Elanco Denmark ApS

Lautrupvang 12, 1,
2750 Ballerup

CVR no. 39640163

Annual report for 2021

Adopted at the Annual General
Meeting on 12 July 2022

Egbert Thomas

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Statement by management on the annual report

The Executive board have today discussed and approved the annual report of Elanco Denmark ApS for the financial year 1 January - 31 December 2021.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved at the annual general meeting.

Ballerup, 12 July 2022

Executive Board

Egbert Thomas	Isabel Hortense A. Roels	Anna Karin Lindberg

Independent auditor's report

To the Shareholders of Elanco Denmark ApS

Opinion

We have audited the financial statements of Elanco Denmark ApS for the financial year 1 January – 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit.

Independent auditor's report

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that Management's Review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Copenhagen, 12 July 2022
EY Godkendt Revisionspartnerselskab
CVR-no.: 30700228

Simon Blendstrup
State Authorised Public Accountant
mne44060

Management's review

Company details

The company	Elanco Denmark ApS Lautrupvang 12, 1, 2750 Ballerup Ballerup	
	Telephone:	+45 4526 6060
	Website:	www.elanco.dk
	CVR no.:	39640163
	Reporting period:	1 January - 31 December 2021
Executive Board	Egbert Thomas Isabel Hortense A. Roels Anna Karin Lindberg	
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Alle 36 2000 Frederiksberg	

Management's review

Financial highlights

Seen over a 4-year period, the development of the Company may be described by means of the following financial highlights:

	2021	2020	2019	2018 (unaudited)
	TDKK	TDKK	TDKK	TDKK
Key figures				
Profit/loss				
Revenue	552.061	464.644	400.766	—
Gross profit	104.386	97.139	80.482	—
Profit before net financials	22.195	24.721	12.328	—
Net financials	-4.208	-8.536	-2.036	—
Profit for the year	13.945	12.544	7.706	—
Balance sheet				
Balance sheet total	517.685	476.147	478.303	372.295
Investment in property, plant and equipment	1.103	1.241	340	—
Equity	436.820	422.816	379.799	372.093
Number of employees	59	47	39	—
Financial ratios				
Gross margin	19 %	21 %	20 %	— %
Profit margin	4 %	5 %	3 %	— %
Return on assets	4 %	5 %	3 %	— %
Solvency ratio	84 %	89 %	79 %	100 %
Return on equity	3 %	3 %	2 %	— %

For definitions of how the financial ratios are calculated, see the summary of significant accounting policies.

Management's review

The Company's principal activities

Elanco Denmark ApS principal activities consist in sale of Animal Health pharmaceutical products in the Nordic Area.

Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any significant uncertainty.

Unusual matters

According to management, the financial statements are not affected by any unusual matters.

Events after the balance sheet date

According to management, no events have occurred after the balance sheet date.

Business review

Elanco Denmark ApS´s Income Statement for the financial year 2021 was a good year with a result of TDKK 13.945 and the balance sheet on 31 December 2021 showing a total at TDKK 517.685 and an equity of TDKK 436.820.

Compared to the expected result, the Nordic financial result in 2021 was negatively impacted by supply issues on key products in all portfolios and from less customer interaction following pandemic restrictions.

Elanco develops products and services to support veterinarians, food producers and pet owners to prevent and treat disease in farm animals and pets. In 2021, Elanco US marked a third year as a public company. During the year, we completed our full separation from Lilly and made significant progress integrating Bayer Animal Health, acquired in 2020. Today we are a more diverse company with greater reach and scale, with a balance between pet health and farm animal. We have added capabilities, built more comprehensive portfolios and stand as an omnichannel leader in our industry with significant presence both in the veterinary clinic and retail including e-commerce.

Research and development

The R&D organization is a global organization within Elanco and locally in Denmark, we do not have any R&D. Products sold in Denmark are based on patents and R&D costs owned and based within the Group. For more information please refer to the sections around research and development in the Group Annual Report for 2021 on page 13. The same can be found at this link https://s1.q4cdn.com/466533431/files/doc_financials/2021/ar/Elanco-2021-Annual-Report.pdf.

Foreign branches

Elanco Denmark ApS maintains a registered branch in Norway and Sweden.

Outlook 2022

In 2022 we will expect some impact on our Farm Animal business, related to the supply challenges that we have faced during 2021 and also in 2022 and with that in perspective our expectations to this business area will be at the same level as for 2021.
This will be compensated with growth expectations to our Pet Health business, where we are expecting around 10% growth compared with 2021 level. This growth will mainly be driven by one of our key products, which changed status to OTC (Over the counter) in Denmark late 2021 and OTC is the bigger market for parasiticides. In Finland the products that came with the acquisition of Bayer Animal Health were represented by Orion, we terminated that agreement and will represent the products our selves with increased investment in the OTC portfolio and have a margin recap.

Management's review

All in all we expect a topline growth in 2022, with revenue within the area of TDKK 570,000 and a result before tax within the range of TDKK 12,000-16,000.

General risks

Elanco Denmark ApS´s most important operating risks are our ability to get access for new medicines, to protect out IP rights and work successfully with our key stakeholders.

Financial risks

Due to our solidity and financial preparedness, Elanco Denmark ApS has a limited exposure to changes in interest rates. However, Elanco Denmark ApS is exposed to currency risks related to sales to other Nordic countries.

Currency risks

As Elanco Denmark ApS invoices our customers in DKK, NOK, SEK and EUR, while a substantial part of the revenue is in NOK, the company is exposed to currency fluctuations and to some currency risks. But the risk is considerate to be non-material to the overall performance.

Credit risks

Elanco Denmark ApS credit risks primarily relate to financial assets recognized in the balance sheet Accounts Receivables (AR). Elanco Denmark ApS only invoices a few high value customers. To mitigate this risk, all major customers and other collaborators are credit rated on a regular basis.

Social Responsibility

This whole section should be updated with the following text:

In Elanco Denmark ApS we have taken the responsibility together with our customers to increase the knowledge of the global food safety and support the bond between humans and animals.

Elanco Denmark is not a manufacturing site and has its focus on sales activities. Therefore, within the five social responsibility policy areas, it is the responsibility of social and employee conditions which is the most material issue for Elanco Denmark. Where new rules and regulations within this area can influence Elanco, and Elanco can have an effect on the society if we do not live up to our values, integrity, respect and excellence. Please refer below to the social and employee conditions section. Based on a risk assessment no material risks have been identified for human rights, anti-corruption, environment, and climate. Hence, no policies have been established for these areas.

We are dedicated to innovating and delivering products and services to prevent and treat disease in pets and farm animals, creating value for pet owners, veterinarians, farmers and for the society, which is a part of our business model.

Elanco Group is in the process of developing a comprehensive human rights policy and program, which will be launched in 2022.

Our main risks within the social and employee conditions, would be employee satisfaction and the health and safety of our employees. At Elanco, we are committed to fostering an inclusive culture where employees can make a difference, encouraging ownership, growth, and well-being, and in 2021 we also introduced “future of work”, which will enable a greater flexibility and access to more diverse talent. For future work, we will continue to foster an inclusive culture.

Covid-19 pandemic enters its third year and we have seen that the role of pets has never mattered more but have also faced some challenges with new restrictions and limits on gatherings etc.

In 2021, the Covid-19 pandemic has put additional pressure on the physical and mental well-being of our employees caused by health risks and lockdowns. Elanco has put great focus on protecting our

Management's review

employees during this time by prescribing guidelines and providing protective equipment. This has, among other things, ensured the health of employees during the pandemic.

For more detail on how the pandemic has affected us during the last years and in 2021, please refer to the Annual report for 2021, page 6 and page 49-50. The same can be found at this link https://s1.q4cdn.com/466533431/files/doc_financials/2021/ar/Elanco-2021-Annual-Report.pdf.

Gender distribution

Embracing diversity at Elanco means understanding, respecting, and valuing differences, including race, religion, sexual orientation, gender identity, disability status, work style, national origin, and age.

At Elanco, our commitment to diversity spans our workplace, but also shapes our understanding of the marketplace, and our relationships with suppliers. A focus on diversity and inclusion is built into our workplace culture. From recruiting and hiring to talent management processes and supervisor coaching, we see direct benefit when our workforce is representative of the customers we serve. We also benefit from each employee's diverse views and ideas. A strong emphasis has been placed on inclusive leadership, unconscious bias education and psychological safety to assist employees to the best they can be. Gender distribution is part of the workplace diversity commitment and our goal is to keep a good balance between the genders in all management layers.

The Executive Board consists of two females and one male, and thereby we achieve the target set of having at least one female member of the Executive Board.

The other managerial positions consists of 67% women and 33% men.

Data ethics

With reference to the requirements under section 99(d) of the Danish Financial Statements Act Elanco Denmark ApS does not have a separate local policy on Data ethics. We have not established a local policy on Data ethics , because the Elanco Group have several policies describing different aspect of Data ethics such as Respecting Privacy, GDPR in general etc.

Accounting policies

The annual report of Elanco Denmark ApS for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Cash Flow Statement
According to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared.

The cash flow statement is part of the cash flow statement in the consolidated financial statements for Elanco Animal Health, Inc.

Business combinations
Recently acquired business are recognised in the financial statements from the date of acquisition and are accounted for using the acquisition method. Comparative figures are not restated to reflect newly acquired business.

The date of acquisition is the date when the company actually obtains control of the acquiree.

The acquisition method is applied to the acquisition of new business of which the company obtains control, The acquirees' identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition, Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax related to the revaluations is recognised.

Positive differences (goodwill) between, on the one hand, the consideration for the acquired business, the value of non-controlling interests in the acquired entity and the fair value of any previously acquired equity investments and, on the other hand, the fair value of the assets, liabilities and contingent liabilities acquired are recognised as goodwill under "Intangible assets". Goodwill is amortised on a straight-line basis in the income statement based on an individual assessment of the economic life of the asset.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net Identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred a reassessment will be performed, whether all of the assets acquired and all of the liabilities assumed are correctly identified and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

The consideration paid for a business consists of the fair value of the agreed consideration in the form of assets transferred, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or compliance with agreed terms, such part of the consideration is recognised at fair value at the date of acquisition. Subsequent adjustments of contingent considerations are recognised in the income statement, Expenses incurred to acquire business are recognised in the income statement in the year in which they are incurred.

Where, at the date of acquisition, the identification or measurement of acquired assets, liabilities or contingent liabilities or the determination of the consideration is associated with uncertainty, initial recognition will take place on the basis of provisional amounts. If it turns out subsequently that the identification or measurement of the consideration transferred acquired assets, liabilities or contingent liabilities was incorrect on initial recognition, the statement will be adjusted retrospectively, including goodwill, until 12 months after the acquisition, and comparative figures will be restated. Hereafter, any adjustments are recognised as misstatements.

Reporting currency
The Annual Report is presented in Danish kroner.

Accounting policies

Foreign currency translation
On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable a rose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Foreign group entities
On recognition of foreign subsidiaries/branches which are integral entities, monetary items are translated at closing rates. Non monetary items are translated at the exchange rate at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date. However, items derived from non monetary items are translated at historical exchange rates for the non monetary item. The exchange rate difference resulting from the conversion of the equity at the beginning of the financial year into the exchange rate on the balance sheet date and from the conversion of the profit and loss at the average exchange rate at the exchange rate on the balance sheet date shall be recognised directly on the equity.

Basis of recognition and measurement
The financial statement have been prepared under the historical cost principle.

Income is recognised in the Income Statement as it is earned, including value adjustments of financial assets and liabilities that are measured at fair value or amortised cost. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the Income Statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the Income Statement.

Assets are recognised in the Balance Sheet when it is probable that future economic benefits attributable to the asset will accrue to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the Balance Sheet when it is probable that future economic benefits attributable to the asset will flow out of the Company, and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost, Subsequently, assets and liabilities are measured as described for each item below.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the term, Amortised cost is calculated as original cost less repayments and with the addition/deduction of the accumulated amortisation of the difference between the cost and the nominal amount. This way, exchange losses and gains are allocated over the term.

In connection with recognition and measurement, consideration is given to predictable losses and risks occurring prior to the presentation of the Annual Report, i.e. losses and risks which prove or disprove matters which exist at the balance sheet date.

Accounting policies

Income Statement

Revenue
The company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

On the conclusion of sales contracts which consist of several, separate sales transactions, the contract price is split up into the individual sales transactions based on the relative fair value approach. The separate sales transactions are recognised as revenue when the criteria for sale of goods and services are met.

A contract is split up into individual transactions when the fair value of each individual sales transaction can be calculated reliably and when each individual sales transaction has a separate value for the purchaser. Sales transactions are deemed to have a separate value for the purchaser when the transaction is individually identifiable and is usually sold separately.

Revenue is measured at fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue,

Cost of sales
Cost of sales comprise purchase of goods and services for resale.

Other operating income
Other operating income comprises items of a secondary nature to the activities of the enterprises.

Other external expenses
Other external costs include costs for distribution, sales, advertising, administration, premises, operating leasing costs etc.

Staff costs
Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation and impairment of Property, plant and equipment and intangible assets
Goodwill are measured at cost less accumulated depreciation and impairment losses.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life.

Leasehold improvements and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately. The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life.

The expected useful lives of the assets are as follows:

Goodwill	10 years
Leasehold improvements	5 years
Other fixtures and fittings, tools and equipment	3-10 years

Accounting policies

Depreciation is recognised in the income statement as depreciation of intangible assets and property, plant and equipment.

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the amortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

An impairment test of goodwill is performed in the event of indications of a decrease in value. The impairment test is performed for the activity or the business area to which the goodwill relates. Goodwill is written down to the higher of the value in use and the net selling price for the activity or business area to which the goodwill relates (recoverable amount) in the event that this one is lower than the carrying amount,

Gains and losses on the disposal of goodwill are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Gains and losses resulting from the sale of property, plant and equipment is determined as the difference between the selling price less selling costs and the carrying amount at the date of sale, and is recognised in the Income Statement under other operating income or expenses.

The expected future earning from goodwill is 10 years. This expectation is based on estimate prepared in connection with the global acquisition and other acquisition performed on a global level within the last year, but shows a true picture for the Danish affiliate.

Financial income and expenses
Financial income and expenses are recognised in the Income Statement based on the amounts that concern the financial year. Financial income and expenses include interest revenue and expenses and realised and unrealised capital gains and losses regarding transactions in foreign currencies.

Tax on net profit for the year
Tax on net profit/loss for the year comprises current tax on expected taxable income of the year and the year's adjustment of deferred tax less the part of the tax of the year that relates to changes in equity. Current and deferred tax regarding changes in equity is recognised directly in equity.

Balance Sheet

Intangible assets
Acquired goodwill is measured at cost on initial recognition and subsequently at cost less accumulated amortisation and impairment losses.

An impairment test of goodwill is performed in the event of indications of a decrease in value. The impairment test is performed for the activity or the business area to which the goodwill relates. Goodwill is written down to the higher of the value in use and the net selling price for the activity or business area to which the goodwill relates (recoverable amount) in the event that this one is lower than the carrying amount.

Property, plant and equipment
Property, plant and equipment are measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses.

Accounting policies

The depreciable amount is calculated taking into consideration the residual value of the asset at the end of its useful life, reduced by impairment losses, if any. The depreciation period and the residual value are determined at the date of acquisition. If the residual value exceeds the carrying a mount of the asset, depreciation is discontinued.

In case of changes in depreciation period or residual value, the effect of a change in depreciation period is recognised prospectively in accounting estimates.

Cost includes the purchase price and expenses directly related to the acquisition until the time when the asset is ready for use.

The carrying amounts of property, plant and equipment are tested annually to determine whether there is any indication of impairment other than what is expressed by amortisation and depreciation. If so, the assets are tested for impairment to determine whether the recoverable amounts are lower than the carrying amounts and the relevant assets are written down to such lower recoverable amounts. An impairment test is carried out annually of ongoing development projects, whether or not there is any indication of impairment.

The recoverable amount of an asset is determined as the higher of the net sales price and the value in use. Where the recoverable amount of the individual assets cannot be determined, the assets are grouped together into the smallest group of assets that can be estimated to determine an aggregate reliable recoverable amount for those units.

Deposits
Deposits are measured at cost.

Receivables
Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired, If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are assessed for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the country of domicile and credit ratings of the debtors in accordance with the Group's credit risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the net present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

The company has chosen IAS 39 as interpretation for impairment of financial receivables.

Inventory
Inventories are measured at cost in accordance with weighted average and net realisable value. The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence, and development in expected selling price.

Accrued income, assets
Accrued income recognised in assets comprises prepaid costs regarding subsequent financial years,

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank.

Accounting policies

Equity
Equity comprises the contributed capital and retained earnings.

Provisions
Provisions comprise anticipated expenses relating to rebate provisions, onerous contracts, restructuring, etc. Provisions are recognized when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Deferred tax
Deferred tax and the associated adjustments for the year are determined according to the balance-sheet liability method as the tax base of all temporary differences between carrying amounts and the tax bases of assets and liabilities.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Deferred tax assets is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. And are recognized at the expected value of its utilization.

Current tax liabilities
Current tax liabilities and current tax receivables are recognised in the Balance Sheet as calculated tax on the expected taxable income for the year, adjusted for tax on taxable income for previous years as well as for tax prepaid.

Financial liabilities
Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate.

Other liabilities are measured at net realisable value.

Contingent assets and liabilities
Contingent assets and liabilities are not recognised in the Balance Sheet but appear only in the notes.

Segment information
Segment information is provided about activity and geographically. Segmentation is in accordance with the Company's internal reporting and responsibilities. The segment figures are prepared according to the same policies as the Corporate Financial Statements.

Accounting policies

Financial Highlights

Definitions of financial ratios.

Gross margin	Gross Profit X 100 / Revenue
Profit Margin	Profit/loss before financials X 100 / Revenue
Return on Assets	Profit/loss before financials x 100 / Total assets
Solvency Ratio	Equity at year-end x 100 / Total assets
Return on Equity	Net Profit/loss for the year X 100 / Average equity

Income statement 1 January - 31 December

	Note	2021	2020
		TDKK	TDKK
Revenue	1	**552.061**	**464.644**
Cost of sales		-388.632	-327.852
Other operating income		—	1.496
Other external expenses		-59.043	-41.149
Gross profit		**104.386**	**97.139**
Staff costs	2	-47.528	-39.225
Amortisation / depreciation of intangible assets and property, plant and equipment		-34.454	-33.193
Other operating expenses		-209	—
Profit before net financials		**22.195**	**24.721**
Finance income	3	6.513	9.093
Finance expenses	4	-10.721	-17.629
Profit before tax		**17.987**	**16.185**
Tax on result for the year	5	-4.042	-3.641
Profit for the year	6	**13.945**	**12.544**

Balance sheet 31 December

	Note	2021	2020
		TDKK	TDKK
Assets			
Goodwill		241.315	275.400
Intangible assets	7	**241.315**	**275.400**
Other fixtures and fittings, tools and equipment		1.939	1.042
Leasehold improvements		208	412
Property, plant and equipment	9	**2.147**	**1.454**
Deposits, investment		640	351
Investments	10	**640**	**351**
Fixed assets		**244.102**	**277.205**
Manufactured goods and goods for resale		15.887	19.184
Inventories		**15.887**	**19.184**
Short-term trade receivables		76.162	51.537
Short-term receivables from group enterprises		153.191	48.803
Deferred tax assets	11	660	—
Other short-term receivables		17.148	8.061
Prepaid expenses	12	153	593
Receivables		**247.314**	**108.994**
Cash and cash equivalents		**10.382**	**70.764**
Current assets		**273.583**	**198.942**
Total assets		**517.685**	**476.147**

Balance sheet 31 December

	Note	2021	2020
		TDKK	TDKK
Liabilities and equity			
Contributed capital		50	50
Reserve for exchange rate gain/loss		364	305
Retained earnings		436.406	422.461
Equity	13	**436.820**	**422.816**
Provisions for deferred tax	11	7.932	5.400
Other provisions		2.634	2.363
Provisions		**10.566**	**7.763**
Other payables		—	3.445
Non-current liabilities other than provisions	14	**—**	**3.445**
Trade payables		17.174	15.742
Payables to group enterprises		30.253	11.133
Income tax payable		2.504	857
Other payables		20.368	14.391
Short-term liabilities other than provisions		**70.299**	**42.123**
Liabilities other than provisions within the business		**70.299**	**45.568**
Total equity and liabilities		**517.685**	**476.147**
Business combinations	8		
Contingent assets, liabilities and other financial obligations	15		
Collaterals and securities	16		
Related parties and ownership	17		
Fees to the auditors appointed by the Company in general meeting	18		

Statement of changes in equity

	Share capital	Retained earnings	Reserve for exchange rate gain/loss	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2021	**50**	**422.461**	**305**	**422.816**
Net profit/loss for the year	—	13.945	—	13.945
Foreign exchange adjustments	—	—	59	59
Equity at 31 December 2021	**50**	**436.406**	**364**	**436.820**

The share capital has remained unchanged since the date of inception.

Notes to the annual report

1 Revenue

Information on segments
Activities - primary segment

	2021	2020
	TDKK	TDKK
PH Disease Prevention	84.303	60.044
PH Therapeutics	88.692	82.849
FA Future Protein & Health	344.612	284.922
FA Ruminants & Swine	34.454	36.829
	552.061	**464.644**

Geographical - secondary segment

	2021	2020
	TDKK	TDKK
Denmark	76.161	78.446
Finland	35.271	30.574
Iceland	66	255
Norway	356.502	286.219
Sweden	84.061	69.150
	552.061	**464.644**

	2021	2020
	TDKK	TDKK
2 Staff		
Wages and Salaries	39.835	33.158
Pension costs	4.665	2.886
Other social security costs	3.028	3.181
	47.528	**39.225**
Average number of employees	59	47
Remuneration to the Executive Board	2.618	2.508

A part of the remuneration to the executive board is paid within other entities in the Elanco Group.

Notes to the annual report

	2021	2020
	TDKK	TDKK
3 Financial income		
Interest income	83	—
Exchange rate adjustments	6.430	9.073
Other financial income	—	19
	6.513	**9.093**

	2021	2020
	TDKK	TDKK
4 Financial costs		
Interest expenses	284	689
Intercompany interest expense	24	499
Exchange rate adjustments	10.213	16.401
Other financial expenses	200	39
	10.721	**17.629**

	2021	2020
	TDKK	TDKK
5 Tax on profit/loss for the year		
Current tax for the year	-1.978	-406
Change in deferred tax	-2.115	-3.235
Adjustment relating to previous years	51	—
	-4.042	**-3.641**

	2021	2020
	TDKK	TDKK
6 Distribution of result		
Transfer to retained earnings	13.945	12.544
	13.945	**12.544**

Notes to the annual report

7 Intangible assets

Goodwill	**Total**
	TDKK
Cost at 1 January 2021	340.854
Cost at 31 December 2021	**340.854**
Impairment losses and depreciation at 1 January 2021	(65.454)
Amortisation for the year	(34.085)
Impairment losses and depreciation at 31 December 2021	**(99.539)**
Carrying amount at 31 December 2021	241.315
Carrying amount at 31 December 2020	275.400
Amortizated over	10 years

8 Business combination

As per 1st of August 2020 Elanco Denmark ApS entered into a business transfer agreement with Bayer Animal Health, the acquisition is based on an asset transfer.

	2021	**2020**
	TDKK	**TDKK**
Inventory	—	12.146
Receivables	—	1.224
Provisions	—	(2.519)
Net assets	—	10.851
Goodwill	—	17.163
Total acquisition price	**—**	**28.014**

Notes to the annual report

9 Tangible assets

Property, plant and equipment	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total
	TDKK	TDKK	TDKK
Cost at 1 January 2021	430	1.151	1.581
Additions for the year	196	907	1.103
Disposals	—	(61)	(61)
Transfer	(340)	340	—
Cost at 31 December 2021	**286**	**2.337**	**2.623**
Impairment losses and depreciation at 1 January 2021	(18)	(109)	(127)
Depreciation for the year	(60)	(309)	(369)
Disposals	—	20	20
Accumulated Depreciation at 31 December 2021	**(78)**	**(398)**	**(476)**
Carrying amount at 31 December 2021	**208**	**1.939**	**2.147**
Carrying amount at 31 December 2020	**412**	**1.042**	**1.454**
Depreciated over	5 years	3-10 years	

10 Deposits

	2021	2020
	TDKK	TDKK
Cost at 1 January	351	339
Additions	289	12
Cost at 31 December	640	351
Carrying amount at 31 December	**640**	**351**

Additions during the year are related to deposits.

Notes to the annual report

11 Deferred tax

	2021	2020
	TDKK	TDKK
Intangible assets	8.813	5.347
Property, plant and equipment	64	53
Accruals and provisions	(1.605)	—
	7.272	**5.400**

Deferred tax has been provided at 22.0% per the current tax rate.		
Deferred tax		
Calculated tax assets	(660)	—
Calculated tax liability	7.932	5.400
Total deferred tax	**7.272**	**5.400**

The recognition of deferred tax assets is assessed by management.
Deferred tax assets, are recognised as management estimates that the tax assets can be utilised within a foreseeable future by offsetting against future positive taxable income.

12 Prepaid expenses

	2021	2020
	TDKK	TDKK
Other prepaid expenses	153	593
	153	**593**

13 Equity

The share capital consists of 50.000 shares of a nominal value of DKK 1,00. No shares carry any special rights.

14 Non-current liabilities

	2021	2020
	TDKK	TDKK
Holiday payable from 1 to 5 years	—	3.445
	—	**3.445**

Notes to the annual report

15 Contingent liabilities and other financial obligations

The Company has an operating lease liability concerning cars, rent and other operating assets.

Apart from the below, the company has not undertaken any other lease liabilities.

Other financial obligations

	2021 TDKK	2020 TDKK
Rental agreements and lease commitments		
Operating lease commitments		
Total future lease payments:		
Within 1 year	1.411	1.608
Between 1 and 5 years	2.057	3.493
	3.468	**5.101**

16 Collaterals and securities

No securities and mortgages exist at the balance sheet date.

17 Related parties and ownership

Controlling interest

Elanco Nederland B.V Van Deventerlaan 31, 3528 AG Utrecht	Immediate Parent company
Elanco Animal Health Inc. 2500 Innovation Way Greenfield, IN 46140 USA	Ultimate parent company

Ownership

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Elanco Nederland B.V
Van Deventerlaan 31, 3528 AG Utrecht

Notes to the annual report

Consolidated financial statements

The Company is included in the group annual report of Elanco Animal Health Inc.

The group annual report of Elanco Animal Health Inc. may be obtained at the following address: 2500 Innovation Way Greenfield, IN 46140 USA.

	2021 TDKK	2020 TDKK
Intra-group transactions in Income Statement		
Other operating income	—	1.496
Cost of sales	(380.802)	(321.925)
Other operating expenses	(97)	—
Other finance expenses	(23)	(499)
Intra-group transactions in Balance Sheet		
Short-term receivables from group enterprises	153.191	48.803
Payables to group enterprises	30.253	11.133

18 Fee to the auditors appointed by the Company in general meeting

Audit fees are not disclosed with references to section 96 (3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for Elanco Animal Health Inc.