

Registration number: 284385

Eli Lilly and Company Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2021

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Eli Lilly and Company Limited
Registration No: 284385

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Eli Lilly and Company Limited
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Company Information

Directors	S Forda K Alexander M Czapar L DeMayo Steele
Registered office	Lilly House Basing View Basingstoke Hampshire RG21 4FA United Kingdom
Bankers	BNP Paribas 10 Harewood Avenue London NW1 6AA
Auditors	Ernst & Young City Quarter Lapps Quay Cork Ireland

Eli Lilly and Company Limited
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Strategic Report for the Year Ended 31 December 2021

The Directors present their strategic report for the year ended 31 December 2021.

Principal activity

The principal activity of the company during the year was the supply of pharmaceuticals products to third parties in the United Kingdom and Republic of Ireland. The company also provides intra-group services to fellow subsidiaries. The company is a wholly owned subsidiary of Eli Lilly and Company, its US parent company. The UK company promotes and supplies products from the Eli Lilly global product portfolio, performs significant research and development in the UK as part of the global research and development programme and acts as a regional office for strategic management and certain other regional activities. These regional costs are billed out to other group companies. (Further details on the current global product portfolio and research pipeline can be obtained from the Eli Lilly and Company annual accounts at the following web address <http://investor.lilly.com/annuals.cfm>).

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Strategic Report for the Year Ended 31 December 2021 (continued)

Fair review of the business

The global nature of Eli Lilly and Company Limited's business and associated strategies results in significant intercompany trading, the level of which is driven by third party sales in different geographic markets. Eli Lilly and Company Limited manages its business with reference to UK and Ireland third party sales and control of operating expenditure.

On 8 May 2021, the Company entered into an unconditional agreement to sell the Lilly House facility in Basingstoke for £18,500,000 and employees relocated to a new office facility in Basingstoke during August 2021. The sale completed on 9 November 2021. There is no impact to roles or commercial activity.

The company's turnover increased by 2.7% in the year which was driven by an increase in third party sales of goods of 4.6%, partially offset by decreased rendering of Research and Development and regional services to group companies of 0.8%. These changes were in line with local and global management expectations. The core commercial operations of pharmaceutical distribution and promotion for Eli Lilly and Company Limited remain strong. Driven by the launches of several innovative medicines in large and growing therapeutic areas, turnover in this segment of the business grew by 4.6% in 2021, despite the negative impact from the recent loss of exclusive promotion rights of Alimta.

Operating profit before exceptional items decreased by 3.6% and operating expenses increased by 3.0% as a result of increased raw materials and consumables of 4.0%, increased other expenses of 6.9%, which were partially offset by decreased employee costs of 5.6%. Variances in the year are predominantly driven by a reduction in headcount following the closure of the Eri Wood Site and an increase in commercial activity driven by new launches. Profit remained consistent year on year.

Equity shareholder's funds increased by £45.5 million, driven by gains on the defined benefit pension schemes and retiree medical benefits scheme, profit for the year and the share based payments, offset by a dividend payment of £100 million in 2021.

The company's key financial indicators during the year were as follows:	2021 '000	2020 '000
Turnover	£446,542	£434,917
Operating Profit before exceptional items	£20,162	£20,910
Profit after tax	£33,168	£28,340
Equity shareholders funds	£514,472	£468,923

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Strategic Report for the Year Ended 31 December 2021 (continued)

Principal risks and uncertainties

The company faces risks in relation to successful patent challenges by generic manufacturers, failure to obtain recommendation for reimbursement for new products and license extensions from NICE (National Institute for Health and Clinical Excellence) and/or the Scottish Medicines Consortium (SMC). In Q4 2018, the Department of Health introduced a revised Voluntary Scheme for Branded Medicines Pricing and Access, replacing the Pharmaceutical Price Regulation Scheme, effective 1 January 2019. This scheme outlines proposed rebate percentages payable to the Department of Health over the next 5 years. However, these rebate percentages beyond 2018 are subject to future variation according to the overall UK DoH medicines bill. The agreed rebate percentage for the years ended December 31, 2022, 2021, and 2020 were 15.0%, 5.2%, and 5.9%, respectively, with varying percentages thereafter.

The company does not hedge against foreign currency exposure; this risk is managed by the US parent company on a global basis.

Following the end of the transition period on 31 December 2020 and the UK's departure from the EU, the Company has successfully navigated the challenges presented. Consistent supply to both the UK & ROI markets has been maintained. Some industry wide regulatory challenges remain relating to the supply to the Northern Ireland market and the Company is continuing to monitor and prepare for any changes required to ensure continued supply.

The COVID-19 pandemic has, and may continue to, adversely impact our business and operations. Strain on global transportation, logistics, manufacturing, and labor markets, including as aggravated by the pandemic and global unrest, the focus of resources on COVID-19, widespread protective measures implemented to control the spread of COVID-19, and an increase in overall demand in our industry for certain materials resulting in changed buying patterns and constrained supply, have negatively impacted development, manufacturing, supply, distribution, and sales of our medicines. If the COVID-19 pandemic undergoes resurgent or more severe waves, its impact and the impact of any associated supply chain disruption, labor market impact, increased costs, recession, or depression on our business and results of operations could be exacerbated.

Since 2021 we have not experienced any disruption to supply to the UK or ROI markets as a result of the pandemic. As last year, the financial impact on the company has not been material to date, however COVID-19 could still potentially negatively affect the company's results of operations, financial condition, liquidity and cash flows in future periods. It remains difficult to reasonably assess or predict the full extent of the ongoing impact of the COVID-19 pandemic on us. The degree to which the COVID-19 pandemic continues to affect us will depend on developments that are highly uncertain and beyond our knowledge or control. We are currently unable to predict the full extent to which the COVID-19 pandemic or any future pandemic, epidemic or similar public health threat will adversely impact our business and operations in the future.

Based upon the directors' knowledge at the date of this report, the COVID-19 pandemic is not expected to represent a significant risk to the Company's liquidity or use of the going concern assumption. At the date of this report the prospects appear positive and the pandemic appears to be in decline in the UK & ROI. Should the magnitude and duration of the COVID-19 pandemic prove to be significantly worse than currently expected, some of the Company's critical accounting estimates might need to be revised, in particular the valuation of receivables, but at the date of signing this is considered unlikely.

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Strategic Report for the Year Ended 31 December 2021 (continued)

Section 172 statement

Directors Duties under section 172 of the Companies Act

The directors of Eli Lilly and Company limited consider, both individually and together, that they have acted in the way they consider good faith, would be most likely to promote the success of the company for the benefit of its members as a whole having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act. The decisions made by the company during the year ending 31 December 2021 have been made with the objective; to have a long term beneficial impact on the company, to engage employees with equality and with their interests, to develop strong value adding business relationships with the company's stakeholders, to take into account the wider impact on the company's actions on the environment and, to be ethical and maintain the high levels of business conduct.

The Directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006. To ensure the Company is operating in line with good corporate practice, a written reminder of the section 172 duty is included on each Board agenda. The directors also completed a refresher training course with outside counsel during the year. This focused activity allows the Board to reflect on how the Company engages with its stakeholders and opportunities for enhancement in the future.

Engaging with our employees

Eli Lilly and Company Limited's purpose is to make life better for people around the world. To do this, the company must attract, engage, and retain highly talented individuals who are committed to the same core values of integrity, excellence, and respect for people. To support the company's strategy Lilly has begun creating a culture globally that emphasises four key behaviours - include, innovate, accelerate and deliver so that the company's employees feel like they are part of one Team Lilly with one purpose; to make life better for patients who are waiting. The directors of Eli Lilly and Company Limited continue to maintain and develop its policy of involving and communicating with its employees as explained more fully in the director's report set out on page 7.

Engaging with our Customers

The company remains committed to provide its customer with innovative medicines, information and exceptional customer service in order to enable people to live longer, healthier, and more active lives.

Engaging with our Suppliers

The company is committed to ensuring it work's responsibly with suppliers. During the year, the Board reviewed and approved the company's Modern Slavery and Human Trafficking Statement, which sets out the steps taken to prevent modern slavery in the company's business and supply chains. The Company has enacted a Supplier Code of Conduct with which both its existing and new suppliers are contractually obliged to adhere, it has introduced new measures to effectively vet potential new suppliers for compliance with modern slavery requirements, and it is committed to providing tailored training on anti-slavery and human trafficking requirements and awareness to its key staff.

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Strategic Report for the Year Ended 31 December 2021 (continued)

Engaging with our Shareholders

The board is committed to openly engaging with the company's shareholders as they recognise the importance of effective communication, visibility of strategy and objectives and tackling industry risks proactively.

The impact of the Company's operations on the community and environment

In a challenging, research-based pharmaceutical industry, the company is committed to making high-quality medicines responsibly. The company aims to achieve world-class performance by operating safely, minimising use of natural resources, and lessening the company's impact on the environment. The company actively promotes waste recycling, encourage green travel and continues to invest in the local communities in which Eli Lilly and Company Limited operate. The directors fully support and encourage employees to take part in a wide range of programs to help the company meet this commitment.

Approved by the Board on 17 August 2022 and signed on its behalf by:


M Czapar
Director

Eli Lilly and Company Limited
Registration No: 284385

Directors' Report for the Year Ended 31 December 2021

The Directors present their report and the financial statements for the year ended 31 December 2021.

Directors of the Company

The directors who held office during the year were as follows:

H Bennett - Company secretary and director (resigned 11 February 2021)

S Forda

N Lemen (resigned 1 January 2021)

K Alexander

A Diaz-Granados (resigned 5 July 2021)

M Czapar (appointed 1 January 2021)

L DeMayo Steele (appointed 5 July 2021)

Dividends

The profit for the year, after taxation, amounted to £33,168,000.

Dividends of £100,000,000 were paid in the year (2020: Nil).

Employment of disabled persons

It is the policy of this company that disabled persons, whether registered disabled or not, should receive full and fair consideration for all job vacancies, company training and development programmes and promotion opportunities for which these persons are suitable and qualified applicants. Employees who become disabled during their working life with the company will be retrained in employment wherever practicable and will be given reasonable assistance with any necessary retraining.

Employee involvement

The company has continued to maintain and develop its policy of involving and communicating with its employees, as appropriate to the various components of its organisation, and has continued its policy of providing annually a detailed report to each employee of its performance and business progress.

Future developments

The company will continue to provide its customers with innovative medicines, information and exceptional customer service in order to enable people to live longer, healthier, and more active lives.

The COVID-19 pandemic, which has affected the UK and global economy in the period, created volatility in demand prior to and during the immediate period of lockdown but this has been a short lived phenomenon and does not appear to have had a significant impact to demand. Supply of products has remained largely unaffected throughout this period. COVID-19 reinforces uncertainties in the global economic context and markets; the long term impact for the Company is difficult to assess and will depend on the magnitude, duration and extent of this pandemic.

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Directors' Report for the Year Ended 31 December 2021 (continued)

Going concern

The UK operations are inextricably linked with global activities and therefore going concern should be considered as a wider global group; the financial condition of the group is discussed in Eli Lilly and Company's financial statements under "Financial Condition" in the "Financials" section. Eli Lilly and Company Limited (the UK company) will continue to promote and supply products from the Eli Lilly global product portfolio and performs significant research and development in the UK as part of the global research and development programme. The UK operations, in isolation, would not have a going concern exposure; if the UK activities were to become non-productive the facilities and entities would be properly shut down and dissolved with full support of the parent and wider group.

Both the UK group of companies and the wider Lilly group have sufficient funding available through internal profit generation and external financing (through both institutions and financial markets). Globally Eli Lilly and Company is exposed to changes in government healthcare policies, reimbursement structures and patent expirations, challenges from generic manufacturers and the impact of the global pandemic. The Group continues to benefit from the strengthening demand for newer products which helps to shelter the decline in demand for products that have lost exclusivity. Based upon the directors' knowledge at the date of this report, the COVID-19 pandemic is not expected to represent a significant risk to the Company's liquidity or use of the going concern assumption.

The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors have reviewed forecast profits and cash flows, which have been updated to include the potential impacts of the COVID-19 pandemic and examined the funding available to the Company. Based upon the directors' knowledge at the date of this report the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

Subsequent events

On 20 July 2022 the company declared a dividend for £20,000,000 to be paid on 1 August 2022.

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Re-appointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for appointment of Ernst and Young as auditor of the Company.

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Directors' Report for the Year Ended 31 December 2021 (continued)

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting

Covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

	2021	2020
Total energy use covering electricity, gas and transport (kWh)	5,102,312	21,860,092
Total emissions generated through use of purchased electricity (tCO ₂ e)	798	2,146
Total emissions generated through use of natural gas (tCO ₂ e)	168	1,801
Total emissions generated through use of diesel (tCO ₂ e)	1	16
Total emissions generated through business travel (tCO ₂ e)	124	622
Total gross emissions (tCO ₂ e)	1,091	4,585
Intensity ratio total gross emissions (kgCO ₂ e per sqft)	3.82	8.61

We recognise that climate change is one of the greatest issues confronting humanity and our planet. As a global company committed to making life better for people, we also recognize our responsibility to reduce our carbon footprint, which is why we've set ambitious goals for 2030: to secure 100% of our purchased electricity from renewable sources, to make our operations (Scope 1 and Scope 2 emissions) carbon neutral by 2030 and to enhance tracking and reporting of emissions from our full value-chain. Our three-pronged approach to reaching these goals and doing our part to address climate change includes:

- Reducing our energy and emissions by making our overall operations more efficient.
- Replacing carbon-intensive processes and energy sources with low-carbon alternatives.
- Offsetting remaining emissions and energy sources that could not be reduced or replaced, by purchasing emissions offsets from high-quality carbon reduction projects (as it is not currently possible to eliminate all emissions sources or transition all direct energy supplies to renewable sources).

Energy Saving Activities undertaken by Lilly UK in 2021:

- Eliminated docking stations thus reducing power requirements for the average user computer setup.
- Reduction in number of printers at new office sites.
- Use of video conferencing is encouraged against face-to-face meetings.
- Reduced travel costs by reducing number of face-to-face meetings with clients and suppliers than in previous years.
- Lilly UK consolidated its office space in 2021 and moved to newer more energy efficient office facilities. The new UK HQ Administration Office is now located near to Basingstoke train station and town centre and has a reduced number of parking spaces versus the previous offering. All employees are encouraged to car share or use public transport.
- Our internal Data Centre facility was outsourced and moved to a cloud based provider.
- Bike to Work scheme is offered to all Lilly employees to encourage cycling to work where feasible. Changing rooms and facilities provided to assist with this.
- Green Collab Site with walk, bike rides and travel initiatives available to employees.
- CAT A lighting is LED with PIRs in the meeting rooms for absence detection.
- Every large meeting room (6 person and up) has an individual unit with dedicated temperature controls within each room.
- Smaller focus rooms and open plan office space has zoned control with temperature controlled centrally.

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Directors' Report for the Year Ended 31 December 2021 (continued)

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (continued)

The following energy efficiency measures are under way or under consideration for implementation during 2022:

- Installation of electric car charging points.
- Designated spaces for car sharers have been provided and employees encouraged to uptake.
- Continued encouragement with walk, bike rides and travel initiatives.

Methodology used in the calculation of disclosures:

- Data collection (usage collected through supplier bills) in conjunction with Government GHG reporting conversion factors.
- Intensity ratios calculated using square footage.
- Kg CO₂e per square foot of total site area.

Approved by the Board on 17 August 2022 and signed on its behalf by:



M Czapar
Director

Eli Lilly and Company Limited
Registration No: 284385

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



M Czapor
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELI LILLY AND COMPANY LIMITED

Opinion

We have audited the financial statements of Eli Lilly and Company Limited for the year ended 31 December 2021 which comprise the primary statements such as the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 25 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELI LILLY AND COMPANY LIMITED (Continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELI LILLY AND COMPANY LIMITED (Continued)

Responsibilities of directors (continued)

In preparing the financial statements, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have 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 (UK) 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are FRS 102, the UK Companies Act 2006 and relevant UK direct and indirect tax regulations. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, environmental, competition law, anti-bribery and corrupt practices and General Data Protection Requirements.
- We understood how the company is complying with those frameworks by making enquiries of management. We corroborated our enquires through reading the board minutes, and we noted that there was no contradictory evidence.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by inquiry of management, those charged with governance and others within the entity, as to whether they had knowledge of any actual or suspected fraud. Where this risk was considered higher, we performed audit procedures to address the fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELI LILLY AND COMPANY LIMITED
(Continued)**


***Explanation as to what extent the audit was considered capable of detecting irregularities,
including fraud (continued)***

- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
 - Enquiry of management and those charged with governance as to any fraud identified or suspected in the period, any actual or potential litigation or claims or breaches of significant laws or regulations applicable to the company;
 - Auditing the risk of management override, through testing of a sample of journal entries and other adjustments for appropriateness;
 - Enquiry of management, coupled with testing of journal entries, in order to identify and understand any significant transactions outside of the normal course of business;
 - Challenging the judgements made by management through corroborating the basis for those judgments and considering contradicting evidence; and
 - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ian Gregory (Senior Statutory Auditor)
For and on behalf of Ernst & Young Chartered Accountants, Statutory Auditor

Cork
Ireland

Date: 19 August 2022

Eli Lilly and Company Limited
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Income Statement for the Year Ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Turnover	3	£446,542	£434,917
Raw materials and consumables used		(£212,196)	(£203,941)
Employee benefits expense	8	(£77,756)	(£82,345)
Depreciation expense	11	(£1,929)	(£1,926)
Other expenses		(£134,499)	(£125,795)
		(£426,380)	(£414,007)
Operating profit before exceptional items	4	£20,162	£20,910
Exceptional items	5	£11,012	£14,335
Operating profit after exceptional items		£31,174	£35,245
Income from group undertakings		-	£367
Interest receivable/(payable)	7	£2,304	£287
		£2,304	£654
Profit before tax		£33,478	£35,899
Taxation	10	(£310)	(£7,559)
Profit for the year		£33,168	£28,340

The notes on pages 20 to 46 form an integral part of these financial statements.

Eli Lilly and Company Limited
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Statement of Comprehensive Income for the Year Ended 31 December 2021

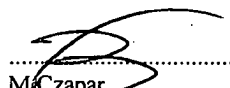
	Note	2021 '000	2020 '000
Profit for the year		<u>£33,168</u>	<u>£28,340</u>
Other Comprehensive Income:			
Actuarial gain recognised on retiree benefits	18	£2,822	£3,444
Deferred tax on retiree benefits	17	(£705)	(£654)
Actuarial gain recognised on pensions	18	£155,687	£130,059
Deferred tax on pensions	17	(£38,922)	(£24,711)
Tax rate change	17	<u>(£10,959)</u>	<u>(£600)</u>
		<u>£107,923</u>	<u>£107,538</u>
Total comprehensive income for the year		<u><u>£141,091</u></u>	<u><u>£135,878</u></u>

Eli Lilly and Company Limited
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Statement of Financial Position as at 31 December 2021

	Note	2021 '000	2020 '000
Fixed assets			
Tangible assets	11	£12,188	£13,319
Investments	12	£23,409	£23,586
		<u>£35,597</u>	<u>£36,905</u>
Current assets			
Stocks	13	-	£145
Debtors	14	£330,960	£389,854
Cash at bank and in hand		£123	£43
		<u>£331,083</u>	<u>£390,042</u>
Prepayments and accrued income	15	£1,331	£2,661
Creditors: Amounts falling due within one year	16	<u>(£102,276)</u>	<u>(£106,981)</u>
Net current assets		<u>£230,138</u>	<u>£285,722</u>
Total assets less current liabilities		<u>£265,735</u>	<u>£322,627</u>
Creditors: Amounts falling due after more than one year	16	(£3,012)	(£3,262)
Provisions for liabilities	17	<u>(£80,487)</u>	<u>(£33,080)</u>
Net assets excluding pension asset		<u>£182,236</u>	<u>£286,285</u>
Net pension and post retirement medical benefits asset/(liability)	18	<u>£332,236</u>	<u>£182,638</u>
Net assets		<u><u>£514,472</u></u>	<u><u>£468,923</u></u>
Capital and reserves			
Called up share capital	19	£9,452	£9,452
Contributed capital		£93,771	£93,771
Profit and loss account		<u>£411,249</u>	<u>£365,700</u>
Total equity		<u><u>£514,472</u></u>	<u><u>£468,923</u></u>

Approved and authorised by the Board on 17 August 2022 and signed on its behalf by:


M. Czapar
Director

Eli Lilly and Company Limited
Registration No: 284385

Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital '000	Contributed Capital '000	Profit and loss account '000	Total '000
At 1 January 2021	£9,452	£93,771	£365,700	468,923
Profit for the year	-	-	£33,168	33,168
Other comprehensive income	-	-	£107,923	107,923
Total comprehensive income	-	-	£141,091	141,091
Dividends	-	-	(£100,000)	(100,000)
Share based payment transactions	-	-	£4,458	4,458
At 31 December 2021	£9,452	£93,771	£411,249	514,472

	Share capital '000	Contributed Capital '000	Profit and loss account '000	Total '000
At 1 January 2020	£9,452	£93,771	£225,019	328,242
Profit for the year	-	-	£28,340	£28,340
Other comprehensive income	-	-	£107,538	£107,538
Total comprehensive income	-	-	£135,878	135,878
Share based payment transactions	-	-	£4,803	4,803
At 31 December 2020	£9,452	£93,771	£365,700	468,923

The notes on pages 20 to 46 form an integral part of these financial statements.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The company is a private company limited by share capital incorporated in United Kingdom.

The address of its registered office is:

Lilly House
Basing View
Basingstoke
Hampshire
RG21 4FA
United Kingdom

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements of Eli Lilly and Company Limited were approved for issue by the Board of Directors on the date shown on the statement of financial position.

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The impact of COVID-19 has been considered where relevant for the purposes of going concern.

Summary of disclosure exemptions

The company satisfies the criteria of being a qualifying entity under FRS102. Its financial statements are consolidated into the financial statements of its ultimate parent, Eli Lilly and Company, which can be obtained from the address given in note 24. As such, advantage has been taken of the following exemptions under FRS102 for qualifying entities:

- No cash flow statement has been presented for the company.
- Disclosure in respect of financial instruments have not been presented.
- No disclosure has been given for the aggregate remuneration of key personnel.
- Exposure to and management of financial risks.
- Related party disclosure for all wholly owned subsidiaries of Eli Lilly and Company group.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Going concern

The directors have reviewed forecast profits and cash flows, which have been updated to include the potential impacts of the COVID-19 pandemic and examined the funding available to the Company. The Company participates in the group's centralised treasury arrangements and has access to intra-group funding if required. Based upon the directors' knowledge at the date of this report, the COVID-19 pandemic is not expected to represent a significant risk to the Company's liquidity or use of the going concern assumption. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

Exemption from preparing group accounts

The company is exempt from the obligation to prepare group financial statements by virtue of section 401 of the Companies Act 2006. Consequently these financial statements present the results of the company as an individual undertaking and not its group.

The results of the Company are included in the consolidated financial statements of Eli Lilly and Company, which is incorporated in the United States of America.

Revenue recognition

Revenue is recognised from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership which is when the products are dispatched. Revenue for rendering services is recognised when the outcome of a transaction can be estimated reliably. Revenue is shown net of Valued Added Tax. Provisions for returns, discounts, and rebates are established in the same period the related sales are recognized. Rebates are based on the terms of arrangements with wholesalers, managed-care organizations and government purchasers and certain market conditions. Rebates accruals are included in total current liabilities.

Exceptional items

Eli Lilly and Company Limited disclose exceptional items separately on the income statement. Exceptional items are material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of Eli Lilly and Company Limited and which do not recur. Exceptional items do not include prior period items merely because they relate to a prior period.

Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Eli Lilly and Company Limited
Registration No: 284385

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation. We review the carrying value and remaining useful life of long-lived assets for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Impairment is determined by comparing projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Asset class	Depreciation method and rate
Freehold Buildings	over 40 to 50 years
Fixtures and fittings	over 40 to 50 years
Plant and equipment	over 3 to 20 years

Business combinations

Business combinations (except for group reconstructions that are accounted for using the merger accounting method) are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values at acquisition date of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquired, plus any costs directly attributable to the business combination.

Under merger accounting, the carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value on consolidation. Merger expenses are charged to the statement of comprehensive Income as part of the profit or loss of the combined entity at the effective date of the group reconstruction.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Investments

Investments in group companies are stated at cost unless, in the opinion of the Directors, a permanent diminution in the value of the investment has occurred. In these circumstances, the investment is stated at its written down value, which is calculated by discounting pre tax future cash flows at a pre-tax discount rate and the related impairment is charged to the income statement. An impairment review is performed annually.

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in escrow.

Trade debtors

Trade debtors are amounts due from customers for products sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Defined benefit pension obligation

Defined Benefit Pension Scheme

The company operates a defined benefit pension scheme for certain employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using fair value at the balance sheet date.

Any pension scheme surplus is recognised, to the extent that it is recoverable, on the balance sheet. This surplus is presented gross of deferred tax in the Financial Statements and the deferred tax relating to a surplus is included with other deferred tax assets or liabilities.

Post Retirement Medical Benefits

The company provides healthcare benefits to certain retired employees. Payments are made to beneficiaries when claimed. The cost of the scheme and associated liabilities have been fully recognised on an actuarially determined basis. The Projected Unit Credit Cost Method is used to determine the present value of the Projected Benefit Obligation, the Accumulated Post retirement Benefit Obligation, and the related current service cost. Under this method, a "projected accrued benefit" is calculated by attributing benefits on a straight line basis over the period from the member's date of hire until the earliest date at which the member can retire (now age 55).

Any pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to a benefit liability is included with other deferred tax assets or liabilities.

The cost of both defined benefit plans are recognised as follows:

- any changes in the net defined benefit liability arising as a result of plan introductions or changes are recognised during the reporting period in profit and loss.
- net interest on the defined benefit liability is recognised during the reporting period in profit and loss
- the cost of plan introductions, benefit changes, curtailments and settlements recognised during the reporting period in profit and loss.
- re-measurement of the net defined benefit liability is recognised in other comprehensive income. Re-measurement comprises of any actuarial gain or loss and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability.

Defined contribution pension obligation

The company also operates a defined contribution pension scheme. Contributions are recognised in the profit and loss account in the period in which they become payable.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

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Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Share based payments

FRS 102 section 26 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses, and a corresponding entry is made through equity. Share based payments comprise performance awards, shareholder value awards and restricted stock units; all received in shares of the ultimate parent company Eli Lilly and Company. Grants are accounted for at the fair value (determined using an appropriate pricing model) at the date of grant and recognised evenly over the vesting period. Where employer national insurance liabilities arise on the issuance of share awards, this liability is accrued.

Performance Awards:

PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the measurement period. The fair values of PAs granted for the years ended December 31, 2021, 2020, and 2019 were \$198.57, \$137.33, and \$112.09, respectively. The number of shares ultimately issued for the PA program is dependent upon the earnings achieved during the vesting period.

Shareholder Value Awards:

SVAs are granted to officers and management and are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on our stock price at the end of the three-year vesting period compared to pre-established target stock prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant.

Restricted Stock Units:

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically three years. The fair values of RSU awards granted during the years ended December 31, 2021, 2020, and 2019 were \$196.30, \$135.42, and \$108.43, respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures.

Relative Value Awards:

RVAs are granted to officers and management and are payable in shares of common stock. The number of shares actually issued, if any, varies depending on the growth of the stock price at the end of the three-year vesting period compared to peers. The fair value of the relative value award is measured on the grant date using the Monte Carlo simulation model. The model utilises multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilised in the model are based on implied volatilities from traded options on Lilly stock, historical volatility of stock prices and peers' stock price, and other factors. Similarly, the dividend yield is based on historical experience and estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant.

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Notes to the Financial Statements for the Year Ended 31 December 2021

3 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2021 '000	2020 '000
Sale of goods	£289,887	£277,041
Rendering of services	£156,655	£157,876
	<u>£446,542</u>	<u>£434,917</u>

The analysis of the company's turnover for the year by destination is as follows:

	2021 '000	2020 '000
Third party sales to United Kingdom and Republic of Ireland	£289,887	£277,041
Rendering of services	£156,655	£157,876
	<u>£446,542</u>	<u>£434,917</u>

Turnover, which is stated net of value added tax, represents the revenue recognised in the period.

The turnover is attributable to the supply of pharmaceutical products and service income from performing significant research and development activities in the UK and operating as a regional office.

The rendering of services is attributable to the performance of research and development in the UK as part of the global research and acting as a regional office for strategic management and certain other regional activities.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

4 Operating profit

Arrived at after charging/(crediting)

	2021 '000	2020 '000
Auditors' remuneration (see note 9)	£186	£196
Depreciation expense	£1,929	£1,926
Research and development expenditure	£95,737	£95,589
Foreign exchange (gains)/losses	£781	£235
Operating lease expense - property	<u>£1,830</u>	<u>£709</u>

5 Exceptional Items

	2021 '000	2020 '000
Gain on disposal of Lilly House site	(£11,012)	-
Erl Wood R&D Site closure costs	-	(£2,017)
Bill-back of site closure costs	-	£52,265
Gain on disposal of Erl Wood R&D site	-	(£64,583)
	<u>(£11,012)</u>	<u>(£14,335)</u>

On 8 May 2021, the Company entered into an unconditional agreement to sell the Lilly House facility in Basingstoke for £18,500,000. The sale completed on 9 November 2021 at a gain of £11,012,000.

The Erl Wood site was closed during 2020 and the sale of the site to a third party was completed on 2 November 2020 at a gain of £64,583,000. As a result, the costs previously re-billed were credited in the year, with the exception of people related costs. The severance and decommissioning costs were paid in 2020 and £2,017,000 of the 2019 accrual was released in the year which primarily related to decommissioning.

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Notes to the Financial Statements for the Year Ended 31 December 2021

6 Directors' remuneration

The directors' remuneration for the year was as follows:

	2021 '000	2020 '000
Aggregate remuneration in respect of qualifying services	<u>£1,640</u>	<u>£1,718</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2021 No.	2020 No.
Received or were entitled to receive shares under long term incentive schemes	5	5
Accruing benefits under defined benefit pension scheme	<u>2</u>	<u>2</u>

In respect of the highest paid director:

	2021 '000	2020 '000
Remuneration	£444	£499
Defined benefit accrued pension entitlement at the end of the period	<u>£123</u>	<u>£122</u>

The highest paid director received shares under the group's long-term incentive scheme.

7 Interest (receivable)/payable

	2021 '000	2020 '000
Interest (income)/expense on other finance liabilities	(£2,311)	(£356)
Interest payable on loans from group undertakings	<u>£7</u>	<u>£69</u>
	<u>(£2,304)</u>	<u>(£287)</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2021 '000	2020 '000
Wages and salaries	£51,799	£55,687
Social security costs	£6,695	£6,782
Share-based payment expenses	£4,458	£4,803
Other pension costs	£14,804	£15,073
	<u>£77,756</u>	<u>£82,345</u>

The average number of persons employed by the company (including directors) during the year, was as follows:

	2021 No.	2020 No.
Other departments	633	673
	<u>633</u>	<u>673</u>

9 Auditors' remuneration

	2021 '000	2020 '000
Audit of the financial statements *	£172	£174
Other non-audit related fees to auditors	£14	£22
	<u>£186</u>	<u>£196</u>

* Included in these fees are the financial statement audits of Eli Lilly Group Limited.

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

10 Taxation

Tax charged/(credited) in the income statement

	2021 '000	2020 '000
Current taxation		
UK corporation tax	£4,509	£5,579
UK corporation tax adjustment to prior periods	(£1,020)	£2,486
	<u>£3,489</u>	<u>£8,065</u>
Deferred taxation		
Arising from origination and reversal of timing differences	(£2,667)	(£802)
Arising from changes in tax rates and laws	(£512)	£296
Total deferred taxation	<u>(£3,179)</u>	<u>(£506)</u>
Tax expense in the income statement	<u>£310</u>	<u>£7,559</u>

Other Comprehensive Income deferred taxation:

Actuarial gain/(loss) on post employment benefits	£39,627	£25,365
Effect of increased tax rate on deferred tax balance	£10,959	£600
	<u>£50,586</u>	<u>£25,965</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2020 - higher than the standard rate of corporation tax in the UK) of 19% (2020 - 19%). The Finance Act 2021 which was substantively enacted in June 2021 included provisions to increase the rate of corporation tax in the financial year 2023 from 19% to 25%.

The 2021 UK corporation tax adjustment to prior period resulted from a £903,000 difference in the 2020 Statutory tax calculation versus final 2020 tax filing, a £114,000 difference in the 2015 statutory tax calculation versus final 2015 tax filing and a £3,000 difference in the 2014 statutory tax calculation versus final tax liability.

The 2020 UK corporation tax adjustment to prior period resulted from a £1,236,000 difference in the 2019 Statutory tax calculation versus final 2019 tax filing, a £20,000 difference in the 2018 statutory tax calculation versus final 2018 tax filing and a £1,230,000 difference in the 2015 statutory tax calculation versus final tax liability.

The differences are reconciled below:

Eli Lilly and Company Limited
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Notes to the Financial Statements for the Year Ended 31 December 2021

10 Taxation (continued)

	2021 '000	2020 '000
Profit before tax	£33,478	£35,899
Corporation tax at standard rate of 19% (2020: 19%)	£6,361	£6,821
Effect of expense not deductible in determining taxable profit/(tax loss)	(£4,058)	(£1,930)
Deferred tax expense/(credit) relating to changes in tax rates or laws	(£512)	£296
Increase/(decrease) in UK and foreign current tax from adjustment for prior periods	(£1,020)	£2,486
Tax increase/(decrease) from changes in pension fund	(£461)	(£114)
Total tax charge	£310	£7,559

Included in the 2021 'Effect of expense not deductible in determining taxable profit (and loss)' are the following expenses: capital assets, share based payments and entertainment costs.

11 Tangible assets

Included within the net book value of land and buildings below is £6,198,437 (2020: £5,723,810) in respect of freehold land and buildings.

	Land & Buildings Freehold '000	Plant & Machinery '000	CIP '000	Total '000
Cost				
As at 1 January 2020	£89,088	£95,761	£460	£185,309
Additions	-	-	£6,849	£6,849
Transfer	£3,011	£3,423	(£6,434)	-
Disposal	(£78,111)	(£75,905)	-	(£154,016)
At 31 December 2020	£13,988	£23,279	£875	£38,142
Depreciation				
As at 1 January 2020	£61,132	£90,780	-	£151,912
Provided during the year	£240	£1,686	-	£1,926
Disposal	(£53,110)	(£75,905)	-	(£129,015)
At 31 December 2020	£8,262	£16,561	-	£24,823
Net Book Value				
NBV 1 January 2020	£27,956	£4,981	£460	£33,397
NBV 31 December 2020	£5,726	£6,718	£875	£13,319

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Notes to the Financial Statements for the Year Ended 31 December 2021

11 Tangible assets (continued)

	Land & Buildings Freehold '000	Fixtures & Fittings '000	Plant & Machinery '000	CIP '000	Total '000
Cost					
As at January 2021	£13,988	-	£23,279	£875	£38,142
Additions	£2,918	-	-	£5,391	£8,309
Transfer	(£3,014)	6,726	£2,451	(£6,163)	-
Disposal	(£13,892)	-	(£17,145)	-	(£31,037)
At 31 December 2021	<u>-</u>	<u>6,726</u>	<u>£8,585</u>	<u>£103</u>	<u>£15,414</u>
Depreciation					
As at 1 January 2021	£8,262	-	£16,561	-	£24,823
Provided during the year	£420	-	£1,509	-	£1,929
Transfer	(£528)	528	-	-	-
Disposal	(£8,154)	-	(£15,372)	-	(£23,526)
At 31 December 2021	<u>-</u>	<u>528</u>	<u>£2,698</u>	<u>-</u>	<u>£3,226</u>
Net Book Value					
NBV 1 January 2021	<u>£5,726</u>	<u>-</u>	<u>£6,718</u>	<u>£875</u>	<u>£13,319</u>
NBV 31 December 2021	<u>-</u>	<u>6,198</u>	<u>£5,887</u>	<u>£103</u>	<u>£12,188</u>

On 8 May 2021, the company entered into an unconditional agreement to sell the Lilly House facility in Basingstoke for £18,500,000. The site closed during 2021 and the sale to a third party was completed on 9 November 2021 at a gain.

On 15 October 2019, the group announced the intention to close the Erl Wood R&D site in 2020. This was a strategic decision taken as part of an ongoing transformation aimed to move medicines from the laboratory to patients faster. During 2019 the site was impaired to its expected realisable value. The site closed during 2020 and the sale of the site to a third party was completed on 2 November 2020 at a gain. Please refer to note 5.

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Notes to the Financial Statements for the Year Ended 31 December 2021

12 Investments in subsidiaries, joint ventures and associates

	Venture Capital '000	Subsidiary Undertakings '000	Total '000
1 January 2020	£17,438	£8,228	£25,666
Investments made during the year	£1,607	-	£1,607
Distributions made during the year	(£3,687)	-	(£3,687)
31 December 2020	<u>£15,358</u>	<u>£8,228</u>	<u>£23,586</u>
1 January 2021	£15,358	£8,228	£23,586
Investments made during the year	£1,079	-	£1,079
Distributions made during the year	(£1,256)	-	(£1,256)
31 December 2021	<u>£15,181</u>	<u>£8,228</u>	<u>£23,409</u>

Venture Capital Funds

Eli Lilly & Company Limited further invested in Dementia Discover LP during the year, a venture capital fund which invests in the research and treatment for dementia. The company also holds an investment in Epidarex Capital II LP, a venture capital fund which invests in early stage life science companies. The investments are held at cost and Lilly have agreed a cap regarding future commitments. There were no cost adjustments relating to venture capital during 2021 or 2020.

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2021	2020
Subsidiary undertakings				
Lilly Industries Limited *	United Kingdom	Ordinary Share Capital	100%	100%

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Notes to the Financial Statements for the Year Ended 31 December 2021

12 Investments in subsidiaries, joint ventures and associates (continued)

Eli Lilly (Basingstoke) Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Eli Lilly Leasing Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Eli Lilly Property Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Eli Lilly Resources Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Greenfield Pharmaceuticals Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Lilly Property Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Lilly Research Centre Limited *	United Kingdom	Ordinary Share Capital	100%	100%
Lilly Resources Limited *	United Kingdom	Ordinary Share Capital	100%	100%

* The subsidiaries have no trading activities. Apart from the amounts loaned, without any terms specified, to Eli Lilly & Company Limited, the subsidiaries have no other assets and liabilities.

13 Stocks

	2021 '000	2020 '000
Other inventories	-	£145

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14 Debtors

	2021 '000	2020 '000
Trade debtors	£64,936	£61,387
Other debtors	£657	£4,282
Prepayments	£2,712	£2,141
Other Assets	£986	£620
Income tax asset	£4,579	£7,239
Amounts owed by group undertakings - Trade	£22,611	£22,278
Amounts owed by group undertakings - Non Trade	£234,479	£291,907
Total current trade and other debtors	<u>£330,960</u>	<u>£389,854</u>

Included within "Amounts owed by group undertakings - Non Trade" is £234,478,602 (2020 - £291,906,739) receivable balance from GEMS pooling agreement which bears interest of 1 month LIBOR rate uplifted or less by a fixed spread to be updated annually effective February 1st of each year.

15 Prepayments and accrued income

	2021 '000	2020 '000
Long Term Prepaid Assets - Net of Amortisation	<u>£1,331</u>	<u>£2,661</u>

16 Creditors

	2021 '000	2020 '000
Due within one year		
Trade creditors	£23,967	£11,237
Social security and other taxes	£1,785	£1,962
Other payables	£7,483	£7,081
Accrued expenses	£29,110	£39,283
Amounts owed to group undertakings - Trade	£34,684	£42,154
Amounts owed to group undertakings - Non Trade	£5,247	£5,264
	<u>£102,276</u>	<u>£106,981</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

16 Creditors (continued)

	2021 '000	2020 '000
Due after one year		
Liabilities under disability scheme	£900	£1,150
Loans and borrowings	£2,112	£2,112
	<u>£3,012</u>	<u>£3,262</u>

17 Deferred tax and other provisions

	2021 '000	2020 '000
Provision for liabilities and charges		
Provision for deferred taxation	£80,487	£33,080

The movements in deferred taxation during the current year are as follows:

At 1 January	£33,080	£7,620
Charge for the year	(£2,667)	(£802)
Rate change recognised in Income Statement	(£512)	£296
Amounts (debited)/credited to other comprehensive income	£39,627	£25,365
Rate change recognised in OCI	£10,959	£600
At 31 December	<u>£80,487</u>	<u>£33,080</u>

Full provision has been made for deferred taxation at (2021: 25%, 2020: 19%) as follows:

Capital allowances in advance of depreciation	(£1,614)	(£816)
Intrinsic value of share based payments	(£958)	(£805)
Other short term timing differences	(£9,075)	(£7,448)
Pension	£92,134	£42,149
Total provisions for liabilities and charges	<u>£80,487</u>	<u>£33,080</u>

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18 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £2,231,000 (2020: £2,199,000).

Defined benefit pension schemes

Eli Lilly and Company Limited operates two pension schemes - A) Eli Lilly Group Pension Plan (main plan) and B) Supplementary Pension Plan (top-up scheme).

In the following note the details for both schemes are displayed separately but in the Statement of Comprehensive Income and Statement of Financial Position both schemes are combined for presentational purposes.

A) Eli Lilly Group Pension Plan

The company operates a defined benefit pension scheme for certain employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using fair values at the balance sheet date.

Asset allocations are intended to achieve a total asset return target over the long term. Expected rates of return detailed below are based on historical data and future long-term expectations. The assumed rate of return on pension scheme assets is consistent with the scheme's long-term investment return objective.

The date of the most recent comprehensive actuarial valuation was 01 January 2020. The membership data used for this valuation, updated to reflect the impact of the recent curtailments, has also been used to calculate the 31 December 2021 benefit obligations for the Plan set out in this report.

The total cost relating to defined benefit scheme for the year recognised in profit or loss as an expense was £10,467,000 (2020 - £11,126,000).

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Notes to the Financial Statements for the Year Ended 31 December 2021

18 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2021 '000	2020 '000
Fair value of scheme assets	£2,006,536	£1,919,638
Present value of scheme liabilities	<u>(£1,624,000)</u>	<u>(£1,683,000)</u>
Defined benefit pension scheme surplus	<u>£382,536</u>	<u>£236,638</u>

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2021 '000	2020 '000
<i>Defined Benefit Obligation</i>		
Changes in the defined benefit obligation are as follows:		
Present value at start of year	£1,683,000	£1,573,000
Current service cost	£12,500	£12,500
Interest cost	£22,599	£29,745
Benefits paid	(£43,000)	(£40,000)
Remeasurement of DBO	<u>(£51,099)</u>	<u>£107,755</u>
Present value at end of year	<u>£1,624,000</u>	<u>£1,683,000</u>

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2021 '000	2020 '000
Fair value at start of year	£1,919,638	£1,689,103
Interest income	£25,632	£31,719
Return on plan assets, excluding amounts included in interest income	£104,266	£238,816
Employer contributions	£1,000	£600
Benefits paid	(£43,000)	(£40,000)
Administrative costs paid	<u>(£1,000)</u>	<u>(£600)</u>
Fair value at end of year	<u>£2,006,536</u>	<u>£1,919,638</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

18 Pension and other schemes (continued)

Return on scheme assets

	2021 '000	2020 '000
Return on scheme assets	<u>£129,898</u>	<u>£270,535</u>

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Recognised in the Income Statement

	2021 '000	2020 '000
Current service cost	£12,500	£12,500
Net interest on net defined benefit liability / (asset)	(£3,033)	(£1,974)
Defined benefit cost recognised in the Income Statement	<u>£9,467</u>	<u>£10,526</u>
Administration costs	£1,000	£600
Cost recognised in the Income Statement	<u>£10,467</u>	<u>£11,126</u>

Recognised in Other Comprehensive Income

	2021 '000	2020 '000
Actuarial (gain)/loss arising during period	(£51,099)	£107,756
Return on plan assets	(£104,266)	(£238,816)
Remeasurement effects recognised in OCI	<u>(£155,365)</u>	<u>(£131,060)</u>

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2021 %	2020 %
Discount rate	1.85	1.35
Future salary increases	3.60	3.15
Price Inflation (RPI)	3.35	2.90
Price Inflation (CPI)	2.75	2.15
Pension increases for in-payment benefits - RPI capped at 5%	3.20	2.75
Pension increases for deferred benefits - CPI capped at 5%	<u>2.75</u>	<u>2.15</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

18 Pension and other schemes (continued)

Post retirement mortality assumptions

107% of S3PMA_L and 103% of S3PFA_L mortality tables for males and females respectively for pre-retirement and post-retirement.

B) Supplementary Scheme

This is a top-up pension scheme for certain employees and is managed separately to the main pension plan. The supplementary scheme is based on the same assumptions as those used for the main pension plan.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2021 '000	2020 '000
Present value of defined benefit obligation	<u>(£14,000)</u>	<u>(£14,800)</u>

Recognised in the Income Statement

	2021 '000	2020 '000
Current Service Cost	£260	£270
Net interest on net defined benefit liability	£197	£262
Defined benefit cost recognised in the Income Statement	<u>£457</u>	<u>£532</u>
Cost recognised in the Income Statement	<u>£457</u>	<u>£532</u>

Recognised in Other Comprehensive Income

	2021 '000	2020 '000
Actuarial loss/(gain) arising during period	(£322)	£1,001
Remeasurement effects recognised in OCI	<u>(£322)</u>	<u>£1,001</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

18 Pension and other schemes (continued)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

<i>Defined Benefit Obligation</i>	2021 '000	2020 '000
Changes in the defined benefit obligation are as follows:		
Present value at start of year	£14,800	£13,800
Current service cost	£260	£270
Interest cost	£197	£262
Actuarial (gain)/loss	(£322)	£1,001
Benefits paid	(£935)	(£533)
Present value at end of year	<u>£14,000</u>	<u>£14,800</u>

Principal actuarial assumptions

The principal actuarial assumptions are the same as for the main plan detailed above.

Post Retirement Medical Benefits

Employees and former employees who joined before 1 January 1997 are provided with post retirement benefits in the form of cover for medical costs. The net present value of the liability is assessed with the advice of independent qualified actuaries.

The total cost/(gain) relating to defined benefit schemes for the year recognised in profit or loss as an expense/(credit) was £681,000 (2020 - (£931,000)), which includes current service cost, interest cost and net loss/(gain) amortisation during the period.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2021 '000	2020 '000
Present value of scheme liabilities	<u>(£36,300)</u>	<u>(£39,200)</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

18 Pension and other schemes (continued)

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2021 '000	2020 '000
Present value at start of year	£39,200	£42,300
Current service cost	£155	£175
Interest cost	£526	£756
Actuarial (gain)	(£2,822)	(£3,444)
Benefits paid	(£759)	(£587)
Present value at end of year	<u>£36,300</u>	<u>£39,200</u>

Recognised in the Income Statement

	2021 '000	2020 '000
Current service cost	£155	£175
Net interest on net defined benefit liability	£526	£756
Defined benefit cost recognised in the Income Statement	<u>£681</u>	<u>£931</u>
Cost/gain recognised in the Income Statement	<u>£681</u>	<u>£931</u>

Recognised in Other Comprehensive Income

	2021 '000	2020 '000
Actuarial (gain)/loss arising during the period	<u>(£2,822)</u>	<u>(£3,444)</u>
Remeasurement effects recognised in OCI	<u>(£2,822)</u>	<u>(£3,444)</u>

Principal actuarial assumptions

The principal actuarial assumptions at the statement of financial position date are as follows:

	2021 %	2020 %
Discount rate for ABPO	1.85	1.35
Rate of increase in healthcare costs	<u>6.20</u>	<u>5.75</u>

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Notes to the Financial Statements for the Year Ended 31 December 2021

19 Share capital

Authorised, allotted, called up and fully paid shares

	2021		2020	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>9,452</u>	<u>9,452</u>	<u>9,452</u>	<u>9,452</u>

20 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2021	2020
	'000	'000
Not later than one year	£1,816	£1,135
Later than one year and not later than five years	£7,778	£1,971
Later than five years	<u>£13,931</u>	<u>£4,611</u>
	<u>£23,525</u>	<u>£7,717</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £Nil (2020 - £Nil).

21 Share-based payments

FRS 102 section 26 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses. Share based payments comprise performance awards, shareholder value awards and restricted stock units and are all received in shares of the ultimate parent company Eli Lilly and Company.

Performance Awards

Performance awards are granted to directors and key employees and are payable in shares of the ultimate parent company; these vest at the end of the financial year following the year of grant. The number of shares actually issued, if any, varies depending on the achievement of certain pre-established earnings-per-share targets over a 2 year period. Performance awards are accounted for at fair value based upon the closing stock price on the date of grant and are spread equally across the vesting period. The fair values of performance awards granted during the year ended 31 December 2021 was \$198.57 (2020: \$137.33). Approximately 10,500 performance awards were granted in 2021 (2020: 14,000).

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21 Share-based payments (continued)

Shareholder Value Awards

Shareholder value awards are granted to directors and key employees and are payable in shares of the ultimate parent company; these vest across a three year period from the date of grant. The number of shares actually issued, if any, varies depending on the share price at the end of the three year vesting period compared to pre-established target share prices. The corresponding expense for shareholder value awards is accounted for at fair value and spread evenly over the vesting period. We measure the fair value of the shareholder value awards on the grant date using a Monte Carlo simulation model. The Monte Carlo Simulation model uses multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the shareholder value awards granted during the year ended 31 December 2021 was \$230.19 (2020: \$139.14). The following assumptions were used to calculate the fair values:

	2021 '000	2020 '000
Expected dividend yield	2.50%	2.50%
Risk-free interest rate	0.19	1.38
Volatility	31.42	20.90

Approximately 5,000 shareholder value awards were granted in 2021 (2020: 8,000).

Restricted Stock Units

Restricted stock units are granted to certain employees and are payable in shares of the ultimate parent company. Restricted stock units are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is spread evenly over the vesting period, typically 3 years. The fair values of restricted stock units granted during the year ended 31 December 2021 was \$196.30 (2020: \$135.42). Approximately 11,500 restricted stock units were granted in 2021 (2020: 15,000).

Relative Value Award Program

Beginning in 2020, relative value award units were granted to officers and management and are payable in shares of common stock. The number of shares actually issued, if any, varies depending on the growth of the stock price at the end of the three-year vesting period compared to peers. The fair value of the relative value award is measured on the grant date using the Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on Lilly stock, historical volatility of stock prices and peers' stock price, and other factors. Similarly, the dividend yield is based on historical experience and estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair value of the relative value award units granted during the year ended December 31, 2021 was \$286.71 (2020: \$179.90), determined using the following assumptions: Approximately 240 relative value award units were granted during year ended December 31, 2021 (2020: 380).

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21 Share-based payments (continued)

	2021 '000	2020 '000
Expected dividend yield	2.50%	2.50%
Risk-free interest rate	0.19	1.38
Volatility	30.95	19.89

The total expense recognised in the income statement for the year ended 31 December 2021 is £4,458,000 (2020: £4,803,000).

22 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £448,000 (2020: £841,000).

23 Contingent liabilities

The company has an uncommitted £1,000,000 Bilateral bank Guarantee facility dated 01 October 2014 for issuance of bonds, guarantees and indemnity umbrella limit to allow Eli Lilly and Company Limited to add Customs Duty Deferment Guarantee. To date the company has issued £600,000.

24 Ultimate Parent Undertaking and Related Party Transactions

The company's immediate parent is Eli Lilly Group Limited, incorporated in United Kingdom.

The ultimate parent is Eli Lilly and Company, incorporated in United States of America.

The consolidated financial statements of Eli Lilly and Company are those of the smallest and largest group of which the company is a member and for which consolidated financial statement are prepared. The consolidated financial statements can be obtained from Eli Lilly and Company, Lilly Corporate Centre, Indianapolis, Indiana, USA.

The company has utilised the exemption under Section 33 of Financial Reporting Standard 102 whereby a subsidiary undertaking does not have to disclose transactions with other entities that are wholly owned subsidiaries of the Eli Lilly & Company Group.

25 Subsequent events

On 20 July 2022 the company declared a dividend for £20,000,000 to be paid on 1 August 2022.