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# Corporate Governance Guidelines

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These guidelines establish the basic principles of corporate governance by which Elanco Animal Health Incorporated operates. The board of directors believes that a strong system of corporate governance is critical to creating long term shareholder value. In pursuit of this objective, the board may take into account the interests of all of the corporation's principal constituents, including: shareholders, customers, payers, employees, partners and suppliers, and local communities. These guidelines are approved and amended by the board. The nominating and corporate governance committee reviews the guidelines annually and recommends to the board any amendments to these guidelines.

## Role of the Board

Directors recognize their duty, individually and collectively, to pay careful attention and to be properly informed, including by regular attendance at, and preparation for, meetings of the board and its committees, including the advance review of circulated materials and active participation in board and committee discussions.

## Responsibilities

The board's responsibilities, either directly or by delegating certain responsibilities to its committees, include:

- providing general oversight of the business and performance, including by providing counsel to the CEO and senior executives and evaluating whether the business is being appropriately managed;
- providing guidance to management in formulating and approving corporate strategy;
- reviewing and approving strategic plans;
- approving major management initiatives;
- providing oversight of legal compliance and ethical conduct;
- overseeing the company's risk assessment and overall risk management;
- overseeing internal and external audit processing, financial reporting, disclosure controls and procedures;
- overseeing major changes in accounting principles and practices;
- selecting, compensating, and evaluating directors;
- evaluating board processes and performance;
- selecting, compensating, evaluating, and, when necessary, replacing the CEO, and compensating other senior executives;
- overseeing succession planning for all senior executives;
- setting expectations about the tone and ethical culture of the company; and
- performing such other functions as the board believes appropriate or necessary, or as otherwise prescribed by rules or regulations.

## Board Composition

### Board Size

The board's size will be set by the board pursuant to the company's bylaws. Currently, the board size is ten (10) directors. The board may expand or reduce the size of the board in its discretion; however, there may not be fewer than five (5) directors on the board.

### **Controlled Company Transition Period**

The company previously elected to avail itself of the “controlled company” exemption available under the listing rules of the New York Stock Exchange (NYSE), due to the former ownership by Eli Lilly and Company of more than 50% of the voting power for the election of the company’s directors. The company ceased to be a “controlled company” as of March 11, 2019 and, subject to any applicable transition rules, members of the board and the committees will be required to meet all applicable independence tests of the NYSE and Securities and Exchange Commission (SEC).

### **Independence Determination**

The board annually determines, taking into consideration the recommendations of the nominating and corporate governance committee, and discloses the independence of directors.

No director is considered independent unless the board has determined, based on all relevant facts and circumstances, that he or she has no material relationship with the company, either directly or as a partner, significant shareholder, or officer of an organization that has a material relationship with the company. The board has adopted the categorical independence standards for directors established in the NYSE listing standards.

In addition, members of the audit, compensation and nominating and corporate governance committees must meet all applicable independence tests of the NYSE and SEC.

### **Selection of Director Candidates**

Subject to the company’s organizational documents and any operative agreements entered into by the company, the board is responsible for selecting candidates for board membership and for establishing the general criteria to be used in identifying potential candidates. The nominating and corporate governance committee leads the director succession planning process. The nominating and corporate governance committee makes recommendations to the board for nominations, identifies and screens potential new candidate, including by reviewing recommendations from other board members, management and shareholders, and assesses the ongoing contributions of incumbent directors whose terms are expiring with input from all other board members. The nominating and corporate governance committee may also retain search firms to assist in identifying and screening candidates.

### **Director Qualifications**

The board selects director candidates who represent a mix of backgrounds and experiences that will enhance the quality of the board’s deliberations and decisions. Board membership should reflect diversity in its broadest sense, including persons diverse in geography, gender, and ethnicity.

Board members should also display the personal attributes necessary to be effective directors: integrity, sound judgment, intellectual prowess and versatility, confidence, independence in fact and mindset, ability to operate collaboratively, willingness to ask difficult questions, willingness to listen, ability to commit the necessary time to duties as a director and commitment to the company, its shareholders and its other constituencies. The nominating and corporate governance committee periodically reviews with the board the criteria for the selection of directors.

### **Director Tenure**

The board is comprised of three classes of directors, with approximately one-third of the directors assigned to each class, and the members of each class are elected for a term of three years. Generally, the board’s self-evaluation process is an important determinant for continuing service. There is no limit on the number of terms for which a

director may be elected. The board does not endorse arbitrary term limits on directors' service, nor does it believe in automatic re-nomination.

#### **Other Board Service; Change of Employment**

In general, no non-employee director may serve on more than three other public company boards. The CEO may not serve on more than one other public company board. Directors should advise the chairperson of the nominating and corporate governance committee (and such person should advise the company's corporate secretary) in advance of accepting an invitation to serve on another public company board. The nominating and corporate governance committee or the chairperson of that committee may approve exceptions to this limit upon a determination that such additional service will not impair the director's effectiveness on the board.

The Board does not believe that directors who retire or change the position they held when they became a member of the Board should necessarily leave the Board. Promptly following such event, the director must notify the Nominating and Corporate Governance Committee, which shall review the continued appropriateness of the affected director remaining on the Board under the circumstances. The affected director is expected to act in accordance with the Nominating and Corporate Governance Committee's recommendation following such review.

#### **Director Elections**

Directors are elected by the plurality of the votes cast by the holders of shares entitled to vote in the election at the meeting of shareholders, provided a quorum is present.

### **Key Board Responsibilities**

#### **Selection of the Chairman and Chief Executive Officer**

The board currently has a strong, independent, non-executive chairman to further strengthen the company's governance structure. The board believes this provides an effective leadership model for the company to assure effective independent oversight at this time. However, no single leadership model is right for all companies and at all times. Depending on the circumstances, other leadership models, such as combining the roles of the CEO and chairman of the board, might be appropriate. Accordingly, the board periodically reviews its leadership structure.

#### **Evaluation of the Chief Executive Officer**

The board has delegated to the compensation committee, along with the independent chairman of the board, the task of evaluating the CEO annually and reporting its determination to the board. The chairman of the compensation committee together with the independent chairman of the board communicates the conclusions to the CEO. The evaluation is based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management, and other factors that the board and compensation committee agree are appropriate in assessing the CEO's performance. The evaluation is used in determining the CEO's compensation.

#### **Succession Management and Election of Officers**

The board periodically reviews management development and succession plans with respect to executive officers, and engages the CEO in such discussions as appropriate. The board considers from time to time as appropriate potential successors to the CEO in the event of his or her resignation, retirement or disability.

#### **Code of Ethics**

The board approves the company's code of ethics, which is set out in:

- The Code of Business Conduct, which is a comprehensive code of ethical and legal business conduct applicable to all employees and the board; and
- The Financial Code of Ethics, a supplemental code for the CEO, CFO and all other members of financial management that recognizes the unique responsibilities of those individuals in assuring proper accounting, financial reporting and controls, and financial stewardship.

The audit committee assists in the board's oversight of compliance programs with respect to matters covered in the code of ethics.

## **Compensation of Board Members**

### **Director Compensation Philosophy and Approval Process**

The company designs its director compensation program to attract directors who contribute a diversity of skills and both breadth and depth of experience to the board. Directors who are employees receive no additional compensation for serving on the board.

Director compensation is reviewed annually by the board on the recommendation of the compensation committee. Assisted by an independent consultant, company management reports annually to the compensation committee concerning the status of the board compensation program relative to those of other comparable U.S. corporations.

### **Director Equity Ownership**

Directors should hold meaningful equity ownership positions in the company. Accordingly, a significant portion of director compensation is made in the form of company equity. The board will consider from time to time equity ownership requirements for non-employee directors. Directors are prohibited from hedging their Elanco Animal Health Incorporated stock and from pledging, or using as collateral, their Elanco Animal Health Incorporated stock.

## **Functioning of the Board**

### **Executive Sessions of Directors**

At every regular board meeting, the non-employee directors meet in executive session without any members of management present and also meet in executive session with the CEO. The independent directors meet in executive session without any members of management present at least once a year.

### **Conflicts of Interest**

Occasionally a director's business or personal relationships may give rise to an interest that conflicts, or appears to conflict, with the interests of the company. A director must disclose to the general counsel or the chair of the audit committee all relationships that create a conflict or appearance of a conflict. The board will take appropriate steps to identify actual or apparent conflicts and to appropriately manage the conflict, which could include asking a director to excuse him- or herself from participating in discussions and/or voting on an issue.

### **Orientation of New Directors; Director Education**

The board has delegated to the nominating and corporate governance committee the oversight of the company's orientation program for new directors. All directors are encouraged to attend director development programs and conferences that relate to director duties or other corporate governance topics, or to other topics relevant to the work of the board.

### **Assessment of Board Processes and Performance**

The nominating and corporate governance committee is responsible for annually overseeing an assessment of the performance of the board and board processes and for overseeing committee assessments in accordance with their respective charters, as well as for reviewing with the board the results of these assessments.

### **Frequency of Board Meetings**

A schedule of board meetings and agenda topics to be discussed for the ensuing year is issued at the beginning of each year (to the degree these can be foreseen). The board may hold additional meetings from time to time as determined by the needs of the business. The board may also act by unanimous written consent.

### **Director Attendance**

Each director is expected to attend all meetings of the board and board committees of which the director is a member as well as the annual meeting of shareholders.

### **Selection of Agenda Items for Board Meetings**

The chairman of the board establishes the agenda for each board meeting. All directors are encouraged to discuss with the chairman or secretary any additional items they believe should be considered for the agenda. Each director may raise at any regular board meeting subjects for discussion that are not on the meeting's formal agenda.

Information that is important to the board's understanding of the business of the company is distributed to the board prior to each board meeting and periodically, as appropriate, between board meetings.

### **Regular Attendance of Non-Directors at Board Meetings**

The board may invite company employees to attend portions of board meetings. Should the chairman or CEO wish to suggest that a company employee attend on a regular basis, such suggestion should be made to the board for its concurrence.

### **Director Access to Management and Independent Advisors**

The board and its committees retain independent advisers to assist them in carrying out their activities when and as needed, and the company provides adequate resources to compensate such advisers.

### **Board's Interaction with Institutional Investors, the Press, Customers, and Other Constituencies**

The board believes that management should speak for the company. If comments from the board are appropriate, they should ordinarily come from the chairman or from the board's designated spokesperson. However, shareholders or other interested parties may communicate directly with the chairman or with the independent directors as a whole. Such communications should be directed in writing to the chairman in care of the company's secretary.

## **Board Committees**

### **Number, Structure, and Independence of Committees**

The board currently has four standing committees: audit, compensation, finance and nominating and corporate governance. Each committee has its own charter, which sets forth the responsibilities of each committee, the qualifications of its members, including with respect to committee member independence, as discussed above, in accordance with NYSE rules, and the procedures of the committee. Each committee will periodically conduct a self-assessment in accordance with its charter. Subject to applicable regulations and listing rule requirements, the board retains discretion to form new committees or disband current committees depending upon the circumstances.

**Assignment and Rotation of Committee Members**

Each year the nominating and corporate governance committee recommends to the board assignments to committees and the appointment of committee chairs, after consultation with the chairman of the board and after giving due consideration to the backgrounds, skills, and desires of individual directors. The board has no set policy for the regular rotation of committee members or committee chairs but annually reviews and approves committee memberships and chair positions, seeking the best blend of continuity and fresh perspectives on the committees.

As amended and restated effective as of August 8, 2019 (as approved by the board of directors on August 8, 2019).