Elanco Denmark ApS

Lautrupvang 12, 1,
2750 Ballerup

CVR no. 39640163

Annual report for 2020

Adopted at the Annual General
Meeting on 13 July 2021

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 2020.

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 2020 and of the results of the company's operations for the financial year 1 January - 31 December 2020.

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, 13 July 2021

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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 2020, 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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 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' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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. 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

Independent auditor's report

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.

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, 13 July 2021
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 2020
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 3-year period, the development of the Company may be described by means of the following financial highlights:

	2020	2019	2018 (Unaudited)
	TDKK	TDKK	TDKK
Key figures			
Profit/loss			
Revenue	464.644	400.766	—
Gross profit	97.139	80.482	—
Operating profit/loss	24.721	12.328	—
Net financials	-8.536	-2.036	—
Profit/loss for the year	12.544	7.706	—
Balance sheet			
Balance sheet total	476.147	478.303	372.295
Investment in property, plant and equipment	1.241	340	—
Equity	422.816	379.799	372.093
Number of employees	47	39	—
Financial ratios			
Gross margin	21 %	20 %	— %
Profit margin	5 %	3 %	— %
Return on assets	5 %	3 %	— %
Solvency ratio	89 %	79 %	100 %
Return on equity	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, except for the global acquisition, where the company completed the acquisition of Bayer Animal Health´s trade and assets on 1 August 2020.

The goodwill amount accounted for, are based on the key assumptions concerning the future and other key sources of estimations.

As of the financial statement issuance date, the country, region, and world are continuing to be impacted by the coronavirus (COVID-19). Although the situation is still evolving at the date of issue of these financial statements, there is no tangible impact on the Company's sales or supply chain to date, only on products connected with travelling animals, where the sales have been mildly negatively influenced. Management will continue to closely monitor the potential impact of these events and will take all possible measures to mitigate possible consequences.

Business review

Elanco Denmark ApS´s Income Statement for the financial year 2020 was a good year with a result of TDKK 12.544 and the balance sheet on 31 December 2020 showing a total at TDKK 476.147 and an equity of TDKK 422.816.

Development in the year, was despite of the coronavirus with an increase in the activity, due to growths in our key pet health products.

In August, with the acquisition of Bayer, Elanco became one independent team, solely dedicated to innovating and delivering for farmers, veterinarians, and pet owners – and the animals in their care. The start to advance – together – the vision of Food and Companionship Enriching Life. These five words are what differentiates us. They direct Elanco to serve a bigger purpose. Because making life better for animals, makes life better.

Elanco is now even better positioned to make a difference in addressing some of the world's greatest challenges – from malnutrition, obesity, social isolation and mental health to environmental health and sustainability.

Pets: The acquisition builds our pet health business of our portfolio. Our expanded portfolio of care provides for pets at all stages and places, from disease prevention and wellness for the youngest puppies.

Adding the blockbuster Seresto and the Advantage family, broadens our pet parasiticide offerings with topical treatments and groundbreaking collar technology that offers future opportunities for growth.

Farm Animals: Our complementary farm animal portfolios position us to serve an even broader spectrum of the industry and better leverage data and services for our customers. Our combination expands our cattle brands, enhances our global bio-protection portfolio, and expands our aqua presence into warm water fish.

Management's review

Foreign branches

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

Outlook 2021

In 2021 we still expect some impact from the Covid-19 situation with less face to face customer calls, also continued low level of travelling pet owners will impact sales on the products within the parasite treatment portfolio.

This however is expected to be compensated by a continued stable growth of the pain treatment products and in all we expect a topline growth over 2020 with a revenue in the size of TDKK 530,000 and a profit before tax at TDKK 16,000. We have no planned launches in 2021 and we expect customer call rate will return to normal in Q3-4.

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

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.

Furthermore, the Elanco Group, has prepared and published the Environmental, Social & Governance summary for 2020, this will cover description of the Groups corporate social responsibility, which will apply to Elanco Denmark ApS as well.

We refer to the Environmental, Social & Governance report, for the following subjects:

- Business model, page 3
- Human Rights, page 32
- Environmental Issues, page 12
- Social and employee conditions, page 33
- Animal Health – making life better, page 7
- Our approach to anti-corruption, is the way we operate at Elanco, which rests on a foundation of always doing the right thing, page 46

Management's review

Please find the report on the following link:

Elanco_ESG_Report_2020_06082021.pdf (kc-usercontent.com)

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.

Accounting policies

The annual report of Elanco Denmark ApS for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

In Fiscal Year 2019 the financial statements was prepared as class B entity. The change has not had impact on comparative figures or the financial statement.

Effective from the financial year 2020, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed a requirement for further disclosures.

The accounting policies used in the preparation of the financial statements are else 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

Accounting policies

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.

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.

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

Accounting policies

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.

Equity
Equity comprises the contributed capital and retained earnings.

Accounting policies

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.

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.

Financial Highlights

Definitions of financial ratios.

Gross profit	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	2020	2019
		TDKK	TDKK
Revenue	1	**464.644**	**400.766**
Cost of sales		-327.852	-290.266
Other operating income		1.496	2.649
Other external expenses		-41.149	-32.667
Gross profit		**97.139**	**80.482**
Staff costs	2	-39.225	-35.785
Amortisation / depreciation of intangible assets and property, plant and equipment		-33.193	-32.369
Profit before net financials		**24.721**	**12.328**
Finance income	3	9.093	4.279
Finance expenses	4	-17.629	-6.315
Profit before tax		**16.185**	**10.291**
Tax on result for the year	5	-3.641	-2.585
Profit for the year	5	**12.544**	**7.706**

Balance sheet 31 December

	Note	2020	2019
		TDKK	TDKK
Assets			
Goodwill		275.400	291.322
Intangible assets	7	**275.400**	**291.322**
Other fixtures and fittings, tools and equipment		1.042	—
Leasehold improvements		412	340
Property, plant and equipment	9	**1.454**	**340**
Deposits, investment		351	339
Investments	10	**351**	**339**
Fixed assets		**277.205**	**292.001**
Manufactured goods and goods for resale		19.184	—
Inventories		**19.184**	**—**
Short-term trade receivables		51.537	68.816
Short-term receivables from group enterprises		48.803	—
Other short-term receivables		8.061	2.526
Prepayments		593	1.363
Receivables		**108.994**	**72.705**
Cash and cash equivalents		**70.764**	**113.597**
Current assets		**198.942**	**186.302**
Total assets		**476.147**	**478.303**

Balance sheet 31 December

	Note	2020	2019
		TDKK	TDKK
Liabilities and equity			
Contributed capital		50	50
Reserve for exchange rate gain/loss		305	—
Retained earnings		422.461	379.749
Equity	13	**422.816**	**379.799**
Provisions for deferred tax	11	5.400	2.165
Other provisions		2.363	—
Provisions		**7.763**	**2.165**
Other payables		3.445	664
Non-current liabilities other than provisions	14	**3.445**	**664**
Trade payables		15.742	37.541
Payables to group enterprises		11.133	42.112
Income tax payable		857	559
Other payables		14.391	15.465
Short-term liabilities other than provisions		**42.123**	**95.677**
Liabilities other than provisions within the business		**45.568**	**96.339**
Total equity and liabilities		**476.147**	**478.303**

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Statement of changes in equity

	Share capital	Retained earnings	Reserve for exchange rate gain/loss	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2020	50	379.749	—	379.799
Net profit/loss for the year	—	12.544	—	12.544
Capital contribution	—	30.168	—	30.168
Foreign exchange adjustments	—	—	305	305
Equity at 31 December 2020	**50**	**422.461**	**305**	**422.816**

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

Notes to the annual report

1 Revenue

Information on segments
Activities - primary segment

	2020	2019
	TDKK	TDKK
PH Disease Prevention	60.044	16.716
PH Therapeutics	82.849	105.580
FA Future Protein & Health	284.922	247.681
FA Ruminants & Swine	36.829	30.789
	464.644	**400.766**

Geographical - secondary segment

	2020	2019
	TDKK	TDKK
Denmark	78.446	68.223
Finland	30.574	24.100
Iceland	255	184
Norway	286.219	245.241
Sweden	69.150	63.018
	464.644	**400.766**

2 Staff

	2020	2019
	TDKK	TDKK
Wages and Salaries	33.158	30.515
Pension costs	2.886	2.493
Other social security costs	3.181	2.777
	39.225	**35.785**
Average number of employees	47	39
Remuneration to the Executive Board	2.508	2.352

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

Notes to the annual report

	2020	2019
	TDKK	TDKK
3 Financial income		
Exchange rate adjustments	9.073	4.278
Other financial income	19	1
	9.093	**4.279**

	2020	2019
	TDKK	TDKK
4 Financial costs		
Interest expenses	689	405
Intercompany interest expense	499	572
Exchange rate adjustments	16.401	5.333
Other financial expenses	39	5
	17.629	**6.315**

	2020	2019
	TDKK	TDKK
5 Tax on profit/loss for the year		
Current tax for the year	-406	-420
Change in deferred tax	-3.235	-2.165
	-3.641	**-2.585**

	2020	2019
	TDKK	TDKK
6 Distribution of result		
Transfer to retained earnings	12.544	7.706
	12.544	**7.706**

Notes to the annual report

7 Intangible assets

Goodwill	Total
	TDKK
Cost at 1 January 2020	323.691
Additions through acquisitions	17.163
Cost at 31 December 2020	**340.854**
Impairment losses and depreciation at 1 January 2020	(32.369)
Amortisation for the year	(33.085)
Impairment losses and depreciation at 31 December 2020	**(65.454)**
Carrying amount at 31 December 2020	275.400
Carrying amount at 31 December 2019	291.322
Depreciated over	10 years

Goodwill from a business combination is allocated to cash-generating units in which synergies are expected to be generated from the acquisition, A cash-generating unit represents the smallest identifiable group of assets that together have cash inflows that are largely independent of the cash inflows from other assets. Management has concluded that the Company has only one cash-generating unit for impairment testing purposes, since cash flows to the Company are generated by the business as a whole and independent cash flows from other assets cannot be separately distinguished. When deeming it necessary due to indicators of impairment, to perform impairment testing, it has been done at the level of one cash-generating unit.

The goodwill amount accounted for, are based on the key assumptions concerning the future and other key sources of estimation. An impairment test has been prepared and shows no impairment indication and a sufficient headroom from the sensitivity analysis. Therefore we do not see any significant risks regarding the valuation hereof.

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.

	2020	2019
	TDKK	TDKK
Inventory	12.146	—
Receivables	1.224	55.074
Provisions	(2.519)	(11.065)
Net assets	10.851	44.009
Goodwill	17.163	323.691
Total acquisition price	**28.014**	**367.700**

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 2020	340	—	340
Additions for the year	90	1.151	1.241
Cost at 31 December 2020	**430**	**1.151**	**1.581**
Impairment losses and depreciation at 1 January 2020	—	—	—
Depreciation for the year	(18)	(109)	(127)
Accumulated Depreciation at 31 December 2020	**(18)**	**(109)**	**(127)**
Carrying amount at 31 December 2020	**412**	**1.042**	**1.454**
Carrying amount at 31 December 2019	**340**	—	**340**
Depreciated over	5 years	3-10 years	

10 Deposits	2020	2019
	TDKK	TDKK
Cost at 1 January	339	339
Additions	12	—
Cost at 31 December	351	339
Carrying amount at 31 December	**351**	**339**

Additions during the year are related to deposits.

	2020	2019
	TDKK	TDKK
11 Deferred tax liability		
Intangible assets	5.347	2.165
Property, plant and equipment	53	—
	5.400	**2.165**

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

Deferred tax liability		
Calculated tax liability	5.400	2.165
Carrying amount	**5.400**	**2.165**

Notes to the annual report

12 Prepaid expenses

	2020	2019
	TDKK	TDKK
Other prepaid expenses	593	1.363
	593	**1.363**

13 Equity

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

14 Non-current liabilities

	2020	2019
	TDKK	TDKK
Holiday payable from 1 to 5 years	3.445	664
	3.445	**664**

The long-term other payables regard holiday payables which are due for payment within 1-5 years after the balance sheet date.

15 Contingent liabilities and other financial obligations

The Company has an operating lease liability concerning cars.

The Company has been jointly taxed with Eli Lilly Denmark A/S up until 10 March 2019. Until this date, the enterprises in the group are jointly severally liable for the taxes, royalties, etc. that the concern the joint taxation.

Eli Lilly Denmark A/S was the administration company in the joint taxation.

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

<u>Other financial obligations</u>

	2020	2019
	TDKK	TDKK
Rental agreements and lease commitments		
Operating lease commitments		
Total future lease payments:		
Within 1 year	1.608	584
Between 1 and 5 years	3.493	1.014
	5.101	**1.598**

16 Collaterals and securities

No securities and mortgages exist at the balance sheet date.

Notes to the annual report

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

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.

	2020 TDKK	2019 TDKK
Intra-group transactions in Income Statement		
Other operating income	1.496	2.649
Cost of sales	-321.925	-285.829
Other finance expenses	-499	-572
Intra-group transactions in Balance Sheet		
Short-term receivables from group enterprises	48.803	—
Payables to group enterprises	11.133	42.112

	2020 TDKK	2019 TDKK
18 Fee to the auditors appointed by the Company in general meeting		
– **Ernst & Young:**		
Audit fee	701	309
Other assurance reports	15	—
	716	**309**

19 Events after the Balance Sheet date

The company has entered into a cashpool agreement with Elanco Financing in March 2021, this will have no impact on the liquidity situation. No other events have accrued after the balance sheet date.