Eli Lilly Danmark A/S

Lyskær 3 E, 2. tv.

2730 Herlev

CVR No. 51619811

Annual Report 2018

41. financial year

The Annual Report was presented and
adopted at the Annual General Meeting of
the Company on 13 June 2019

Richard Emanuel Edström
Chairman

Contents

Management's Statement

Today, Management has considered and adopted the Annual Report of Eli Lilly Danmark A/S for the financial year 1 January 2018 - 31 December 2018.

The Annual Report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January 2018 - 31 December 2018.

In our opinion, the Management's Review includes a true and fair account of the matters addressed in the review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Herlev, 13 June 2019

Executive Board

Morten Auscher
Man. Director

Supervisory Board

Richard Emanuel Edström Chairman	Morten Auscher	Kurt Martin Stefan Cronehag

Independent Auditor's Report

To the shareholders of Eli Lilly Danmark A/S

Opinion
We have audited the financial statements of Eli Lilly Danmark A/S for the financial year 1 January 2018 - 31 December 2018, which comprise an income statement, balance sheet 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 thefinancial position of the Company at 31 December 2018 and of the results of the company's operations for the financial year 1 January 2018 - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis of 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 "auditors'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 ditermines 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 crease 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 as to whether the financial statements are as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect 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 the users taken on the basis of the financial statements.

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

* Identify and assess the risk of material misstatements in 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 override of internal control.

Independent Auditor's Report

* 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 exits related to events or conditions that may cast significant doubt in 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 auditors' 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 auditors' report. However, future event or conditions may cause the Company to crease to continue as a going concern.

* Evaluate the overall presentation, structure and contents of the financial statements, including note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true an 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 the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statement Act.

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

Copenhagen, 13 June 2019

ERNST & YOUNG Godkendt Revisionspartnerselskab
CVR-no. 30700228

Christian S. Johansen	Simon Blendstrup
State Authorised Public Accountant	State Authorised Public Accountant
mne33234	mne44060

Company details

Company	Eli Lilly Danmark A/S Lyskær 3 E, 2. tv. 2730 Herlev
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Website	www.eli-lilly.dk
CVR No.	51619811
Date of formation	31 January 1975
Registered office	Herlev
Financial year	1 January 2018 - 31 December 2018
Supervisory Board	Richard Emanuel Edström Morten Auscher, Man. Director Kurt Martin Stefan Cronehag
Executive Board	Morten Auscher, Man. Director
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab c/o Postboks 250 Osvald Helmuths Vej 4 2000 Frederiksberg CVR-no.: 30700228
Bank	BNP Paribas

Management's Review

Business activities
The activities of Eli Lilly Danmark A/S in 2018 included the product lines: Pharmaceutical products in Denmark, Finland, Iceland and Norway as well as Animal Health products in the Nordic Area.

Business Review
For Eli Lilly Danmark A/S, the financial year 2018 was a good year in light of the difficult market situation and a continued challenging environment with hospital owners and national authorities introducing stricter conditions for market access for pharmaceuticals in Pharma.

We had in 2018 several new products placed in local guidelines, and more sales compared to previous years came from the new launches. This is a good and healthy development, where new products drive sales and the mature products continue to decline in sales because of newer molecules entering the market place and generic competition drives sales erosion. During the same period, we managed a strong expense control, and the result for the financial year 2018 have met our expectations.

From an organizational perspective, 2018 have offered important changes. From a position where Eli Lilly Denmark A/S have worked as Scandinavia and Nordic organizations over a number of years, 2018 was the year in which we expanded cooperation with our UK and Irish colleagues, with shared management and collaboration within different business areas. Our new organization provides business opportunities, synergies and development for everyone in the organization. We are moving in the right direction and continuously trying to improve cooperation.

New products
In 2018 we made significant pipeline progress in areas of pain, migraine, type 2 diabetes and oncology with several molecules in regulatory review/approval. Earliest candidate to potentially receiving marketing authorization is our treatment of cluster-headache and chronic-migraine currently under EMEA review and approval expected end of year 2019.

Unusual matters
According to management, the financial statements are not affected by any unusual matters, except for the one time divesting of the Animal Healthcare activities mentioned below.

Net profit/loss for the year compared with previously expressed expectations
The annual report for 2018 showed a profit of DKK 27,765 thousand compared to a profit of DKK 31,220 thousand in 2017 and compared to expected profit for 2018 of DKK 33,000 thousand. Revenue is below last year with DKK 787,335 thousand against DKK 817,531 thousand in 2017 and less than expected for 2018 DKK 855,000 thousand.

Lower topline result and lower profit in 2018 than expected, are mainly due to the delay in approval of Lufenuron in Norway leaving us with a DKK 88.000 thousand sales gap in revenue compared to plan. Despite this delay in access for Lufenuron, we are very pleased with the result of our animal business unit, Elanco. In our Pharma Business Units we have seen challenges with parallel import across the different markets, but we are overall satisfied with the result for 2018.

Investments - Research and development activities
No major capital investments in Eli Lilly Danmark A/S, besides our ongoing investment in R&D activities, where we conduct multiple studies within Oncology, Diabetes, Neuroscience & autoimmune diseases. These studies are conducted either in-house or outsourced to 'Contract Research Organizations (CROs)', and we contributor to Eli Lilly's overall clinical program. The research is carried out on behalf of the Eli Lilly Group, from which the company received payments on ordinary market terms. In 2018 the company's research and development costs in Denmark was DKK 11,791 thousand.

Management's Review

Working Capital
Eli Lilly Danmark A/S is well consolidated. The equity ratio is 46% end of 2018, compared to 67% end of 2017, corresponding to equity of DKK 113,987 thousand December 31 2018 against DKK 216,269 end of 2017.

The company's financial preparedness from internal cash pool arrangement amounts to DKK 53,646 thousand at the end of the financial year.

There was a dividend payment of DKK 130,000 thousand from the company in 2018 and The Supervisory Board propose a dividend of DKK 70,000 thousand to be paid out from the company in 2019.

Post financial year events
As per 1 Janaury 2019, Eli Lilly Danmark A/S has divested the Animal Healthcare activities to a a new owner. The activities are sold for DKK 366,520 thousand, and are expected to affect the Income Statement with less revenue of DKK 240,000 thousand and net result estimated to DKK 12,000 thousand less than previous years.

Outlook 2019
We will in 2019 have a strong focus on sales execution and launching our new molecules across all 3 business unitsDiabetes, Biomedicine and Oncology.

Our market situation will continue to be a challenge due to restricted access, parallel import, generic competition and expiry of exclusivity on key brands, e.g. Strattera and Forsteo in 2019.

Our greatest challenge in 2019 will be to continue to obtain access and reimbursement for our new innovative medicines. To be successful we need to collaborate with authorities to position and secure access to our new molecules and/or line extensions through quality HTA submissions, Access Schemes & national/regional price negotiations.

Despite these challenges, management still expects a positive result for 2019 with net result estimated to DKK 25,000 thousand and forecasted revenue of DKK 516,452 thousand.

General risks
Eli Lilly's most important operating risks are our ability to get access for new medicines, to protect our IP rights and work successfully with our key stakeholders.

Financial risks
Due to our solidity and financial preparedness, Eli Lilly Danmark A/S has a limited exposure to changes in interest rates. However, Eli Lilly Danmark A/S is exposed to currency risks related to sales to other Nordic countries.

Currency risks
As Eli Lilly Danmark A/S invoices our customers in DKK, SEK, NOK and EUR, while a substantial part of the purchase is in DKK, 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
Eli Lilly Danmark A/S credit risks primarily relate to financial assets recognized in the balance sheet - Accounts Receivables (AR). Eli Lilly Danmark A/S only invoices a few high value customers. To mitigate this risk, all major customers and other collaborators are credit rated on a regular basis

Management's Review

Social responsibility
Eli Lilly Denmark A/S does not have a local CSR policy in place, including human rights, environment and climate impacts. Instead Eli Lilly Denmark A/S statutory reporting on CSR cf. § 99a can be found by clicking the link to our corporate CSR group work report.

Website:
https://assets.ctfassets.net/hadumfdtzsru/d6mQkK4sswwM4j4ZoHGrA/af9e78215e6c2c5c4dac1e3c6596fcff/2018_ISR_03062019_Final-WithCover.pdf

Gender distribution
We believe embracing diversity means understanding, respecting and valuing differences. At Lilly, our commitment to diversity spans our workplace, marketplace and our relationships with suppliers. 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.

As per December 31, 2018 there was 73% women employed in Eli Lilly Danmark A/S. The Managing Director of the company is a male and the Supervisory Board persists of three male. While Board members continue to be appointed on the basis of qualifications and not on the basis of ethnicity, gender, religious believes etc., Eli Lilly Denmark A/S appreciates the value and importance of diversity in the Board and therefore, the Board has set a target of having at least one female board member within the next 4 years. In 2018 there were no rotation in the Supervisory Board, which is why the target figure has not been achieved.

In relation to other managerial positions perspective, Denmark is part of the UK Hub (UK, Ireland & Nordic). In the UK HUB leadership team, there are 60% women. The CEO of the UK HUB is a woman. The company consider all our leadership layers to be equally distributed and we therefore do not find it necessary to develop a local policy for achieving an equal gender distribution.

Key Figures and Financial Ratios

The development in the Company's key figures and financial ratios can be described as follows:
Numbers appear in thousands

	2018	2017	2016	2015	2014
In T.DKK					
Revenue from continues operations	544.179	612.774	808.273	844.179	741.012
Operating profit/loss from continued operations	26.461	28.722	37.983	44.308	37.384
Net financial income and expenses from continued operations	-1.610	3.196	12.410	-10.420	-6.848
Net result from continued operations	19.112	24.670	38.617	25.121	11.504
Net result from discontinued operations	8.652	6.552	0	0	0
Investment in non-current assets	0	0	0	96	32
Total assets from continued operations	183.839	285.505	308.642	338.440	324.044
Total equity from continued operations	114.033	216.269	185.047	146.430	151.309
Avg. number of full-time employees from continued operations	49	55	75	76	72
Ratios					
Return on assets (%)	9	10	13	13	12
Return on equity (ROE) (%)	16	18	23	17	8
Equity ratio (%)	62	76	60	43	47

For definitions of key ratios, see Accounting and Valuation Principles

Key figures and financial ratios are determined based on "Recommendations & Financial Ratios" issued by the Danish Society of Financial Analysts.

Key figures and financial ratios for the years 2014-2016 have not been restated to reflect results from continued and discontinued operations.

Accounting Policies

Reporting Class
The Annual Report of Eli Lilly Danmark A/S for 2018 has been presented in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Discontinued operations
Discontinued operations constitute a significant part of the business whose activities and cash flows can be clearly distinguished from the rest of the business, and where the unit is either disposed or separated as intended for sale, and the sale is expected to be implemented within one year according to a formal plan.

As per 1st of January the company has sold the Animal Health activities to Elanco Denmark ApS. In the Income Statement and Balance Sheet the activities, assets and liabilities regarding Animal Health is presented as discontinuing operations in a single line.

The comparative figures are adjusted according to the discontinuing operations. The accounting policies for the discontinuing activities are not changed from the accounting policies from last year.

The discontinuing operations are specified in the notes for 2018.

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 arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

General Information

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

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.

Accounting Policies

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.

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.

Other operating income
Other operating income comprises items of a secondary nature to the activities of the enterprises, including profits on sale of intangible and tangible assets.

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

Other external expenses
Other external expenses comprise expenses regarding sale, administration, distribution, advertising, premises, lease payments, other operation leases etc.

Staff expenses
Staff expenses comprise wages and salaries, pensions and social security costs.

Other staff expenses are recognised in other external expenses.

Amortisation and impairment of tangible 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.

Accounting Policies

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

Interest expenses on loans to finance the production of items of property, plant and equipment, and which relate to the production period, are recognised in cost. All other borrowing costs are recognised in the income statement.

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:

	Useful life	Residual value
Goodwill	15 years	0%
Other fixtures and fittings, tools and equipment	4-5 years	0%
Leasehold improvements	5 years	0%

Depreciation is recognised in the income statement as Depreciation of intangible and tangible assets.

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 on the disposal of items of property, plant and equipment 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.

The expected future earning from goodwill is 15 years. This expectation is based on estimate prepared in connection with the global acquisition within the Animal Health division in 2015. The calculation and estimation of the value of goodwill connected to Eli Lilly Denmark was prepared by Eli Lilly and Company, but shows a true picture for the Danish affiliate.

Financial income and expenses
Financial income and expenses are recognised in the Income Statement with the amounts that concern the financial year. Financial income and expenses include interest income and expenses, realised and unrealised capital gains and losses regarding debt and foreign currency transactions as well as surcharges and allowances under the tax repayment scheme.

Accounting Policies

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.

The Company and the Danish associates are taxed jointly. The Danish income tax is distributed between profit- and loss-making Danish enterprises in relation to their taxable income (full distribution).

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.

Tangible assets
Tangible assets are measured at cost and less accumulated amortisation and impairment losses. Cost comprises the purchase price and costs directly attributable to the purchase until the date when the asset is available for use.

The depreciation basis is measured as the cost with deductions of the expected scrap value. The depreciation period and the scrap value are estimated at the time of purchase and reestimated yearly. If the scrap value is estimated to be higher than the tangible assets booked value then no depreciation will take place.

An impairment test of tangible assets is performed in the event of indications of a decrease in value. The impairment test is performed for each individual asset and group of assets, respectively. The assets are written down to the higher of the asset's or asset group's value in use and the net selling price (recoverable amount) in the event that this one is lower than the carrying amount.

Other investments
Other financial investments 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.

Accounting Policies

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

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

Equity
Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

Income tax and deferred tax
Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Provisions and contingent liabilities
Provisions for legal disputes are recognised where a legal or constructive obligation has been incurred as a result of past events and it is probable that there will be an outflow of resources that can be reliably estimated. In this case, Eli Lilly Danmark arrives at an estimate based on an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities.

Provisions are measured at the present value of the anticipated expenditure for settlement. This is calculated using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision for interest is recognised as a financial expense.

Provisions for legal disputes consist of various types of provision linked to ongoing legal disputes. Management makes estimates regarding provisions and contingencies, including the probability of pending and potential future litigation outcomes. These are by nature dependent on inherently uncertain future events. When determining likely outcomes of litigation etc. Management considers the input of external counsels on each case, as well as known outcomes in case law.

Although Management believes that the total provisions for legal proceedings are adequate based on currently available information, there can be no assurance that there will not be any changes in facts or matters, or that any future lawsuits, claims, proceedings or investigations will not be material.

Accounting Policies

Provisions
Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructurings, 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.

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.

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 consolidted financial statements for Eli Lilly and Company, Indianapolis.

Segment information
Compared to previous year, there has been a change in Segment information and comparative figures have been adjusted accordingly.

Segment information is provided about activicy 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.

Explanation of financial ratios
Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".
The financial ratios stated in the survey of financial highlights have been calculated as follows

$$\text{Return on equity (\%)} = \frac{\text{Profit/loss for the year}}{\text{Avg. equity}}$$

$$\text{Return on assets (\%)} = \frac{\text{Operating profit (EBIT) X 100}}{\text{Avg. assets}}$$

$$\text{Equity ratio (\%)} = \frac{\text{Total equity X 100}}{\text{Total assets}}$$

Income Statement

	Note	2018 tkr.	2017 tkr.
Revenue	1	544.179	612.774
Cost of sales		-387.723	-386.738
Other operating income		13.243	18.773
Other external expenses		-95.353	-152.702
Gross result		**74.346**	**92.107**
Staff costs	2	-47.841	-63.322
Depreciation, amortisation expense and impairment losses of property, plant and equipment and intangible assets recognised in profit or loss	3	-44	-63
Profit from ordinary operating activities		**26.461**	**28.722**
Finance income		3.339	11.294
Finance expences		-4.949	-8.098
Profit from ordinary activities before tax		**24.851**	**31.918**
Tax expense on ordinary activities	4	-5.739	-7.248
Net profit from discontinued operations	5	8.652	6.552
Net result	6	**27.764**	**31.222**

Balance Sheet as of 31 December

	Note	2018 tkr.	2017 tkr.
Assets			
Fixtures, fittings, tools and equipment	3	33	77
Leasehold improvements	7	0	0
Property, plant and equipment		**33**	**77**
Deposits, investments	8	570	570
Investments		**570**	**570**
Fixed assets		**603**	**647**
Short-term trade receivables		120.024	106.775
Short-term receivables from group enterprises		58.017	177.245
Current deferred tax	9	28	30
Short-term tax receivables		3.821	0
Other short-term receivables		202	57
Prepaid expenses	10	1.747	1.398
Receivables		**183.839**	**285.505**
Current assets		**183.839**	**285.505**
Assets relating to discontinued operations	5	**64.798**	**38.876**
Assets		**249.240**	**325.028**

Balance Sheet as of 31 December

	Note	2018 tkr.	2017 tkr.
Liabilities and equity			
Contributed capital		10.000	10.000
Retained earnings		34.033	76.269
Proposed dividend recognised in equity	11	70.000	130.000
Equity		**114.033**	**216.269**
Trade payables		2.682	5.067
Payables to group enterprises		58.447	25.643
Tax payables		0	3.913
Other payables		24.572	38.220
Short-term liabilities other than provisions		**85.701**	**72.843**
Liabilities other than provisions within the business		**85.701**	**72.843**
Liabilities relating to discontinued operations	5	**49.506**	**35.916**
Liabilities and equity		**249.240**	**325.028**

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Statement of changes in Equity

	Contributed capital	Retained earnings	Proposed dividend recognised in equity	Total
Equity 1 January 2018	10.000	76.269	130.000	216.269
Dividend paid	0	0	-130.000	-130.000
Net result	0	-42.236	70.000	27.764
Equity 31 December 2018	**10.000**	**34.033**	**70.000**	**114.033**

The share capital has remained unchanged for the last 5 years.

The company's share capital consists of 10,000 shares of DKK 1,000 each, totalling DK 10,000.

Notes

1. Segment information

	2018	2017
	tkr.	tkr.
Endocrinology	139.877	150.717
Oncology	135.954	117.306
neuroscience	169.129	163.663
Other (incl. Cardivascular & immunology)	99.219	181.088
	544.179	**612.774**

Denmark	159.534	174.856
Iceland	5.705	14.316
Norway	169.823	214.059
Finalnd	209.117	209.543
	544.179	**612.774**

For specification of revenue related to the discontinued operation, see note 5.

2. Staff costs

	2018	2017
	tkr.	tkr.
Wages and salaries	43.845	58.916
Post-employement benefit expense	3.544	3.873
Social security contributions	452	533
	47.841	**63.322**
Hereof remuneration to management		
Executive Board and Board of Directors	0	1.871
	0	**1.871**
Average number of employees	49	55

According to section 98 b (3) the company has not reported remuneration to the management for the financial year 2018.

Employee expenses related to the discontinued operations are presented in note 5.

Notes

3. Fixtures, fittings, tools and equipment

	2018	2017
	tkr.	tkr.
Cost at the beginning of the year	871	1.079
Disposal during the year	-92	-208
Cost at the end of the year	**779**	**871**
Depreciation and amortisation at the beginning of the year	-794	-939
Amortisation for the year	-44	-63
Reversal of impairment losses and amortisation of disposed assets	92	208
Impairment losses and amortisation at the end of the year	**-746**	**-794**
Carrying amount at the end of the year	**33**	**77**

4. Tax for the year

Tax expense	2018	2017
	tkr.	tkr.
Tax for the year	5.737	7.242
Deferred tax asset adjustment	2	6
Tax expense for discontinued operations	2.464	1.911
Deferred tax liability adjustment discontinued operations	149	224
Balance at 31 December	**8.352**	**9.383**
Tax payable		
Balance at 1 January	5.824	4.632
Tax paid	-5.824	-4.632
Prepaid tax	-9.558	-3.329
Tax for the year	8.201	9.153
Balance at 31 December	**-1.357**	**5.824**
Deferred tax, Total		
Balance at 1 January	626	396
Deferred tax liability adjustment	151	230
Balance at 31 December	**777**	**626**

Hereof the tax charge for the year 2018 TDKK 2,464 (2017: TDKK 1,911) related to the discontinued operations. Deferred tax related to descontinued operations are TDKK 805 for 2018 (2017: TDKK 656). For specification of the tax expense related to discontinued operations, see note 5.

Notes

5. Discontinued operation

Income Statement 1 January - 31 December

As per 1 January 2019, Eli Lilly Denmark A/S has divested the Animal Healthcare activities to a new owner. Management has concluded, that the divesting is to be considered as discontinued operation as defined in the Danish Financial Statement Act, and on this basis, the 2018 figures and the comparative figures for 2017 have been restated to adhere to the disclosure requirements in respect of results of continuing operations and discontinued operations.

Revenue from discontinued operations relates to the sale of Animal Healthcare products.

Other operating income relates to service provided to other group enterprises.

Profit from discontinued operations is broken down on main items below:

	2018	**2017**
	tkr.	**tkr.**
Revenue (5.1)	243.156	204.756
Cost of sales	-169.217	-136.402
Other operating income	1.884	5.644
Other external expenses	-44.442	-48.061
Staff costs (5.2, 5.3)	-18.709	-15.540
Depreciation and impairment losses of intangible assets	-892	-892
Profit operating activities from discontinued operations	**11.780**	**9.505**

Profit from operating activities	11.780	9.505
Finance income	1.242	952
Finance expences	-1.756	-1.770
Profit before tax from discontinued operations	**11.266**	**8.687**

Profit before tax from discontinued operations	11.266	8.687
Tax on profit/loss (5.4)	-2.614	-2.135
Profit after tax from discontinued operations	**8.652**	**6.552**

Notes

Balance Sheet as of 31 December Assets		
Goodwill (5.5)	9.815	10.708
Intangible assets	**9.815**	**10.708**
Short-term trade receivables	54.876	28.137
Other short-term receivables	107	31
Receivables	**54.983**	**28.168**
Intangible assets	9.815	10.708
Receivables	54.983	28.168
Total assets relating to discontinued operations	**64.798**	**38.876**
Balance Sheet as of 31 December Liabilities		
Deferred tax, liability	805	656
Provisions	**805**	**656**
Trade payables	1.771	822
Payables to group enterprises	35.659	24.222
Tax payables	2.464	1.911
Other payables	8.807	8.305
Short-term liabilities other than provisions	**48.701**	**35.260**
Provisions	805	656
Liabilities other than provisions	48.701	35.260
Total liabilities relating to discontinued operations	**49.506**	**35.916**

5.1 Segment information		
Animal health	243.156	204.756
Total revenue	**243.156**	**204.756**

5.1 Segment information - continued		
Denmark	64.065	73.527
Sweden	59.300	62.985
Iceland	158	90
Norway	99.658	49.409
Finland	19.975	18.745
Total revenue	**243.156**	**204.756**

Notes

5.2 Staff costs		
Wages and salaries	17.326	14.232
Post-employement benefit expense	1.326	1.253
Social security constribution	57	55
Staff costs, Total	**18.709**	**15.540**
5.3 Average number of employees		
Average number of employees	20	19
5.4 Tax expense on discontinued activities		
Tax on profit for the year	2.465	1.911
Deferred tax adjustment	149	224
Tax expense on discontinued activities, Total	**2.614**	**2.135**
5.5 Goodwill		
Goodwill, beginning of the year	13.384	13.384
Depreciation and amortisation at the beginning of the year	-2.676	-1.784
Amortisation for the year	-893	-892
Intra-group transactions related to the discontinued operation: Income Statement		
Other operating income	1.884	5.644
Cost of sales	-161.656	-131.852
Other External expenses	-33.717	-37.142
Intra-group transactions related to the discontinued operation: Balance Sheet		
Short tem trade receivables from group enterprises	0	0
Payables to group enterprises	35.659	24.222
	35.659	**24.222**

6. Distribution of profit

	2018	**2017**
	tkr.	**tkr.**
Proposed dividend recognized in equity	70.000	130.000
Retained earnings	-42.236	-98.778
	27.764	**31.222**

Hereof the retained earnings regarding discontinued operations are TDKK 8,652 (2018) and 6,552 (2017).

Notes

7. Leasehold improvements

	2018	2017
	tkr.	**tkr.**
Cost at the beginning of the year	1.676	1.676
Cost at the end of the year	**1.676**	**1.676**
Depreciation and amortisation at the beginning of the year	-1.676	-1.676
Impairment losses and amortisation at the end of the year	**-1.676**	**-1.676**
Carrying amount at the end of the year	**0**	**0**

8. Deposits, investments

	2018	2017
	tkr.	**tkr.**
Cost at the beginning of the year	570	570
Cost at the end of the year	**570**	**570**
Carrying amount at the end of the year	**570**	**570**

9. Current deferred tax

	2018	2017
	tkr.	**tkr.**
Current deferred tax	28	30
Balance at the end of the year	**28**	**30**

Deferred tax regarding discontinued operations are not calculated in current deferred tax. For specification of deferred tax for discontinued operations, see note 5.

10. Prepaid expenses

Prepaid expenses includes: Prepaid expenses, prepaid insurance payments and balance on salary bankaccount.

Assets relating to discontinued operations does not include any prepaid expenses.

11. Proposed dividend for the financial year

	2018	2017
	tkr.	**tkr.**
Balance at the beginning of the year	130.000	0
Additions during the year	70.000	130.000
Disposals during the year	-130.000	0
Balance at the end of the year	**70.000**	**130.000**

Notes

12. Significant events occurring after end of reporting period

As per 1 Janaury 2019, Eli Lilly Danmark A/S has divested the Animal Healthcare activities to a a new owner. The activities are sold for DKK 366,520 thousand, and are expected to affect the Income Statement with less revenue of DKK 240,000 thousand and net result estimated to DKK 12,000 thousand less than previous years.

13. Contingent liabilities

	2018	2017
	tkr.	tkr.
Rent liability	1.639	3.278
Operating lease liability concerning cars and computer equipment	3.263	6.003
Contingent liabilities, Total	**4.902**	**9.281**

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

As per 8 June 2018, the Company is jointly taxed with the other enterprises in the group and are jointly and severally liable for the taxes, royalities etc. that concern the joint taxation.

Eli Lilly Denmark A/S is the administrationcompany in the joint taxation.

14. Collaterals and securities

The company did in 2017 issue, a bank guarantee of DKK 30,000,000 to the Danish Maritime and Commercial High Court in connection with a court order of 8 December 2017, whereby a preliminary injunction was granted against Fresenius Kabi AB v/Fresenius Kabi, affiliate of Fresenius Kabi Oncology Plc (in case no. A-19-17) regarding Fresenius Kabi sale of a generic cersion of Alimta. The bank guaratee was issued as guarantee to any damages claim that Fresenius Kabi may have if the preliminary injunction is later found to be invalid.

The Danish Maritime and Commercial High Court's decision to grant the preliminary injunction was thereafter appealed by Fresenius Kabi to the Eastern District High Court in Copenhagen. The Eastern District High Court decied in Lilly's favour on 20 December 2018 that the preliminary injunction should be upheld against Fresenius Kabi until the main proceedings (regarding certain patent infringement/validity) had been decided on by the Danish Maritime and Commercial High Court.

Furthermore, in 2018 the company issued a bank guarantee of DKK 15,000,000 to the Danish Maritime and Commercial High Court in connection with a court order of 15 June 2018, whereby a preliminary injunction was granted against Sandoz A/S (case no. A-49-17) regarding Sandoz' sale of a generic version of Cialis. The bank guarantee was issued as guarantee to any damages claim that Sandoz may have if the preliminary injunction is later found to be invalid. The Danish Maritime and Commercial High Court's decision to grant the preliminary injunction was not appealed by Sandoz and the main proceedings regarding the patent's validity is currently pending. The hearing date for the main infringement proceedings has not yet been scheduled but the hearing will expectedly not take place before 2020.

In addition to this, in 2019 the company issued a bank guarantee of DKK 6,500,000 to the Danish Maritime and Commercial High Court in connection with a court order of 1 February 2019, whereby a preliminary injunction was granted against Mylan AB and Generics UK limited (case no. BS-33415/2018-SHR) regarding Mylan's sale of a generic version of Cialis. The bank guarantee was issued as guarantee to any damages claim that Mylan may have if the preliminary injunction is later found to be invalid. Mylan did not appeal the Danish Maritime and Commercial High Court's decision to grant the preliminary injunction. The main infringement case regarding patent validity against Mylan has been joined with the main infringement case against Sandoz and the hearing in the case is accordingly not expected to take place before 2020.

Notes

15. Parent company

The parent company and the controlling influence of the entire group is Eli Lilly and Company.

The company’s financial statements are included in the consolidated financial statements of the parent company, Lilly Holding, BV, whose annual report is available at the parent company's office at Paperdorpseweg 83,3528 BJ, Utrecht, Netherlands. The parent company of the entire group i Eli Lilly and Company, P.O. Box 88665, Indianapolis, Indiana 46208-0665.

The company is fully owned by Lilly Holding, BV.

16. Related parties

Intra-group transactions in Income Statement:	**2018**	**2017**
	tkr.	**tkr.**
Other operating income	13.243	18.423
Cost of sales	-377.024	-376.097
Other external expenses	-71.237	-116.283
Reimbursement under Other external expenses	16.383	0
Other finance income from group enterprises	0	0
Intra-group transactions in Balance Sheet:		
Short term trade receivables from group enterprises	58.017	177.245
Payables to group enterprises	58.447	25.643

Intra-group transactions related to the discontinued operation are presented in the note regarding deiscontinued operation, see note 5.

17. Fees for auditor selected on the general meeting

	2018	**2017**
	tkr.	**tkr.**
Statutory audit	376	370
Other assurance reports	13	12
Tax consultancy	0	0
Other services	24	88
	413	**470**