority vote of holders of our voting shares, participating and voting at an annual general meeting of our shareholders, which is required to be held at least once during every calendar year and not more than 15 months after the last preceding meeting. Directors may also be appointed to fill vacancies, or may be appointed to serve as additional members of the Board, by an ordinary resolution passed at an extraordinary general meeting of our shareholders. Likewise, in the event of a vacancy, the Board is empowered to appoint a director to fill such vacancy until the next annual general meeting of shareholders. A director, other than a statutory external director, holds office until the next annual general meeting, unless such directorship is earlier vacated in accordance with the provisions of any applicable law or regulation or under our articles of association.

Under the Companies Law, nominations for directors may be made by any shareholder holding at least 1% of our outstanding voting power. However, any such shareholder may make such a nomination only if a written notice of such shareholder's intent to make such nomination has been given to our company within seven days after we publish notice of our upcoming annual general meeting (or within 14 days after we publish a preliminary notification of an upcoming annual general meeting). Any such nomination must include certain information, the consent of the proposed director nominee(s) to serve as our director(s) if elected and a declaration signed by the nominee(s) declaring that they have the required skills and availability to carry out their duties and providing details of such skills and affirming that there is no limitation under the Companies Law preventing their election and that all of the information that is required to be provided to us in connection with such election under the Companies Law has been provided.

Statutory External Directors

Qualifications of Statutory External Directors

Under the Companies Law, companies incorporated under the laws of the State of Israel whose shares, *inter alia*, are listed for trading on a stock exchange or have been offered to the public by a prospectus and are held by the public, are generally required to have at least two statutory external directors. The Companies Law provides that a person may not be elected as a statutory external director if the person is a relative of a controlling shareholder and/or the person or the person's relative (as defined below), partner, employer, anyone to whom the person is subordinate, directly or indirectly, or any entity under the person's control has, as of the date of the person's election to serve as a statutory external director, or had, during the two years preceding that date, any affiliation (as defined below) with:

- our company;
- any entity controlling our company or relative thereof as of the date of the election; or
- any entity controlled by our company or under common control with our company as of the date of the election or during the two years preceding that date.

Under the Companies Law, "relative" is defined as: a spouse, brother or sister, parent, grandparent, or child; a child/brother/sister/parent of a person's spouse; or the spouse of any of the preceding people.

The term "affiliation" includes an employment relationship, a business or professional relationship even if not maintained on a regular basis (but excluding insignificant relationships), or control of the company, and service as an office holder (as defined below).

The Companies Law defines the term "office holder" as general manager (i.e., chief executive officer), chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, and any director or manager who reports directly to the general manager.

The Companies Law provides that no person can serve as a statutory external director if the person's other positions or other business creates, or may create, a conflict of interest with the person's responsibilities as a statutory external director or may otherwise interfere with the person's ability to serve as a statutory external director, or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. Until the lapse of two years from termination of office as a statutory external director, a company, its controlling shareholder and any entity controlled by the controlling shareholder, may not grant a former statutory external director, his/her spouse or child any benefits, directly or indirectly, including engaging the former statutory external director, his/her spouse or child to serve as an office holder in the company or in any company controlled by the controlling shareholder of the company and cannot employ or receive professional services from that person for consideration, either directly or indirectly, including through a corporation controlled by such former statutory external director. The same shall apply to a relative, who is not a former statutory external director's spouse or child, for a period of one year from termination of office as a statutory external director.

A person shall be qualified to serve as a statutory external director only if he or she possesses accounting and financial expertise or professional competence, as defined in the regulations promulgated under the Companies Law. At least one statutory external director must possess accounting and financial expertise.

The Companies Law also provides that a shareholders' general meeting at which the appointment of a statutory external director is to be considered will not be called unless the nominee has declared to the company that he or she complies with the qualifications for appointment as a statutory external director.

Election of Statutory External Directors

The Companies Law provides that statutory external directors must be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority includes the majority of the total votes of non-controlling shareholders (as defined in the Companies Law) who do not have a personal interest in the election of the subject external director, other than a personal interest that is not derived from a relationship with a controlling shareholder in such election present at the meeting in person or by proxy (abstentions are not taken into account); or
- the total number of votes against the election of the statutory external director by the non-controlling disinterested shareholders (as described in the previous bullet point) may not exceed two percent of the aggregate voting rights in the company.

For purposes of determining a controlling shareholder, Section 1 of the Companies Law defines "control" by reference to the definition of the Israeli Securities Law, 5728-1968, or the Securities Law, which defines "control" as the ability to direct the activity of a corporation, excluding an ability deriving merely from holding an office of director or another office in the corporation, and a person shall be presumed to control a corporation if he or she holds half or more of a certain type of means of control of the corporation. "Means of control" in Section 1 of the Securities Law is defined as any one of the following: (1) the right to vote at a general meeting of a company or a corresponding body of another corporation; or (2) the right to appoint directors of the corporation or its general manager.

The initial term of a statutory external director is three years and may be extended for two additional consecutive terms of three years each, provided that either (i) his or her service for each such additional term is recommended by one or more shareholders holding at least one percent (1%) of the company's voting rights and is approved by a majority at a shareholders meeting, which majority must include either of the criteria described above with respect to his or her initial election; or (ii) his or her service for each such additional term is recommended by the board of directors and is approved by a majority at a shareholders meeting, which majority must include either of the criteria described above with respect to his or her initial election. In accordance with the regulations under the Companies Law, companies whose securities are listed on one of a number of non-Israeli stock exchanges (including the NYSE, where our ordinary shares are listed) may re-appoint an external director for additional three-year terms, in excess of the nine years described above, if the audit committee and the board of directors confirm that, due to the expertise and special contribution of the external director to the work of the board and its committees, his or her re-appointment is in the best interests of the company. The same special majority is required for election of the statutory external director for each additional three-year term (as was required for the initial term), with the additional requirement that the arguments of the board of directors and audit committee in favor of election for such additional term, and the number of terms already served by the external director, be presented to the general meeting prior to the vote.

Statutory external directors may be removed from office only by the shareholders, based on the same percentage of votes as is required for election or by a court, if the statutory external director ceases to meet the statutory qualifications for his or her appointment or if he or she violates his or her duty of loyalty to the company.

If an external directorship becomes vacant and there are fewer than two external directors on the board of directors at the time, then the board of directors is required under the Companies Law to call a shareholders' meeting immediately to elect a replacement external director.

Each committee of a company's board of directors that is empowered to exercise one of the functions of the board of directors is required to include at least one statutory external director, except for the audit committee and compensation committee, which are required to include all of the statutory external directors.

A statutory external director is entitled to compensation determined by the board within the scope provided in regulations adopted under the Companies Law.

Exemption from Statutory External Director Requirement

Under regulations promulgated under the Companies Law, Israeli public companies whose shares are traded on certain U.S. stock exchanges, such as the NYSE, that lack a controlling shareholder (as defined under the Companies Law) are exempt from the requirement to appoint statutory external directors. Any such company is also exempt from the Companies Law requirements related to the composition of the audit and compensation committees of the Board. Eligibility for these exemptions is conditioned on compliance with U.S. stock exchange listing rules related to majority Board independence and the composition of the audit and compensation committees of the Board, as applicable to all listed domestic U.S. companies. Because we currently have a controlling shareholder (Sun Pharmaceutical Industries Ltd.), we are not eligible for these exemptions.

Dividends and Liquidation Rights

Holders of each paid-up share (whether a founders' share or an ordinary share) are entitled to participate equally in the payment of dividends and other distributions and, in the event of liquidation, in all distributions after the discharge of liabilities to creditors. Under the Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our articles of association do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Companies Law, dividends on our ordinary shares may be paid out of profits and other surplus, as defined in the Companies Law. A distribution amount is limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited financial statements, provided that the end of the period to which the financial statements relate is not more than six months prior to the date of the distribution. If we do not meet such criteria, we may only distribute dividends with court approval. In each case, we are only permitted to distribute a dividend if our board of directors and the court, if applicable, determines that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

Exchange Controls

The Companies Law and Israeli regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

Dividends, if any, paid to our ordinary shareholders, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriated dollars at the rate of exchange prevailing at the time of conversion. Payments of dividends may be subject to withholding taxes.

Shareholder Meetings

Under the Companies Law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to in our articles as extraordinary general meetings. Our board of directors may call extraordinary general meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Companies Law provides that our board of directors is required to convene an extraordinary general meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Companies Law requires that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles;
- appointment or termination of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- a merger; and
- the exercise of our board of director's powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

The Companies Law requires that notice of any annual general meeting or extraordinary general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other matters, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the company's general manager to serve as the chairman of its board of directors or an approval of a merger, notice must be provided at least 35 days prior to the meeting.

The Companies Law allows one or more of our shareholders holding at least 1% of the voting power of a company to request the inclusion of an additional agenda item for an upcoming shareholders meeting, assuming that it is appropriate for debate and action at a shareholders meeting. Under applicable regulations, such a shareholder request must be submitted within three or, for certain requested agenda items, seven days following our publication of notice of the meeting. If the requested agenda item includes the appointment of director(s), the requesting shareholder must comply with particular procedural and documentary requirements. If our board of directors determines that the requested agenda item is appropriate for consideration by our shareholders, we must publish an updated notice that includes such item within seven days following the deadline for submission of agenda items by our shareholders. The publication of the updated notice of the shareholders meeting does not impact the record date for the meeting. In lieu of this process, we may opt to provide pre-notice of our shareholders meeting at least 21 days prior to publishing official notice of the meeting. In that case, our 1% shareholders are given a 14-day period in which to submit proposed agenda items, after which we must publish notice of the meeting that includes any accepted shareholder proposals.

Under the Companies Law and under our articles, shareholders are not permitted to take action by way of written consent in lieu of a meeting.

Voting Rights

Quorum Requirements

The quorum required for a meeting of shareholders consists of at least three shareholders present, in person or by proxy, who hold or represent between them at least one-third of the outstanding voting power unless otherwise required by applicable rules. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the board of directors may designate. If at such reconvened meeting the required quorum is not present, any two shareholders present in person, or by proxy, shall constitute a quorum.

Vote Requirements

Our articles provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Companies Law or by our articles. Under the Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder's relative (even if such terms are not extraordinary) require the approval of the company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or
- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Additionally:

(i) the approval and extension of a compensation policy and certain deviations therefrom require the approval of the compensation committee, board of directors and shareholders, in that order. In addition, the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation policy; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation policy and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights;

(ii) the terms of employment or other engagement of the chief executive officer of the company require compensation committee, board of directors and shareholders, in that order (the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights); and

(iii) the chairman of a company's board of directors also serving as its chief executive officer requires the same approval as applies to (i) and (ii) above (substituting the personal interest in the service of the chairman as chief executive officer in place of personal interest in the compensation).

Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization of the company, pursuant to Section 350 of the Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting, in person or by proxy and voting on the resolution.

Access to Corporate Records

Under the Companies Law, shareholders are provided access to: minutes of our general meetings; our shareholders register and principal shareholders register, articles of association and annual audited financial statements; and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. These documents are publicly available and may be found and inspected at the Israeli Registrar of Companies. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

Modification of Class Rights

Under our articles, the rights attached to any class of shares may be modified with the consent in writing of the holders of 75% of the issued shares of that class or by way of a special resolution of all shareholders, i.e., an affirmative vote of 75% of the voting power of our shareholders, voting in person or by proxy.

Acquisitions under Israeli Law

Full Tender Offer

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If a tender offer is not accepted in accordance with the requirements set forth above, the acquirer may not acquire shares from shareholders who accepted the tender offer that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class.

Special Tender Offer

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of 25% or more of the voting rights in the company. This requirement does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if, as a result of the acquisition, the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) the offeror acquired shares representing at least 5% of the voting power in the company and (ii) the number of shares tendered by shareholders who accept the offer exceeds the number of shares held by shareholders who object to the offer (excluding the purchaser, controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer, including their relatives and companies under their control). If a

special tender offer is accepted, the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, by a majority vote of each party's shareholders. In the case of the target company, approval of the merger further requires a majority vote of each class of its shares.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the meeting of shareholders that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above under "Vote Requirements").

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the petition of holders of at least 25% of the voting rights of a company. For such petition to be granted, the court must find that the merger is fair and reasonable, taking into account the respective values assigned to each of the parties to the merger and the consideration offered to the shareholders of the target company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger is filed with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Anti-Takeover Measures under Israeli Law

The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are authorized under our articles. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our articles, which requires the prior approval of the holders of a majority of the voting power attaching to our issued and outstanding shares at a general meeting. The convening of the meeting, the shareholders entitled to participate, and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Companies Law as described above in "Voting Rights."

Borrowing Powers

Pursuant to the Companies Law and our articles, our board of directors possesses the power to borrow money for company purposes.

Changes in Capital

Under our articles of association, an increase to the share capital, creation of preferred shares or shares with special rights, consolidation or division of share capital, cancellation of shares and reduction in share capital, require a special resolution of the shareholders, i.e. an affirmative vote of 75% of the voting power voting in person or by proxy. The rights attached to any class of shares may be modified with the consent in writing of the holders of 75% of the issued shares of that class or by way of a special resolution of the shareholders.

Exhibit 12.1

CERTIFICATION

I, Uday Baldota, certify that:

1. I have reviewed this annual report on Form 20-F of Taro Pharmaceutical Industries Ltd.;

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

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

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

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

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

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

   d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

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

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

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

Date: June 17, 2021

/s/ Uday Baldota

Name: Uday Baldota
Title: Chief Executive Officer and Director

Exhibit 12.2

CERTIFICATION

I, Daphne Huang, certify that:

1. I have reviewed this annual report on Form 20-F of Taro Pharmaceutical Industries Ltd.;

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

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

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

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

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

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

   d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

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

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

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

Date: June 17, 2021

/s/ Daphne Huang

Name: Daphne Huang
Title: Vice President, Chief Financial Officer and Chief Accounting Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT 2002

In connection with the Annual Report of Taro Pharmaceutical Industries Ltd. (the "Company") on Form 20-F for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Uday Baldota, Chief Executive Officer and Director of the Company, and Daphne Huang, Vice President, Chief Financial Officer and Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: June 17, 2021

By: /s/ Uday Baldota
Uday Baldota
Chief Executive Officer and Director

By: /s/ Daphne Huang
Daphne Huang
Vice President, Chief Financial Officer and Chief Accounting Officer