Elanco Denmark ApS

Lautrupvang 12, 1,
2750 Ballerup

CVR no. 39640163

Annual report for 2022

Adopted at the Annual General
Meeting on 5 July 2023

Egbert Thomas

Contents

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 2022.

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 2022 and of the results of the company's operations for the financial year 1 January - 31 December 2022.

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, 5 July 2023

Executive Board

Egbert Thomas	Isabel Hortense A. Roels	Anna Karin Lindberg

Independent auditor's report

To the Shareholder of Elanco Denmark ApS

Opinion

We have audited the financial statements of Elanco Denmark ApS for the financial year 1 January – 31 December 2022, which comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. 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 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022 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, 5 July 2023
EY Godkendt Revisionspartnerselskab
CVR-no.: 30700228

Simon Blendstrup	Jacob Thøgersen
State Authorised Public Accountant	State Authorised Public Accountant
mne44060	mne49102

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 2022
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 5-year period, the development of the Company may be described by means of the following financial highlights:

	2022	2021	2020	2019	2018 (unaudited)
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	682.247	552.061	464.644	400.766	—
Gross profit	110.549	104.386	97.139	80.482	—
Profit before net financials	35.179	22.195	24.721	12.328	—
Net financials	-2.826	-4.208	-8.536	-2.036	—
Profit/loss for the year	25.018	13.945	12.544	7.706	—
Balance sheet					
Balance sheet total	608.278	517.685	476.147	478.303	372.295
Investment in property, plant and equipment	121	1.103	1.241	340	—
Equity	461.093	436.820	422.816	379.799	372.093
Number of employees	49	59	47	39	—
Financial ratios					
Gross margin	16 %	19 %	21 %	20 %	— %
Profit margin	5 %	4 %	5 %	3 %	— %
Return on assets	6 %	4 %	5 %	3 %	— %
Solvency ratio	76 %	84 %	89 %	79 %	100 %
Return on equity	6 %	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 has delivered a significantly higher revenue of 682M DKK, compared to the 570M DKK from the 2021 outlook, and a profit before tax of 25M DKK compared to an expected 12-16M DKK. The reason to this deviation / development is further explained in the sections below:

2022 showed a considerable rise in revenue for both Pet Health and Farm Animal, including the Aqua business, via Clynav. The Pet Health business has increased by 17% compared to 2021, which is a growth of 28.2M DKK. The Farm Animal business including Aqua has growth 20% compared to 2021 with an increased revenue of 74.5M DKK.

The main growth driver is the Over-the-Counter business, also known as the "OTC Business", meaning no-prescription products. OTC has increased the revenue by 15.8M DKK thanks to brands like Seresto, Milbemax and Advantix. Seresto and Advantix show a notable performance in Finland, where Elanco transferred the Bayer portfolio from Orion to Oriola OY, resulting in a price increase of around 40%.

The second growth driver is the Pet Health Prescription-Only (Rx) portfolio which had an increase of 12.6M DKK compared to 2021. This growth has been primarily driven by brands such as Atopica, Milbemax and Credelio.

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 2022 on page 14. The same can be found at this link https://s1.q4cdn.com/466533431/files/doc_financials/2023/AnnualReport/ELAN-2022-Annual-Report_vF.pdf

Foreign branches

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

Outlook 2023

In 2023 we expect to reach a total revenue of 744M DKK, and a result between 15M to 22M DKK.

Management’s review

We see 2023 as a challenging year from a macroeconomic standpoint and therefore our outlook has taken a cautious approach. We considered the following external factors when assessing our business environment: high currency volatility for the SEK & NOK currencies, high inflation driving higher interest rates contracting the economy, higher supply chain costs, price-pressure on farmers and generic competition.

However, we will grow by 5% compared to 2022 thanks to the yearly price increase, good performance in Clynav and an OTC launch in Q3.

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.

Corporate Social Responsibility (CSR), cf. §99a

Elanco Denmark Aps is a wholesaler company without manufacturing and has its focus on Sales and marketing activities. Within the five social responsibility policy areas, is it the responsibility of social and employee conditions the most material areas for Elanco Denmark.

Where new rules and regulations within this area can influence Elanco Denmark, and Elanco Denmark can influence the society if we do not live up to our values, integrity, respect, and excellence.

Based on a risk assessment no material risks have been identified for human rights, anti-corruption, environment, and climate. Hence, no local policies have been established for these areas.

Elanco Denmark Aps main risks is within the social and employee conditions would be employee satisfaction and the health and safety of our employees.

Our Culture. At Elanco Group as well as Elanco Denmark Aps, we are committed to fostering an inclusive culture where employees can make a difference, encouraging ownership, growth, and well-being. The following gives an overview of our approach to managing human capital resources.

Elanco Denmark Aps and its Norway Branch publish an annual due diligence account on the company website regarding its obligations under the Norwegian Transparency Law (*åpenhetsloven* or “*Lov om virksomheters åpenhet og arbeid med grunnleggende menneskerettigheter og anstendige arbeidsforhold*”) to inform the public on how Elanco Denmark Aps ensures its respect for fundamental human rights and decent working conditions.

Management's review

We commit to create a culture built on the foundation of three values and four behavioural pillars:

Values that Guide our Decisions:

- Integrity - Do the right thing in the right way.
- Respect - Respect people, our customers, and the animals in their care.
- Excellence - Be accountable. Continuously improve. Deliver with discipline.

Behavioural Pillars that Guide our Actions:

- Involve - We seek participation and input to gain commitment and passionate performance and create an engaged community. We act with humility as One Elanco, collaborating for the best outcomes for the entire company.
- Deliver - We focus on the essential, build mastery, and diligently deliver on our commitments to our colleagues, customers, and shareholders.
- Own - We are accountable and empowered. We ask questions and raise concerns. We are fully invested in Elanco's success.
- Innovate - We bring an innovative mindset that drives continuous improvement of our processes, products, and services.

Our employees are driven by these values and behavioural pillars. At Elanco, this culture drives employee performance. Leadership and employees are encouraged to evaluate performance with these values and behavioural pillars in mind.

Diversity, Equity, and Inclusion. We are focused on discovering new ways in which healthier animals can solve the world's greatest health and environmental challenges, and this innovation is only possible through an inclusive culture of employees with diverse backgrounds, strengths, and perspectives. Our efforts to enhance diversity, equity and inclusion are critical to creating and maintaining our purpose-driven culture and strengthening our promises to our employees and customers.

Total Rewards. We invest in our workforce by offering competitive salaries, incentives, and benefits. Our pay for performance philosophy is designed to create ownership and help ensure that we attract and retain talent as well as reward and recognize top-performing employees through merit increases and other rewards. We benchmark our total rewards annually to ensure our compensation and benefit programs remain competitive with our peers. Our benefits are one way we support our employees' well-being and live up to our employee promise.

Development. A good working environment with a strong focus on well-being is therefore a high priority. For example, in 2022, Elanco Denmark ApS has amended the employment agreements with a flexible working addendum. Through this we trust our employees to make better choices in their time management and deliver on their objectives. In addition, we offer our employees opportunities to advance in their careers. We want to equip them with skills which help them thrive and meet the ever-changing needs of the stakeholders in this dynamic animal health industry.

Beyond professional growth and development, Elanco employees actively engage in initiatives aligned to Elanco's Healthy Purpose. This is in our ESG and sustainability framework, i.e. to advance the well-being of animals, people, the planet, and our enterprise, enabling us to realize our vision of "Food and Companionship Enriching Life."

As a result, all these initiatives have contributed to maintaining a good working environment.

In the future, at Elanco Denmark ApS we expect to maintain and continuously improve our healthy work environment.

Management’s review

Gender Distribution in Management, cf. §99b:

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 to 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 at Elanco Denmark ApS 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 at Elanco Denmark ApS consist of 86% women and 14% men. These positions are held by full-time employees who also have people management responsibilities. The type of managerial positions at Elanco Denmark ApS: Country Director Nordics & BU Manager PH Nordics, Sales Manager Sweden, Finland & OTC Manager Nordic, Head of Finance Nordics, Head of Sales FAB Nordics.

With respect to the recruitment process, the company strives towards maintaining a fair gender representation in the final stages for equality of chances.

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.

For more details of Elanco Groups corporate governance, including our Corporate Governance Guidelines, Code of Conduct, Financial Code of Ethics, Articles of Incorporation, Bylaws, Committee Charters; information concerning our executive officers and members of our board of directors; and ways to communicate are available on our website www.elanco.com

Accounting policies

The annual report of Elanco Denmark ApS for 2022 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.

Accounting policies

Reporting currency
The Annual Report is presented in Danish kroner (T.DKK). In general, rounding will occur and cause variances in sums and percentages in the financial statements.

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 and expenses
Other operating income and expenses comprise 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 and contract labor 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 the weighted average method. Where the net realisable value is lower than cost, inventories are written down to this lower 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.

Prepaid expenses, assets
Prepaid expenses recognised in assets comprises prepaid costs regarding subsequent financial years.

Accounting policies

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank. Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities".

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.

Leases
The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of future lease payments. In calculating the present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for as the Company's other assets.

The capitalized residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

Leases that do not transfer substantially all the risks and rewards incident to ownership to the entity are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating leases and other leases are disclosed under contingencies.

Accounting policies

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.

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	2022	2021
		TDKK	TDKK
Revenue	1	**682.247**	**552.061**
Cost of sales		(525.562)	(388.632)
Other operating income		567	—
Other external expenses		(46.703)	(59.043)
Gross profit		**110.549**	**104.386**
Staff costs	2	(40.513)	(47.528)
Amortisation / depreciation of intangible assets and property, plant and equipment		(34.510)	(34.454)
Other operating expenses		(347)	(209)
Profit before net financials		**35.179**	**22.195**
Finance income	3	9.231	6.513
Finance expenses	4	(12.057)	(10.721)
Profit before tax		**32.353**	**17.987**
Tax on result for the year	5	(7.335)	(4.042)
Profit for the year	6	**25.018**	**13.945**

Balance sheet 31 December

	Note	2022	2021
		TDKK	TDKK
Assets			
Goodwill		207.229	241.315
Intangible assets	7	**207.229**	**241.315**
Other fixtures and fittings, tools and equipment		1.709	1.939
Leasehold improvements		134	208
Property, plant and equipment	8	**1.843**	**2.147**
Deposits		633	640
Investments	9	**633**	**640**
Fixed assets		**209.705**	**244.102**
Manufactured goods and goods for resale		18.227	15.887
Inventories		**18.227**	**15.887**
Trade receivables		157.057	76.162
Receivables from group enterprises		190.505	153.191
Deferred tax assets	10	305	660
Other receivables		29.289	17.148
Prepaid expenses	11	650	153
Receivables		**377.806**	**247.314**
Cash and cash equivalents		**2.540**	**10.382**
Current assets		**398.573**	**273.583**
Total assets		**608.278**	**517.685**

Balance sheet 31 December

	Note	2022	2021
		TDKK	TDKK
Liabilities and equity			
Contributed capital		50	50
Reserve for exchange rate gain/loss		(382)	364
Retained earnings		461.425	436.406
Equity	12	**461.093**	**436.820**
Provisions for deferred tax	10	12.340	7.932
Other provisions		—	2.634
Provisions		**12.340**	**10.566**
Bank overdrafts		11.071	—
Trade payables		9.130	17.174
Payables to group enterprises		97.790	30.253
Income tax payable		2.920	2.504
Other payables		13.934	20.368
Short-term liabilities other than provisions		**134.845**	**70.299**
Liabilities other than provisions within the business		**134.845**	**70.299**
Total equity and liabilities		**608.278**	**517.685**
Contingent assets, liabilities and other financial obligations	13		
Collaterals and securities	14		
Related parties and ownership	15		
Fees to the auditors appointed by the Company in general meeting	16		

Statement of changes in equity

	Share capital	Retained earnings	Reserve for exchange rate gain/loss	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2022	**50**	**436.406**	**364**	**436.820**
Net profit/loss for the year	—	25.018	—	25.018
Foreign exchange adjustments	—	—	(746)	(746)
Equity at 31 December 2022	**50**	**461.425**	**(382)**	**461.093**

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

Notes to the annual report

1 Revenue

Information on segments
Activities - primary segment

	2022	2021
	TDKK	TDKK
PH Disease Prevention	106.213	84.303
PH Therapeutics	92.372	88.692
FA Future Protein & Health	449.139	344.612
FA Ruminants & Swine	34.523	34.454
	682.247	**552.061**

Geographical - secondary segment

	2022	2021
	TDKK	TDKK
Denmark	67.429	76.161
Finland	50.896	35.271
Iceland	23	66
Norway	476.305	356.502
Sweden	87.594	84.061
	682.247	**552.061**

2 Staff

	2022	2021
	TDKK	TDKK
Wages and Salaries	34.089	39.835
Pension costs	3.311	4.665
Other social security costs	3.113	3.027
	40.513	**47.528**
Average number of employees	49	59
Remuneration to the Executive Board	2.819	2.618

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

Notes to the annual report

	2022	2021
	TDKK	TDKK
3 Financial income		
Intercompany interest income	212	—
Interest income	50	83
Exchange rate adjustments	8.969	6.430
	9.231	**6.513**

	2022	2021
	TDKK	TDKK
4 Financial costs		
Interest expenses	12	284
Intercompany interest expense	23	24
Exchange rate adjustments	11.841	10.213
Other financial expenses	181	200
	12.057	**10.721**

	2022	2021
	TDKK	TDKK
5 Tax on profit/loss for the year		
Current tax for the year	(2.592)	(1.978)
Change in deferred tax	(4.743)	(2.115)
Adjustment relating to previous years	—	51
	(7.335)	**(4.042)**

	2022	2021
	TDKK	TDKK
6 Distribution of result		
Transfer to retained earnings	25.018	13.945
	25.018	**13.945**

Notes to the annual report

7 Intangible assets

Goodwill	Total
	TDKK
Cost at 1 January 2022	340.854
Cost at 31 December 2022	**340.854**
Impairment losses and depreciation at 1 January 2022	(99.539)
Amortisation for the year	(34.085)
Impairment losses and depreciation at 31 December 2021	**(133.624)**
Carrying amount at 31 December 2022	207.229
Carrying amount at 31 December 2021	241.315
Amortized over	10 years

8 Tangible assets

Property, plant and equipment	Leasehold improvements	Other fixtures and fittings, tools and equipment	Total
	TDKK	TDKK	TDKK
Cost at 1 January 2022	286	2.337	2.623
Additions for the year	—	121	121
Disposals	—	—	—
Transfer	—	—	—
Cost at 31 December 2022	**286**	**2.458**	**2.744**
Impairment losses and depreciation at 1 January 2022	(78)	(398)	(476)
Depreciation for the year	(74)	(351)	(425)
Disposals	—	—	—
Accumulated Depreciation at 31 December 2021	**(152)**	**(749)**	**(901)**
Carrying amount at 31 December 2022	**134**	**1.709**	**1.843**
Carrying amount at 31 December 2021	**208**	**1.939**	**2.147**
Depreciated over	5 years	3-10 years	

Notes to the annual report

9 Deposits

	2022	2021
	TDKK	TDKK
Cost at 1 January	640	351
Additions	—	289
Disposals	(7)	—
Cost at 31 December	633	640
Carrying amount at 31 December	**633**	**640**

Additions and disposals during the year are related to deposits.

10 Deferred tax

	2022	2021
	TDKK	TDKK
Deferred tax at 1 January	7.272	5.400
Deferred tax adjustment for the year	4.763	1.872
Tax on equity transactions	—	—
Deferred tax at 31 December	**12.035**	**7.272**
Deferred tax relates to:		
Intangible assets	12.026	8.813
Property, plant and equipment	76	64
Accruals and provisions	(67)	(1.605)
	12.035	**7.272**

Deferred tax has been provided at 22.0% per the current tax rate.

Deferred tax		
Calculated tax assets	(305)	(660)
Calculated tax liability	12.340	7.932
Total deferred tax	**12.035**	**7.272**

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.

Notes to the annual report

11 Prepaid expenses

	2022	2021
	TDKK	TDKK
Other prepaid expenses	650	153
	650	**153**

12 Equity

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

13 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

	2022	2021
	TDKK	TDKK
Rental agreements and lease commitments		
Operating lease commitments		
Total future lease payments:		
Within 1 year	1.274	1.411
Between 1 and 5 years	818	2.057
	2.092	**3.468**

Elanco Denmark ApS accounts in the cash pool scheme, which are recognized under receivables from group enterprises amounts to 144.867t DKK.

14 Collaterals and securities

No securities and mortgages exist at the balance sheet date.

Notes to the annual report

15 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

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. The same can be found at this link https://investor.elanco.com/financials/annual-reports/default.aspx

	2022 TDKK	2021 TDKK
Intra-group transactions in Income Statement		
Other operating income	672	—
Other finance income	212	—
Cost of sales	(514.116)	(380.802)
Other operating expenses	(105)	(97)
Other finance expenses	(23)	(23)
Intra-group transactions in Balance Sheet		
Short-term receivables from group enterprises	190.505	153.191
Payables to group enterprises	97.790	30.253

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

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

	2022 TDKK	2021 TDKK
Fee for statutory audit	600	593
Assurance engagements	—	17
	600	**610**

Notes to the annual report

17 Events after the Balance Sheet date

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