Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000

Commission file number 001-6351

Eli Lilly and Company

An Indiana corporation I.R.S. employer number 35-0470950

Address: Lilly Corporate Center, Indianapolis, Indiana 46285

Telephone number, including area code: (317) 276-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock	New York and Pacific Stock Exchanges
Preferred Stock Purchase Rights	New York and Pacific Stock Exchanges
8-1/8% Notes Due December 1, 2001	New York Stock Exchange
8-3/8% Notes Due December 1, 2006	New York Stock Exchange
6.57% Notes Due January 1, 2016	New York Stock Exchange
7-1/8% Notes Due June 1, 2025	New York Stock Exchange
6.77% Notes Due January 1, 2036	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of voting stock of the Registrant held by non-affiliates as of February 15, 2001 (Common Stock): $72,232,845,230.

Number of shares of common stock outstanding as of February 15, 2001: 1,125,533,066.

Portions of the following documents have been incorporated by reference into this report:

Registrant's Document	Parts Into Which Incorporated
Annual Report to Shareholders for fiscal year ended December 31, 2000	Parts I, II, and IV
Proxy Statement dated March 5, 2001	Part III

Part I

Item 1. Business

Eli Lilly and Company (the "Company" or "Registrant", which may be referred to as "we", "us", or "our") celebrates its 125th year of business in 2001. The Company was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and sell products in one significant business segment—pharmaceutical products. Operations of our animal health business segment are not material to our financial statements. We manufacture and distribute our products through owned or leased facilities in the United States, Puerto Rico, and 30 other countries. Our products are sold in approximately 160 countries.

Most of the products we sell today were discovered or developed by our own scientists, and our success depends to a great extent on our ability to continue to discover and develop innovative new pharmaceutical products. We direct our research efforts primarily toward the search for products to diagnose, prevent and treat human diseases. We also conduct research to find products to treat diseases in animals and to increase the efficiency of animal food production.

Products

Pharmaceutical Products

Our pharmaceutical products include:

Neuroscience products, our largest-selling product group, including Prozac®, indicated for the treatment of depression and, in many countries, for

bulimia and obsessive-compulsive disorder; Zyprexa®, a product for the treatment of schizophrenia and acute bipolar mania; the Darvon® line of analgesic products; Permax®, a treatment for Parkinson's disease; and Sarafem™, for the treatment of pre-menstrual dysphoric disorder;

Endocrine products, including Humulin®, human insulin produced through recombinant DNA technology; Humalog®, a rapid-acting injectable human insulin analog of recombinant DNA origin; Iletin®, animal-source insulin; Actos®, an oral agent for Type 2 diabetes that is manufactured and sold by a unit of Takeda Chemical Industries, Ltd. of Japan and co-promoted by us in the U.S. and certain other countries; Evista®, a selective estrogen receptor modulator product for the prevention and treatment of osteoporosis in post-menopausal women; and Humatrope®, human growth hormone produced by recombinant DNA technology;

Anti-infectives, including the oral antibiotics Ceclor®, Dynabac®, Keflex®, Keftab®, and Lorabid®, used in the treatment of a wide range of bacterial infections; Vancocin® HCl, an injectable antibiotic used primarily to treat staphylococcal infections; and the injectable antibiotics Nebcin®, Tazidime®, Kefurox®, and Kefzol®, used to treat a wide range of bacterial infections in the hospital setting;

Cardiovascular agents, including ReoPro®, a monoclonal antibody product developed and manufactured by Centocor, Inc. (a unit of Johnson & Johnson) and co-marketed by Centocor and us for use as an adjunct to percutaneous coronary intervention ("PCI"), including patients undergoing angioplasty, atherectomy or stent placement; Dobutrex®, an agent for cardiac decompensation; and Cynt™, marketed outside the United States for treatment of hypertension;

Oncology products, including Gemzar®, indicated for treatment of pancreatic cancer and, in combination with other agents, for treatment of non-small-cell lung cancer; Oncovin®, indicated for treatment of acute leukemia and, in combination with other oncolytic agents, for treatment of several different types of advanced cancers; Velban®, used in a variety of cancers; and Eldisine®, indicated for treatment of acute childhood leukemia resistant to other drugs; and

An antiulcer agent, Axid®.

Animal Health Products

Animal health products include Tylan®, an antibiotic used to control certain diseases in cattle, swine, and poultry and to improve feed efficiency and growth; Rumensin®, a cattle feed additive that improves feed efficiency and growth; Coban®, Monteban® and Maxiban®, anticoccidial agents for use in poultry; Apralan®, an antibiotic used to control enteric infections in calves and swine; Micotil® and Pulmotil®, antibiotics used to treat respiratory disease in cattle and swine, respectively; Surmax® (sold as Maxus® in some countries), a performance enhancer for swine and poultry; and Paylean®, a leanness and performance enhancer for swine.

Marketing

We sell most of our products worldwide. We adapt our marketing methods and product emphasis in various countries to meet local needs.

Pharmaceuticals – United States

In the United States, we distribute pharmaceutical products principally through approximately 190 independent wholesale distributors. Our marketing policy is designed to assure that products are immediately available to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Three wholesale distributors in the United States each accounted for between 14 and 18 percent of our consolidated net sales in 2000. No other distributor accounted for more than 10 percent of consolidated net sales. We also sell pharmaceutical products directly to the United States government and other manufacturers, but those sales are not material.

Salaried sales representatives promote our major pharmaceutical products in the United States. These sales representatives call upon physicians, wholesalers, hospitals, managed-care organizations, retail pharmacists, and other health care professionals. To support our sales representatives' efforts, we advertise in medical and drug journals, distribute literature and samples of certain products to physicians, and exhibit at medical meetings. In addition, we advertise certain products directly to consumers in the United States. Divisions of our sales force are dedicated to product lines or practice areas, such as primary care, neuroscience, diabetes care, critical care, cardiovascular, endocrinology, and oncology. We have entered into licensing arrangements under which other companies market certain products manufactured by the Company, such as Axid, Lorabid, Ceclor CD, and Permax.

Large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, now account for a significant portion of total pharmaceutical purchases in the United States. We have created special sales groups to service managed-care organizations, government and long-term care institutions, hospital contract administrators, and certain retail pharmacies. In response to

competitive pressures, we have entered into arrangements with a number of these organizations providing for discounts or rebates on one or more Company products or other cost-sharing arrangements.

Pharmaceuticals – Outside the United States

Outside the United States, we promote our pharmaceutical products primarily through salaried sales representatives. While the products marketed vary from country to country, neuroscience products constitute the largest single group in total sales. Distribution patterns vary from country to country. In most countries, we maintain our own sales and distribution organizations. In some countries, however, we market our products through joint ventures or independent distributors.

Animal Health Products

Our Elanco Animal Health business unit employs field salespeople throughout the United States to market animal health products. Elanco also has an extensive sales force outside the United States to market its animal health products. Elanco sells its products primarily to wholesale distributors.

Raw Materials

Most of the principal materials we use in our manufacturing operations are chemical, plant, and animal products that are available from more than one source. We obtain certain raw materials principally from only one source. If we were unable to obtain certain materials from present sources, we could experience an interruption in production until we established new sources or, in some cases, implemented alternative processes.

The major portion of our sales abroad are of products manufactured wholly or in part abroad. However, a principal source of active ingredients for those manufactured products continues to be our facilities in the United States.

Patents, Trademarks, and Other Intellectual Property Rights

Intellectual property protection is, in the aggregate, material to our ability to successfully commercialize our life sciences innovations. We own, have applied for, or are licensed under, a large number of patents, both in the United States and in other countries, relating to products, product uses, formulations, and manufacturing processes. There is no assurance that the patents we are seeking will be granted or that the patents we have been granted would be found valid if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or from marketing alternative products or formulations that might successfully compete with our patented products.

Outside the United States, the standard of intellectual property protection for pharmaceuticals varies widely. While many countries have reasonably strong patent laws, other countries currently provide little or no effective protection for inventions or other intellectual property rights. In recent years, intellectual property protection has been strengthened in some countries because of the adoption of international agreements such as the new World Trade Agreement, and we believe further improvements are possible. It is too soon to assess how much, if at all, we will benefit commercially from these changes.

When a product patent expires, the patent holder often loses effective market exclusivity for the product. This can result in very substantial reductions in sales of the formerly patented product, particularly in the United States. However, in some cases the innovator company can obtain additional commercial benefits through manufacturing trade secrets; later-expiring patents on processes, uses, or formulations; trademark use; or marketing exclusivity that may be available under pharmaceutical regulatory laws.

We consider patent protection for certain products, processes, and uses—particularly that relating to Prozac, Zyprexa, Axid, Humalog, ReoPro, Gemzar, Evista, and Actos—to be important to our operations.

The United States compound patent covering Prozac expired in February 2001. We hold another patent for the method of use of Prozac's active ingredient which expires in December 2003, but the patent claim to that use has been ruled invalid by the U.S. Court of Appeals for the Federal Circuit. We are appealing that decision. *See* “Legal Proceedings” at page 10 for a further discussion of that litigation. We have also received an additional six months of marketing exclusivity for Prozac in the United States under the terms of the Food and Drug Administration Modernization Act of 1997 (“FDAMA”). This exclusivity results from our conducting clinical studies of Prozac in pediatric populations under a written request of the FDA. Thus, absent success in our pending appeal regarding the 2003 patent, we could experience generic competition for Prozac in the U.S. market beginning on or shortly after August 3, 2001. We expect a very substantial decline in U.S. Prozac sales in the twelve months following the entry of generic competitors. For more information on the expected financial impact of our loss of market exclusivity, see “Financial Expectations for 2001” under Part II, Item 7, Management’s Discussion and Analysis of Results of Operations and Financial Condition. Outside the United States, Prozac patents generally either have expired or will expire over the next several years.

Other U.S. compound patent expirations include those claiming the respective active ingredients in Axid, 2002; Zyprexa, 2011; Humalog, 2013; and ReoPro, 2015. The Gemzar compound patent in the U.S. expires in 2010, but a use patent covering treatment of neoplasms with Gemzar is in force until 2012. We hold a number of U.S. patents covering Evista and its approved uses in osteoporosis prevention and treatment that we believe can provide us exclusivity in the United States until at least 2012. We are in the process of extending the U.S. compound patent on the active ingredient in Evista, but, even if extended, this patent will expire substantially before 2012. In the United States, our co-promotion agreement with Takeda for Actos runs until 2006. The compound patent for Actos expires in 2006, but Takeda has applied for patent term extension. For many of our products, in addition to the compound patent we hold other patents on manufacturing processes, formulations, or uses that may extend exclusivity beyond the expiration of the product patent.

Zenith Goldline Pharmaceuticals, Inc., a generic drug manufacturer, has filed an Abbreviated New Drug Application (ANDA) with the Food and Drug Administration (FDA) seeking permission to market a generic version of Zyprexa prior to the expiration of our U.S. patents for the product. Under the federal Hatch-Waxman Act of 1984, Zenith has filed an ANDA alleging that the patents listed in our Zyprexa New Drug Application (NDA) are invalid or not infringed. This allegation is commonly known as a “Paragraph IV certification.” Under the terms of the Hatch Waxman legislation, any generic manufacturer may file an ANDA with a Paragraph IV certification after the pioneer company has marketed its product for four years. If one or more of the NDA-listed patents are successfully challenged, the first filer of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers. We are taking all measures necessary to defend our patents covering Zyprexa.

Worldwide, we sell all of our major products under trademarks that we consider in the aggregate to be important to our operations. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used, and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms.

Competition

Our pharmaceutical products compete with products manufactured by many other companies in highly competitive markets throughout the world. Our animal health products compete on a worldwide basis with products of pharmaceutical, chemical, and other companies that operate animal health divisions or subsidiaries.

Important competitive factors include product efficacy, safety and ease of use, price and demonstrated cost-effectiveness, service, and research and development of new products and processes. If competitors introduce new products and processes with therapeutic or cost advantages, our products can be subject to progressive price reductions or decreased volume of sales, or both. When we introduce new products with patent protection, they usually must compete with other products already on the market or products that are later developed by competitors. Manufacturers of generic products typically invest far less in research and development than research-based pharmaceutical companies; accordingly, they are able to price their products significantly lower than branded products. Therefore, when a branded product loses its market exclusivity, it often faces intense price competition from generic forms of the product. In many countries outside the United States, patent protection is weak or nonexistent. In order for us to successfully compete for business with managed care and pharmacy benefits management organizations, we must demonstrate that our products offer not only medical benefits but also cost advantages as compared with other forms of care.

We believe our long-term competitive position depends upon our success in discovering and developing innovative products that serve unmet medical needs and are cost-effective, together with our ability to manufacture the products efficiently and to market them effectively in a highly competitive environment. There can be no assurance that our research and development efforts will result in commercially successful products or that our products or processes will not become outmoded from time to time as a result of products or processes developed by our competitors.

Government Regulation

For many years our operations have been regulated extensively by the federal government, to some extent by state governments, and in varying degrees by foreign governments. The Federal Food, Drug, and Cosmetic Act, other federal statutes and regulations, various state statutes and regulations, and laws and regulations of foreign governments govern to varying degrees the testing, approval, production, labeling, distribution, post-market surveillance, advertising, dissemination of information, and promotion of our products. The lengthy process of laboratory and clinical testing, data analysis, and regulatory review necessary for required governmental approvals is extremely costly and can significantly delay product introductions in a given market. Promotion, marketing, and distribution of pharmaceutical products are extensively regulated in all major world markets. In addition, our operations are subject to complex federal, state, local, and foreign environmental and occupational safety laws and regulations. We anticipate that the laws and regulations affecting the manufacture and sale of current products and the introduction of new products will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, the Omnibus Budget Reconciliation Act of 1990 requires us to provide rebates to state governments on their purchases of certain of our products under state Medicaid programs. Other cost containment measures have been adopted or proposed by federal, state, and local government entities that provide or pay for health care. In most international markets, we operate in an environment of government-mandated cost containment programs, which may include price controls, discounts and rebates, restrictions on physician prescription levels, restrictions on reimbursement, compulsory licenses and generic substitution.

On October 28, 2000, President Clinton signed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for fiscal year 2001. This legislation includes a provision that repeals the federal ban on the reimportation of most prescription drugs by anyone other than the manufacturer. Consequently, under the new law, wholesalers and pharmacists may be permitted to reimport certain drugs approved for sale in the US and originally sold abroad, subject to several conditions. The law authorizes reimportation from select jurisdictions, including Australia, Canada, the European Union, Israel, Japan, New Zealand, South Africa, and Switzerland.

Before the law takes effect, the secretary of Health and Human Services (HHS) must “demonstrate” to Congress that the law poses no additional risk to public health and safety and will result in significant reductions in drug costs for American consumers. If HHS can make that demonstration, then the FDA must draft regulations prior to implementing the law. In December 2000, the outgoing secretary of HHS stated that she would be unable to make the demonstration required by the law. It is uncertain what action, if any, may be taken on this bill by the new secretary of HHS or whether Congress will modify the legislation.

We expect that governments inside and outside the United States will continue to propose and/or adopt a variety of measures to contain health care costs, including pharmaceutical costs. Some of these measures could adversely affect our business. As an example, there are a number of legislative proposals in the United States at both the state and federal levels intended to provide greater access to drugs for elderly and low-income Americans. Some of these proposals would, directly or indirectly, impose governmental controls on the prices at which our products are sold. Outside the United States, some proposals would either directly or indirectly impose additional price controls or reduce the value of our intellectual property protection. We cannot predict whether such proposals will be adopted or the extent to which our business may be affected by these or other potential future legislative or regulatory developments.

Research and Development

Our commitment to research and development dates back more than 100 years. Our research and development activities are responsible for the discovery or development of most of the products we offer today. We invest heavily in research and development, which we believe is critical to our long-term competitiveness. At the end of 2000, we employed approximately 6,875 people in pharmaceutical and animal health research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel. We expended $1.74 billion on research and development activities in 1998, $1.78 billion in 1999, and $2.02 billion in 2000.

We concentrate our pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; cancer; cardiovascular diseases; and infectious diseases. However, we remain opportunistic; therefore, we selectively pursue promising leads in other therapeutic areas. We are actively engaged in biotechnology research programs involving recombinant DNA, proteins, and genomics (the development of therapeutics through identification of disease-causing genes and their cellular function). In addition to discovering and developing new chemical entities, we look for ways to expand the value of existing products through new uses and formulations that can provide additional benefits to patients.

To supplement our internal efforts, we collaborate with independent research organizations, including educational institutions and research-based pharmaceutical and biotechnology companies, and we contract with others for the performance of research in their facilities. We use the services of physicians, hospitals, medical schools, and other research organizations worldwide to conduct clinical trials to establish the safety and effectiveness of new products. We actively seek out investments in external

research and technologies that hold the promise to complement and strengthen our own research efforts. These investments can take many forms, including licensing arrangements, co-development and co-marketing agreements, joint ventures, and acquisitions.

We also conduct extensive work in the animal sciences, including animal nutrition and physiology and veterinary medicine. Certain of our research and development activities relating to pharmaceutical products may be applicable to animal health products. An example is the search for agents that will cure infectious disease.

Drug development is time-consuming, expensive, and risky. On average, only one out of many thousands of chemical compounds discovered by researchers proves to be both medically effective and safe enough to become an approved medicine. The process from discovery to regulatory approval can take more than twelve years. Candidates can fail at any stage of the process, and even late-stage product candidates could fail to receive regulatory approval. We believe our investments in research, both internally and in collaboration with others, have been rewarded by the number of new pharmaceutical compounds and indications in all stages of development. Among our new investigational compounds in the later stages of development are potential therapies for sepsis, osteoporosis, depression, attention deficit/hyperactivity disorder, male erectile dysfunction, various cancers, urinary incontinence, diabetic complications, and infectious diseases. Further, we are studying many other compounds in the earlier stages of development. We are also developing new uses and formulations for many of our important products, such as Zyprexa, Gemzar, ReoPro, and Evista.

Quality Assurance

Our success depends in great measure upon customer confidence in the quality of our products and in the integrity of the data that support their safety and effectiveness. The quality of our products arises from the total commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, and distribution. We have developed quality-assurance procedures relating to the quality and integrity of scientific information and production processes.

Control of production processes involves rigid specifications for ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. We perform tests at various stages of production processes and on the final product to assure that the product meets all regulatory requirements and our standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination. Additional assurance of quality is provided by a corporate quality-assurance group that monitors existing pharmaceutical and animal health manufacturing procedures and systems in the parent company, subsidiaries, and affiliates.

In March 2001, we received a warning letter from the FDA following an agency inspection of one of our manufacturing facilities in connection with our pending application for approval to market a rapid-acting intramuscular formulation of Zyprexa. The letter cited several instances of deviations from the FDA's current Good Manufacturing Practices ("cGMP's"). We are working closely with the agency to implement corrective measures to address the cGMP deficiencies. We do not currently expect a material financial impact from the issues raised by the warning letter or the corrective measures we are implementing. However, the timing and nature of the resolution of the cGMP issues will depend on our ability to demonstrate to the satisfaction of the FDA the quality and reliability of our manufacturing controls and procedures. The failure to satisfy cGMP requirements established by the FDA could lead to delays in the release of products and in the approval of new drug applications, recalls or seizures, and other sanctions.

Executive Officers of the Company

The following table sets forth certain information regarding our executive officers. All but one of the executive officers have been employed by the Company in executive or managerial positions during the last five years. Charles E. Golden joined the Company as Executive Vice President and Chief Financial Officer and was elected to the Board of Directors in March 1996. He previously had held a number of executive positions with General Motors Corporation ("GM") including Vice President of GM and Chairman and Managing Director of Vauxhall Motors Limited, a GM subsidiary in the United Kingdom, from 1993 to 1996, Vice President and Treasurer from 1992 to 1993, and Treasurer from 1989 to 1992. We have listed Mitchell E. Daniels, Jr., who resigned in January of 2001 to head the White House Office of Management and Budget, because he was an executive officer throughout 2000.

Unless otherwise indicated, the term of office for each executive officer expires on the date of the annual meeting of the Board of Directors, to be held on April 16, 2001, or on the date his or her successor is chosen and qualified. No director or executive officer of the Company has a "family relationship" with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer of the Company and any other person pursuant to which the executive officer was selected.

Name	Age	Offices
Sidney Taurel	52	Chairman of the Board (since January 1999), President and Chief Executive Officer (since June 1998), and a Director
Charles E. Golden	54	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
John C. Lechleiter	47	Executive Vice President, Pharmaceutical Products and Corporate Development (since January 2001)
Gerhard N. Mayr	54	Executive Vice President, Pharmaceutical Operations (since October 1999)
August M. Watanabe, M.D.	59	Executive Vice President, Science and Technology (since February 1996) and a Director
Mitchell E. Daniels, Jr.	51	Senior Vice President, Corporate Strategy and Policy (since June 1998) (resigned January 2001)
Rebecca O. Kendall	53	Senior Vice President and General Counsel (since June 1998)
Pedro P. Granadillo	53	Senior Vice President, Human Resources and Manufacturing (since June 1998)

Employees

At the end of 2000, we employed approximately 35,700 people, including approximately 17,800 employees outside the United States. A substantial number of our employees have long records of continuous service.

Financial Information Relating to Business Segments and Classes of Products

You can find financial information relating to our business segments and classes of products in our 2000 Annual Report at page 27 under "Segment Information" (pages 14-15 of Exhibit 13 to this Form 10-K). That information is incorporated into this Report by reference.

The relative contribution of any particular product to our consolidated net sales changes from year to year. In addition, the contribution of any particular product to net income is not necessarily the same as its contribution to consolidated net sales. This is due to several factors, including the introduction of new products by us and by other manufacturers.

Financial Information Relating to Foreign and Domestic Operations

You can find financial information relating to foreign and domestic operations in our 2000 Annual Report at page 27 under "Segment Information" (pages 14-15 of Exhibit 13). That information is incorporated in this Report by reference.

To date, our overall operations abroad have not been significantly deterred by local restrictions on the transfer of funds from branches and subsidiaries located abroad, including the availability of dollar exchange. We cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on our future operations or what other restrictions may be imposed in the future. In addition, changing currency values can

either favorably or unfavorably affect our financial position and results of operations. We actively manage foreign exchange risk through various hedging techniques including the use of foreign currency contracts.

Item 2. Properties

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2000, we owned 12 production and distribution facilities in the United States and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 9.6 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis; Clinton and Lafayette, Indiana; and Carolina and Mayaguez, Puerto Rico. We also lease sales offices in a number of cities located in the United States and abroad.

We own production and distribution facilities in 18 countries outside the United States and Puerto Rico, containing an aggregate of approximately 4.4 million square feet of floor space. Major production sites include facilities in the United Kingdom, France, Spain, Ireland, Brazil, Mexico, and Italy. We lease production and warehouse facilities in Puerto Rico and several countries outside the United States.

Our research and development facilities in the United States consist of approximately 4.0 million square feet and are located primarily in Indianapolis and Greenfield, Indiana. Our major research and development facilities abroad are located in Belgium, Germany, and the United Kingdom and contain an aggregate of approximately 610,000 square feet.

We believe that none of our properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business. The buildings we own are of varying ages and in good condition.

Item 3. Legal Proceedings

Prozac Patent Litigation

In 1996 Barr Laboratories, Inc. (“Barr”), a generic pharmaceutical manufacturer, submitted an abbreviated new drug application (“ANDA”) to the U.S. FDA seeking to market a generic form of Prozac in the United States several years before the expiration of our patents. Barr alleged that our U.S. patents covering Prozac are invalid and unenforceable. The compound patent expired in February 2001 and a patent for the method of use of the compound expires in December 2003.

On April 11, 1996, we filed suit in the United States District Court for the Southern District of Indiana seeking a ruling that Barr's challenge to our patents is without merit. In 1997, Geneva Pharmaceuticals, Inc. (“Geneva”), another generic manufacturer, submitted a similar ANDA. On June 23, 1997, we sued Geneva in the same court seeking a similar ruling as in the Barr suit. The two suits were consolidated.

On January 12, 1999, the trial court judge for the Southern District of Indiana granted partial summary judgment in our favor, dismissing the claims of Barr and Geneva based on the patent doctrines of “best mode” and “double patenting.” On January 25, 1999, Barr and Geneva agreed to abandon their remaining two claims (based on the patent doctrines of “anticipation” and “inequitable conduct”) in exchange for a payment of $4 million to be shared among Barr, Geneva, and a third defendant, Apotex, Inc. Barr, Geneva, and Apotex appealed the trial court's January 12, 1999 rulings to the Court of Appeals for the Federal Circuit.

On August 9, 2000, the Court of Appeals ruled in favor of our 2001 patent but found our 2003 patent to be unenforceable for double patenting. On October 6, 2000 we petitioned for a rehearing by the Court of Appeals. The Court of Appeals has not yet ruled on our petition. Such petitions for rehearing are rarely granted; therefore, there can be no assurance that the court will rehear this matter. There can also be no assurance that, if the case is accepted for review by the court, the decision invalidating the 2003 patent will be reversed. Should we be unsuccessful in overturning the decision upon a rehearing, we would petition the U.S. Supreme Court for a writ of certiorari. However, the U.S. Supreme Court rarely grants such petitions in patent cases.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac, challenging one or both of the patents. In late 1998, Zenith Goldline Pharmaceuticals, Inc., Teva Pharmaceuticals USA, and Cheminor Drugs, Ltd. together with one of its subsidiaries (“Cheminor”) filed ANDAs, challenging the 2003 patent. In January 1999, Novex Pharma, a division of Apotex, Inc., filed an ANDA challenging both patents. Later in 1999, Cheminor and Schein Pharmaceuticals, Inc. each filed an ANDA for a different dosage form. In 2000, Barr and Teva both filed additional ANDAs for the different dosage form, and Alphapharm Pty. Ltd. also filed ANDAs for two dosage forms. We have filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that all these challenges to the patent(s) are without merit.

For information about the expected financial impact of the Prozac patent litigation, see “Financial Expectations for 2001” under Part II, Item 7, Management’s Discussion and Analysis of Results of Operation and Financial Condition. That discussion is incorporated by reference in this section.

Other Matters

We are currently a defendant in a variety of product liability litigation lawsuits involving primarily diethylstilbestrol (“DES”) and Prozac. In approximately 75 actions, including several with multiple claimants, plaintiffs seek to recover damages on behalf of children or grandchildren of women who

ingested DES during pregnancy. In another approximately 15 actions, plaintiffs seek to recover damages as a result of the ingestion of Prozac.

In March 1996, the Federal Trade Commission (“FTC”) commenced a non-public antitrust investigation focusing on the pharmaceutical industry practice of providing discounts or rebates to managed-care organizations and certain other purchasers. We have responded to two subpoenas from the FTC requesting production of certain documents and other discovery responses. We believe that all of our actions have been lawful and proper and are cooperating with the investigation.

We are also a defendant in other litigation, including product liability and patent suits, of a character regarded as normal to our business.

While it is not possible to predict or determine the outcome of the legal actions and investigations pending against us, we believe that except as referred to above with respect to the Prozac patent litigation, the costs associated with all such matters will not have a material adverse effect on our consolidated financial position or liquidity but could possibly be material to our consolidated results of operations in any one accounting period.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2000, no matters were submitted to a vote of security holders.

Part II

Item 5. Market For the Company's Common Stock and Related Stockholder Matters

You can find information relating to the principal market for our common stock and related stockholder matters, in our 2000 Annual Report under “Selected Quarterly Data (unaudited),” at page 29 (page 16 of Exhibit 13), and “Selected Financial Data (unaudited),” at page 30 (pages 17-18 of Exhibit 13). That information is incorporated in this Report by reference.

You can find information concerning sales of put options and other equity derivatives related to repurchases of Lilly stock in Note 9 to the consolidated condensed financial statements, pages 37-38 of our 2000 Annual Report (pages 26-28 of Exhibit 13). All those transactions were exempt from registration under Section 4(2) of the Securities Act of 1933. No public offering or public solicitation was used in the offering of those securities. The transactions were privately negotiated, and all offerees and purchasers were accredited investors and/or qualified institutional buyers.

Item 6. Selected Financial Data

You can find selected financial data for each of our five most recent fiscal years in our 2000 Annual Report under “Selected Financial Data (unaudited),” at page 30 (pages 17-18 of Exhibit 13). That information is incorporated in this Report by reference.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

You can find management's discussion and analysis of results of operations and financial condition in the following portions of our 2000 Annual Report (found at pages 1-8 of Exhibit 13):

“Review of Operations—Operating Results From Continuing Operations—2000” (pages 16-19)
“Review of Operations—Operating Results From Continuing Operations—1999” (pages 19-20)
“Review of Operations—Discontinued Operations” (page 20)
“Review of Operations—Financial Condition” (pages 20-21)
“Review of Operations—Euro Conversion” (pages 21-22)
“Review of Operations—Financial Expectations for 2001” (page 22)
“Review of Operations—Legal and Environmental Matters” (pages 22-23)
“Review of Operations—Other Matters” (page 23)
“Review of Operations—Private Securities Litigation Reform Act of 1995 – a Caution Concerning Forward-Looking Statements” (page 23)

The information referred to above is incorporated in this Report by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

You can find quantitative and qualitative disclosures about market risk (*e.g.*, interest rate risk) in our 2000 Annual Report at “Review of Operations – Financial Condition” at page 21 (page 5 of Exhibit 13). That information is incorporated in this Report by reference.

Item 8. Financial Statements and Supplementary Data

You can find the consolidated financial statements of the Company and its subsidiaries in our 2000 Annual Report at pages 18, 24-26, and 28 (Consolidated Statements of Income, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Consolidated Statements of Comprehensive Income), page 27 (Segment Information), and pages 31-43 (Notes to Consolidated Financial Statements) (together, pages 9-15 and 19-34 of Exhibit 13). You can find the Report of Independent Auditors at page 45 of the Annual Report (page 36 of Exhibit 13). All of the above information is incorporated in this Report by reference.

Also incorporated by reference is information on quarterly results of operations, which can be found in our 2000 Annual Report under “Selected Quarterly Data (unaudited),” at page 29 (page 16 of Exhibit 13).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Part III

Item 10. Directors and Executive Officers of the Company

You can find information relating to our Board of Directors in our Proxy Statement dated March 5, 2001, under “Board of Directors” at pages 5-8, and information relating to our executive officers at page 8 of this Form 10-K under “Executive Officers of the Company.” In addition, you can find information relating to certain filing obligations of directors and executive officers under the federal securities laws in the Proxy Statement under “Other Matters – Section 16(a) Beneficial Ownership Reporting Compliance” at page 29. All of that information is incorporated in this Report by reference.

Item 11. Executive Compensation

You can find information on executive compensation in the Proxy Statement under “Directors’ Compensation” and “Executive Compensation” at pages 14-22. That information is incorporated in this Report by reference, except that the Compensation Committee Report is not incorporated in this Report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

You can find information relating to ownership of the Company's common stock by management and by persons known by the Company to be the beneficial owners of more than five percent of the outstanding shares of common stock in the Proxy Statement under “Ownership of Company Stock,” at pages 24 and 25. That information is incorporated in this Report by reference.

Item 13. Certain Relationships and Related Transactions

None.

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries, included in our 2000 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income—Years Ended December 31, 2000, 1999, and 1998 (page 18) (page 9 of Exhibit 13)

Consolidated Balance Sheets—December 31, 2000 and 1999 (pages 24-25) (pages 10-11 of Exhibit 13)

Consolidated Statements of Cash Flows—Years Ended December 31, 2000, 1999, and 1998 (page 26) (page 12 of Exhibit 13)

Consolidated Statements of Comprehensive Income—Years Ended December 31, 2000, 1999, and 1998 (page 28) (page 13 of Exhibit 13)

Segment Information (page 27) (pages 14-15 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 31-43) (pages 19-34 of Exhibit 13)

(a)2. Financial Statement Schedules

The consolidated financial statement schedules of the Company and its subsidiaries have been omitted because they are not required, are inapplicable, or are adequately explained in the financial statements.

Financial statements of interests of 50 percent or less, which are accounted for by the equity method, have been omitted because they do not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary.

(a)3. Exhibits

3.1 Amended Articles of Incorporation

3.2 By-laws

4.1 Rights Agreement dated as of July 20, 1998, between Eli Lilly and Company and Norwest Bank Minnesota, N.A., as Successor Rights Agent

4.2 Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, NA, as Trustee

4.3 Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on, February 1, 1991

4.4 Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, NA, Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005[1]

4.5 Form of Indenture with respect to Capital Securities dated August 5, 1999 between Lilly del Mar, Inc. and Citibank, NA, as Trustee[1]

4.6 Form of Resettable Coupon Capital Security due 2029 of Lilly del Mar, Inc.[1]

4.7 Form of Floating Rate Capital Security due 2029 of Lilly del Mar, Inc.[1]

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[1] This exhibit is not filed with this Report. Copies will be furnished to the Securities and Exchange Commission upon request.

10.1 1989 Lilly Stock Plan, as amended[2]

10.2 1994 Lilly Stock Plan, as amended[2]

10.3 1998 Lilly Stock Plan, as amended[2]

10.4 The Lilly Deferred Compensation Plan, as amended[2]

10.5 The Lilly Directors' Deferral Plan, as amended[2]

10.6 The Eli Lilly and Company EVA® Bonus Plan, as amended[2, 3]

10.7 Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees, as amended[2]

12. Computation of Ratio of Earnings from Continuing Operations to Fixed Charges

13. Annual Report to Shareholders for the Year Ended December 31, 2000 (portions

incorporated by reference into this Form 10-K)

21. List of Subsidiaries

23. Consent of Independent Auditors

99. Cautionary Statement under Private Securities Litigation Reform Act of 1995 -- "Safe Harbor" for Forward-Looking Disclosures

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the fourth quarter of 2000.

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[2] Indicates management contract or compensatory plan.

[3] EVA® is a registered trademark of Stern Stewart & Co.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Eli Lilly and Company

By /s/ Sidney Taurel

Sidney Taurel, Chairman of the Board,
President and Chief Executive Officer

March 27, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 27, 2001 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ Sidney Taurel SIDNEY TAUREL	Chairman of the Board, President, Chief Executive Officer, and a Director (principal executive officer)
/s/ Charles E. Golden CHARLES E. GOLDEN	Executive Vice President, Chief Financial Officer, and a Director (principal financial officer)
/s/ Arnold C. Hanish ARNOLD C. HANISH	Chief Accounting Officer (principal accounting officer)
/s/ Steven C. Beering STEVEN C. BEERING, M. D.	Director
/s/ Sir Winfried F. W. Bischoff SIR WINFRIED F. W. BISCHOFF	Director
/s/ George M. C. Fisher GEORGE M. C. FISHER	Director

Signature	Title
/s/ Karen N. Horn KAREN N. HORN, Ph.D.	Director
/s/ Alfred G. Gilman	Director

ALFRED G. GILMAN, M. D., Ph.D.	
/s/ Kenneth L. Lay	Director
KENNETH L. LAY, Ph.D.	
/s/ Franklyn G. Prendergast	Director
FRANKLYN G. PRENDERGAST, M. D., Ph.D.	
/s/ Kathi P. Seifert	Director
KATHI P. SEIFERT	
/s/ August M. Watanabe	Director
AUGUST M. WATANABE, M. D.	
/s/ Alva O. Way	Director
ALVA O. WAY	

Trademarks Used In This Report

Trademarks or service marks owned by Eli Lilly and Company or its subsidiaries or affiliates, when first used in this Report, appear with an initial capital and are followed by the symbol ® or ™, as applicable. In subsequent uses of the marks in the Report, the symbols are omitted.

Index to Exhibits

The following documents are filed as part of this report:

Exhibit		**Location**
3.1	Amended Articles of Incorporation	Incorporated by reference from Exhibit 3 to the Company's Report on Form 10-Q for the quarter ended September 30, 1998
3.2	By-laws	Incorporated by reference from Exhibit 4.2 to the Company's Registration on Form S-8, Registration No. 333-90397
4.1	Rights Agreement dated as of July 20, 1988, between Eli Lilly and Company and Norwest Bank Minnesota, N. A., as Successor Rights Agent	Incorporated by reference from Exhibit 1 to the Company's Report on Form 8-K filed July 23, 1998
4.2	Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee	Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 33-38347
4.3	Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on February 1, 1991	Incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-3, Registration No. 33-38347
4.4	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005	*
4.5	Form of Indenture with respect to Capital Securities dated August 5, 1999, between Lilly del Mar, Inc. and Citibank, N.A., as Trustee	*
4.6	Form of Resettable Coupon Capital Security due 2029 of Lilly del Mar, Inc.	*
4.7	Form of Floating Rate Capital Security due 2029 of Lilly del Mar, Inc.	*

Exhibit	**Location**

10.1	1989 Lilly Stock Plan, as amended	Attached
10.2	1994 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10 to the ompany's Report on Form 10-Q for the quarter ended September 30, 1996
10.3	1998 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit A to the Company's proxy statement dated March 3, 2000
10.4	The Lilly Deferred Compensation Plan, as amended	Incorporated by reference from Exhibit 10.4 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1994
10.5	The Lilly Directors' Deferral Plan, as amended	Incorporated by reference from Exhibit 10.5 to the Company's Report on Form 10-K for the year ended December 31, 1999
10.6	The Eli Lilly and Company EVA® Bonus Plan, as amended	Attached
10.7	Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees	Incorporated by reference from Exhibit 10.7 to the Company's Report on Form 10-K for the year ended December 31, 1998
12.	Computation of Ratio of Earnings to Fixed Charges	Attached
13.	Annual Report to Shareholders for the Year Ended December 31, 2000 (portions incorporated by reference in this Form 10-K)	Attached
21.	List of Subsidiaries	Attached
23.	Consent of Independent Auditors	Attached
99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 -- "Safe Harbor" for Forward-Looking Disclosures	Attached

* Not filed with this report. Copies will be furnished to the Securities and Exchange Commission upon request.

EXHIBIT 10.1

1989 LILLY STOCK PLAN
(as amended through October 18, 1993)

The 1989 Lilly Stock Plan ("1989 Plan") authorizes the Compensation Committee ("Committee") to provide officers and other key executive and management employees of Eli Lilly and Company and its subsidiaries ("Company") with certain rights to acquire shares of the Company's common stock. The Company believes that this incentive program will cause those persons to contribute materially to the growth of the Company, thereby benefiting its shareholders.

1. Administration.

The 1989 Plan shall be administered and interpreted by the Committee consisting of not less than three persons appointed by the Board of Directors of the Company from among its members. A person may serve on the Committee only if he is not eligible and has not been eligible to receive a Grant under the 1989 Plan or the 1984 Plan for at least one year before his appointment. The Committee shall determine the fair market value of the Company's common stock ("Lilly Stock") for purposes of the 1989 Plan. The Committee's decisions shall be final and conclusive with respect to the interpretation and administration of the 1989 Plan and any Grant made under it.

2. Grants.

Incentives under the 1989 Plan shall consist of incentive stock options, nonqualified stock options, stock appreciation rights, performance awards, and restricted stock grants (collectively, "Grants"). All Grants shall be subject to the terms and conditions set out herein and to such other terms and conditions consistent with this 1989 Plan as the Committee deems appropriate. The Committee shall approve the form and provisions of each Grant. Grants under a particular section of the 1989 Plan need not be uniform and Grants under two or more sections may be combined in one instrument.

3. Eligibility for Grants.

Grants may be made to any employee of the Company who is an officer or other key executive, professional, or administrative employee, including a person who is also a member of the Board of Directors ("Eligible Employee"). The Committee shall select the persons to receive Grants ("Grantees") from among the Eligible Employees and determine the number of shares subject to any particular Grant.

4. Shares Available for Grant.

(a) Shares Subject to Issuance or Transfer. Subject to adjustment as provided in Section 4(b), the aggregate number of shares of Lilly Stock that may be issued or transferred under the 1989 Plan is 10,000,000. The shares may be authorized but unissued shares or treasury shares. The number of shares available for Grants at any given time shall be 10,000,000, reduced by the aggregate of all shares previously issued or transferred and of shares which may become subject to issuance or transfer under then-outstanding Grants. Payment in cash in lieu of shares shall be deemed to be an issuance of the shares.

(b) Recapitalization Adjustment. If any subdivision or combination of shares of Lilly Stock or any stock dividend, capital reorganization, recapitalization, consolidation, or merger with the Company as the surviving corporation occurs after the adoption of the 1989 Plan, the Committee shall make such adjustments as it determines appropriate in the number of shares of Lilly Stock that may be issued or

transferred in the future under Section 4(a). The Committee shall also adjust the number of shares and Option Price in all outstanding Grants made before the event.

5. Stock Options.

The Committee may grant options qualifying as incentive stock options under the Internal Revenue Code of 1986, as amended ("Incentive Stock Options"), and nonqualified options (collectively, "Stock Options"). The following provisions are applicable to Stock Options:

(a) Option Price. The price at which Lilly Stock may be purchased by the Grantee under a Stock Option ("Option Price") shall be the fair market value of Lilly Stock on the date of the Grant.

(b) Option Exercise Period. The Committee shall determine the option exercise period of each Stock Option. The period shall not exceed ten years from the date of the Grant.

(c) Exercise of Option. A Grantee may exercise a Stock Option by delivering a notice of exercise to the Company, either with or without accompanying payment of the Option Price. The notice of exercise, once delivered, shall be irrevocable.

(d) Satisfaction of Option Price. The Grantee shall pay the Option Price in cash, or with the Committee's permission, by delivering shares of Lilly Stock already owned by the Grantee and having a fair market value on the date of exercise equal to the Option Price, or a combination of cash and shares. The Grantee shall pay the Option Price not later than thirty (30) days after the date of a statement from the Company following exercise setting forth the Option Price, fair market value of Lilly Stock on the exercise date, the number of shares of Lilly Stock that may be delivered in payment of the Option Price, and the amount of withholding tax due, if any. If the Grantee fails to pay the Option Price within the thirty (30) day period, the Committee shall have the right to take whatever action it deems appropriate, including voiding the option exercise. The Company shall not issue or transfer shares of Lilly Stock upon exercise of a Stock Option until the Option Price is fully paid.

(e) Share Withholding. With respect to any nonqualified option, the Committee may, in its discretion and subject to such rules as the Committee may adopt, permit the Grantee to satisfy, in whole or in part, any withholding tax obligation which may arise in connection with the exercise of the nonqualified option by electing to have the Company withhold shares of Lilly Stock having a fair market value equal to the amount of the withholding tax.

(f) Limits on Incentive Stock Options. The aggregate fair market value of the stock covered by Incentive Stock Options granted under the 1989 Plan or any other stock option plan of the Company or any subsidiary or parent of the Company that become exercisable for the first time by any employee in any calendar year shall not exceed $100,000. The aggregate fair market value will be determined at the time of grant. An Incentive Stock Option shall not be granted to any Eligible Employee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any subsidiary or parent of the Company.

6. Stock Appreciation Right.

The Committee may grant a Stock Appreciation Right ("SAR") with respect to any Stock Option granted under the 1989 Plan either at the time of grant of the option or thereafter and may also grant an

SAR with respect to any outstanding option granted under a prior plan of the Company ("Prior Stock Option"). The following provisions are applicable to each SAR:

(a) Options to Which Right Relates. Each SAR shall specify the Stock Option or Prior Stock Option to which the right is related, together with the Option Price and number of option shares subject to the SAR at the time of its grant.

(b) Requirement of Employment. An SAR may be exercised only while the Grantee is in the employment of the Company, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(c) Exercise. A Grantee may exercise an SAR in whole or in part by delivering a notice of exercise to the Company. The notice of exercise once given shall be irrevocable. An SAR may be exercised only to the extent that the Stock Option or Prior Stock Option to which it relates is exercisable. If a Grantee exercises an SAR, he agrees to forgo the right to purchase the number of shares under the related Stock Option or Prior Stock Option with respect to which the SAR has been exercised.

(d) Payment and Form of Settlement. If a Grantee exercises an SAR, he shall receive the aggregate of the excess of the fair market value of each share of Lilly Stock with respect to which the SAR is being exercised over the Option Price of each such share. Payment may be made in cash, Lilly Stock at fair market value, or a combination of the two, in the discretion of the Committee. The fair market value shall be determined as of the date of exercise.

(e) Expiration and Termination. Each SAR shall expire on a date determined by the Committee at the time of grant. If a Stock Option or Prior Stock Option is exercised in whole or in part, the SAR related to the shares purchased shall terminate immediately.

7. Performance Awards.

The Committee may grant Performance Awards under which payment shall be made in shares of Lilly Stock ("Performance Shares"), or in cash, if the financial performance of the Company or any subsidiary or division of the Company ("Business Unit") selected by the Committee during the Award Period meets certain financial goals established by the Committee. The following provisions are applicable to Performance Awards:

(a) Award Period. The Committee shall determine and include in the Grant the period of time (which shall be four (4) or more consecutive fiscal quarters) for which a Performance Award is made ("Award Period"). Grants of Performance Awards need not be uniform with respect to the length of the Award Period. A Performance Award may not be granted for a given Award Period after one half (1/2) or more of such period has elapsed.

(b) Performance Goals and Payment. Before a Grant is made, the Committee shall establish objectives ("Performance Goals") that must be met by the Business Unit during the Award Period as a condition to payment being made under the Performance Award. The Performance Goals, which must be set out in the Grant, may include earnings per share, return on shareholders' equity, return on assets, net income, divisional income, or any other financial measurement established by the Committee. The Committee shall also establish the method of calculating the amount of payment to be made under a Performance Award if the Performance Goals are met, including the fixing of a maximum payment.

(c) Computation of Payment. After an Award Period, the financial performance of the Business Unit during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance Award. If the Performance Goals are met or exceeded, the Committee shall determine the number of Performance Shares payable under a Performance Award. The Committee, in its sole discretion, may elect to pay the Performance Award in cash in lieu of issuing or transferring part or all of the Performance Shares. The cash payment shall be based on the fair market value of Lilly Stock on the date of payment. The Company shall promptly notify each Grantee of the number of Performance Shares and the amount of cash he or she is to receive.

(d) Revisions for Significant Events. At any time before payment is made, the Committee may revise the Performance Goals and the computation of payment if unforeseen events occur during an Award Period which have a substantial effect on the financial performance of the Business Unit and which in the judgment of the Committee make the application of the Performance Goals unfair unless a revision is made.

(e) Requirement of Employment. To be entitled to receive payment under a Performance Award, a Grantee must remain in the employment of the Company to the end of the Award Period, except that the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

8. Restricted Stock Grants.

The Committee may issue or transfer shares of Lilly Stock to a Grantee under a Restricted Stock Grant. Upon the issuance or transfer, the Grantee shall be entitled to vote the shares and to receive any dividends paid. The following provisions are applicable to Restricted Stock Grants:

(a) Requirement of Employment. If the Grantee's employment terminates during the period designated in the Grant as the "Restricted Period," the Restricted Stock Grant terminates and the shares of Lilly Stock must be returned immediately to the Company. However, the Committee may provide for partial or complete exceptions to this requirement as it deems equitable.

(b) Restrictions on Transfer and Legend on Stock Certificate. During the Restriction Period, a Grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Lilly Stock except to a Successor Grantee under Section 10(a). Each certificate for shares issued or transferred under a Restricted Stock Grant shall contain a legend giving appropriate notice of the restrictions in the Grant.

(c) Lapse of Restrictions. All restrictions imposed under the Restricted Stock Grant shall lapse upon the expiration of the Restriction Period if all conditions stated in Sections 8(a) and (b) have been met. The Grantee shall then be entitled to have the legend removed from the certificate.

9. Amendment and Termination of the 1989 Plan.

(a) Amendment. The Company's Board of Directors may amend or terminate the 1989 Plan, subject to shareholder approval to the extent necessary for the continued applicability of Rule 16b-3 under the Securities Exchange Act of 1934, but no amendment shall withdraw from the Committee the right to select Grantees under Section 3.

(b) Termination of 1989 Plan. The 1989 Plan shall terminate on the fifth anniversary of its effective date unless terminated earlier by the Board or unless extended by the Board.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the 1989 Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the Grantee consents or unless the Committee acts under Section 10(e). The termination of the 1989 Plan shall not impair the power and authority of the Committee with respect to outstanding Grants. Whether or not the 1989 Plan has terminated, an outstanding Grant may be terminated or amended under Section 10(e) or may be amended by agreement of the Company and the Grantee consistent with the 1989 Plan.

10. General Provisions.

(a) Prohibitions Against Transfer. Only a Grantee or his authorized representative may exercise rights under a Grant. Such persons may not transfer those rights. When a Grantee dies, the personal representative or other person entitled under a Prior Stock Option or a Grant under the 1989 Plan to succeed to the rights of the Grantee ("Successor Grantee") may exercise the rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Substitute Grants. The Committee may make a Grant to an employee of another corporation who becomes an Eligible Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company in substitution for a stock option, stock appreciation right, performance award, or restricted stock grant granted by such corporation ("Substituted Stock Incentive"). The terms and conditions of the substitute Grant may vary from the terms and conditions required by the 1989 Plan and from those of the Substituted Stock Incentives. The Committee shall prescribe the exact provisions of the substitute Grants, preserving where possible the provisions of the Substituted Stock Incentives. The Committee shall also determine the number of shares of Lilly Stock to be taken into account under Section 4.

(c) Subsidiaries. The term "subsidiary" means a corporation of which the Company owns directly or indirectly 50% or more of the voting power.

(d) Fractional Shares. Fractional shares shall not be issued or transferred under a Grant, but the Committee may pay cash in lieu of a fraction or round the fraction.

(e) Compliance with Law. The 1989 Plan, the exercise of Grants, and the obligations of the Company to issue or transfer shares of Lilly Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payment to Grantees.

(f) Ownership of Stock. A Grantee or Successor Grantee shall have no rights as a shareholder of the Company with respect to any shares of Lilly Stock covered by a Grant until the shares are issued or transferred to the Grantee or Successor Grantee on the Company's books.

(g) No Right to Employment. The 1989 Plan and the Grants under it shall not confer upon any Grantee the right to continue in the employment of the Company or affect in any way the right of the Company to terminate the employment of a Grantee at any time.

(h) Effective Date of the 1989 Plan. The 1989 Plan shall become effective upon its approval by the Company's shareholders at the annual meeting to be held on April 17, 1989, or any adjournment of the meeting.

EXHIBIT 10.6

Eli Lilly and Company EVA(R) Bonus Plan

(As amended and restated effective January 1, 2001)

TABLE OF CONTENTS

ARTICLE I

Bonus Plan Statement of Purpose and Summary

1.1 The purpose of the Plan is to provide a system of bonus compensation for selected employees of Eli Lilly and Company and subsidiaries which will promote the maximization of shareholder value over the long term, by linking performance incentives to increases in shareholder value. The Plan ties bonus compensation to Economic Value Added ("EVA"), and thereby rewards employees for long-term, sustained improvement in shareholder value. The Plan is intended to satisfy the requirements for providing "performance-based" compensation under Section 162(m) of the Internal Revenue Code.

1.2 EVA will be used as the performance measure of value creation. EVA reflects the benefits and costs of capital employment. Employees create economic value when the operating profits from a business exceed the capital charge associated with the capital assets employed.

ARTICLE II

Definitions of Certain Terms

Unless the context requires a different meaning, the following terms shall have the following meanings:

2.1 "Company" means Eli Lilly and Company and its subsidiaries.

2.2 "Committee" means the Compensation Committee, the members of which shall be selected by the Board of Directors of Eli Lilly and Company from among its members. Each Committee member shall, at all times while serving, satisfy the requirements of an "outside director" within the meaning of Section 162(m).

2.3 "Participant" means any employee of the Company designated by the Committee as a participant in the Plan with respect to any Plan Year. In its discretion, the Committee may designate Participants either on an individual basis or by determining that all employees in specified job categories, classifications or levels shall be Participants.

2.4 "Plan" means this Eli Lilly and Company EVA Bonus Plan.

2.5 "Plan Year" means the applicable calendar year.

2.6 "Retirement" means the cessation of employment upon the attainment of at least eighty age and benefit years of service points, as determined by the provisions of The Lilly Retirement Plan as amended from time to time, assuming eligibility to participate in that plan.

2.7 "Disability" means the time at which a Participant becomes eligible for a payment under The Lilly Extended Disability Plan, assuming eligibility to participate in that plan.

2.8 "Section 162(m)" means Section 162(m) of the Internal Revenue Code of 1986, as amended.

2.9 "Section 162(m) Participant" means a Participant who, in the determination of the Committee, is or may in the future become a "covered employee" under Section 162(m).

ARTICLE III

Definition and Components of EVA

The following terms set forth the calculation of EVA and the components of calculating EVA. The calculation of EVA for a Plan Year is used in determining the bonuses earned by Participants under the Plan, as set forth in Article IV.

3.1 "Economic Value Added" or "EVA" means the excess NOPAT that remains after subtracting the Capital Charge.

3.2 "Net Operating Profit After Tax" or "NOPAT" means the after tax operating earnings of the Company for the Plan Year. NOPAT is determined by adding net sales plus other net income and subtracting the following: cost of goods sold, marketing and administrative expenses (excluding goodwill amortization and interest expense), amortization of research and development, taxes (excluding the tax benefit of interest expense) and amounts associated with discontinued operations.

3.3 "Capital Charge" means the deemed opportunity cost of employing capital for the Company. The Capital Charge is calculated by multiplying Operating Capital times Operating Cost of Capital (OC*) and Cash Capital times Non-operating Cost of Capital (NOC*), then summing the two products.

3.4 "Operating Capital" means the net investment employed in the operations of the Company produced by operations. Operating Capital is calculated by adding together current assets (excluding cash and short-term marketable securities), net property, plant and equipment, gross goodwill, net intangibles, other assets, and capitalized research and development, and the present value of operating leases, and subtracting the following: non-interest bearing liabilities and capital associated with discontinued operations.

3.5 "Cash Capital" means the aggregate balances of any cash plus short-term marketable securities.

3.6 "Cost of Operating Capital" or "OC*" is the percentage calculated from the weighted average of Cost of Debt and Cost of Equity. Cost of Operating Capital for each Plan Year is determined by the Chief Financial Officer and approved by the Committee.

3.7 "Cost of Non-operating Capital" or "NOC*" is the after-tax opportunity cost of capital associated with Cash Capital, as deemed appropriate for Cash Capital by the Chief Financial Officer and approved by the Committee.

3.8 "Cost of Debt" capital is the marginal long-term borrowing rate adjusted for the credit rating of the Company times (one minus the tax rate).

3.9 "Cost of Equity" capital is the risk-free rate plus (beta times the market risk premium). For this purpose, the risk-free rate, the beta and the market risk premium are determined by the Chief Financial Officer and approved by the Committee.

ARTICLE IV

Definition and Computation of the EVA Bonus

Bonuses earned under the Plan for a Plan Year are determined based on a comparison of actual EVA to the "Target EVA" for the year, which is established as described below to motivate improvement in EVA from year to year. The result of this comparison is adjusted by a "Leverage Factor" measuring the volatility of industry EVA returns. The factor produced is referred to as the "Bonus Multiple," which is multiplied by the Participant's applicable "Target Bonus" amount established for the year to produce the actual bonus earned. This amount, referred to as the "Declared Bonus," is credited to the Participant's "Bonus Bank" balance and paid out in the manner provided below.

4.1 Target Bonus. The Target Bonus Award will be determined by the Committee on a basis that takes into consideration a Participant's salary grade level, job responsibilities as well as past and expected future job performance. Target Bonus Awards for a particular Plan Year are expressed as a percentage of annual base salary as in effect on the fixed annual merit date in that Plan Year or on the first day of the Plan Year if there is no merit date in a given Plan Year. Early in the Plan Year, each Participant (except Section 162(m) Participants) will receive three Target Bonus Awards to correspond with each of the three performance ratings. The actual Target Bonus used to calculate the Declared Bonus will be determined by the individual's performance rating for the given Plan Year as determined by the individual's supervision. Section 162(m) Participants shall receive a single Target Bonus Award. If a Participant moves from any salary grade level to a G-6 or above salary grade level during a Plan Year, he/she will receive an award that is pro-rated according to time based on the Target Bonus percentage and base salary applicable to each such salary grade. For purposes of pro-rating, the individual's performance rating at the end of the Plan Year will apply to the entire Plan Year. The Target Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee shall determine the appropriate foreign exchange conversion methodology in its discretion.

4.2 Declared Bonus. A Declared Bonus is the applicable Target Bonus times the Bonus Multiple.

4.3 Bonus Multiple. The Bonus Multiple is Actual EVA less Target EVA (positive or negative), divided by the Leverage Factor, plus one. In years in which the Bonus Multiple is equal to or less than zero, the Target Bonus used to calculate the Declared Bonus will be the Target Bonus associated with the "Successful" or middle performance rating.

4.4 Bonus Bank. All bonus payments are made from the Bonus Bank. Each Participant's beginning Bonus Bank balance in his/her first year of participation is zero. The Bonus Bank is increased or decreased for any Plan Year by the amount of Declared Bonus. If the

available Bonus Bank balance after the inclusion of the Declared Bonus is positive, the Participant will be paid from such balance up to the applicable Target Bonus Award, plus one third of any such balance that remains after subtracting the Target Bonus Award from the available Bonus Bank balance. If the available Bonus Bank balance is negative, no payment will occur. After any payment as calculated above, the beginning Bonus Bank balance for the subsequent Plan Year shall be as follows:

(a) Any positive balance shall be carried forward as the new beginning Bonus Bank balance.
(b) Any negative balance resulting from a negative Bonus Multiple shall be carried forward as the new beginning (negative) Bonus Bank balance.
(c) If the Bonus Bank balance has been completely depleted because of a Bonus Multiple between zero and 1.0, the new beginning Bonus Bank balance shall be zero.

4.5 Target EVA. The Target EVA for each year will be calculated as follows:

Target EVA = Prior Year's Actual EVA + Expected Improvement

4.6 Expected Improvement. The Expected Improvement is the additional EVA amount determined by the Committee that is used to assure that a minimum level of improvement is achieved in order to earn target awards.

4.7 Leverage Factor. The Leverage Factor determines the rate of change in bonuses as EVA surpasses or falls short of Target EVA, determined by the Committee from an evaluation of the long term volatility of industry returns.

4.8 Section 162(m) Requirements, Bonus Maximum. In the case of Section 162(m) Participants, all determinations necessary for computing Declared Bonuses for a Plan Year, including establishment of all components of the EVA calculation and of the Target Bonus percentages, shall be made by the Committee not later than 90 days after the commencement of the Plan Year. As and to the extent required by Section 162(m), the terms of a Declared Bonus for a Section 162(m) Participant must state, in terms of an objective formula or standard, the method of computing the amount of compensation payable to the Section 162(m) Participant, and must preclude discretion to increase the amount of compensation payable that would otherwise be due under the terms of the award. Notwithstanding anything elsewhere in the Plan to the contrary, the maximum amount of the Declared Bonus that may be paid from the Bonus Bank to a Section 162(m) Participant during any one calendar year shall be $5 million.

ARTICLE V

Plan Administration

5.1 Time of Payment. Payment from the Bonus Bank will be made before April 1 of the year following the Plan Year.

5.2 Certification of Results. Before any amount is paid under the Plan, the Committee shall certify in writing the calculation of EVA for the Plan Year and the satisfaction of all other material terms of the calculation of the Declared Bonus.

5.3 New Hires, Promotions. New hires or individuals promoted who are first selected for participation by the Committee effective on a date other than January 1 will participate on a pro-rata basis in their first year of participation, based on the Declared Bonus determined for the Plan Year, pro-rated for that period of the year during which the Participant was selected for participation in the Plan. Any such Participant's Target Bonus Award for that Plan Year will be determined, as applicable, based on his or her annual base salary as in effect on (i) the fixed annual merit date in that Plan Year, (ii) January 1 in years when there is no merit date in that Plan Year, or (iii) on the date of hire or promotion if hired or promoted after the fixed annual merit date in that Plan Year. Notwithstanding the foregoing, in the case of any Section 162(m) Participant who first becomes eligible to participate in the Plan after January 1 of a Plan Year, such Participant's Declared Bonus may be determined, at the discretion of the Committee exercised at the time such participation begins, in a manner that complies with the requirements for "performance-based compensation" under Section 162(m).

5.4 Termination of Employment, Demotions. If a Participant ceases employment with the Company on or before the last day of a Plan Year for reasons other than Retirement, Disability or death, or is demoted to a non-global job level with the Company effective on or before the last day of a Plan Year, the Participant shall receive no Declared Bonus for that Plan Year, and his/her Bonus Bank balance shall be forfeited. The Committee may make complete or partial exceptions to this rule, in its sole discretion, and, with respect to employees other than executive officers, may delegate to the vice president responsible for human resources the authority to make such exceptions. Notwithstanding the foregoing, with respect to the Declared Bonus for a Section 162(m) Participant, any such termination of employment or demotion shall result in payment of a bonus based on the Declared Bonus determined for the Plan Year but pro-rated for the period of the year prior to such event, subject to the Committee's discretion to forfeit all or any portion of such bonus, and the Bonus Bank balance shall be forfeited as well.

5.5 Leave of Absence. If a Participant takes an approved leave of absence from employment during a Plan Year, the Participant will not be eligible for the Declared Bonus for the Plan Year. The Committee may make complete or partial exceptions to this rule, in whatever manner it deems appropriate, and, with respect to employees other than executive officers, may delegate to the vice president responsible for human resources the authority to make such exceptions. The Participant will retain his Bonus Bank balance if he returns to employment following the period of leave of absence. Notwithstanding the foregoing, with respect to the Declared Bonus for a Section 162(m) Participant, any such leave of absence shall result in payment of a bonus based on the Declared Bonus determined for the Plan Year but pro-rated for the period of the year that the Participant was actively employed by the Company, subject to the Committee's discretion to forfeit all or any portion of such bonus.

5.6 Retirement, Disability or Death. If a Participant ceases employment with the Company on or before the last day of the Plan Year because of Retirement, Disability or death, the Participant or personal representative, as the case may be, shall receive into his or her Bonus Bank before April 1 of the next year a Declared Bonus based on the Declared Bonus determined for the Plan Year but pro-rated for that period of the Plan Year during which the Participant was an active employee of the Company. Following payment of such bonus in accordance with Section 4.4, any remaining positive Bonus Bank balance shall be paid.

5.7 Plan Participation. A Participant may not participate in this Plan for any portion of a Plan Year for which he/she is entitled to receive payment under the Eli Lilly and Company Contingent Compensation Plan, and shall be treated in accordance with Section 5.3.

5.8 Forfeiture Events. Notwithstanding any other provision of this Plan to the contrary, the Committee may, in its sole discretion, upon the occurrence of a Forfeiture Event (as defined below), forfeit all or any portion of a Participant's Declared Bonus and Bonus Bank balance and terminate such Participant's future participation in the Plan. For purposes hereof, a "Forfeiture Event" shall mean the occurrence of one or more of the following events with respect to a Participant: (i) the termination or forced resignation from employment of the Participant for "misconduct" (as defined in the Company's Employee Information Handbook), (ii) any violation by the Participant of the Guidelines of Company Policy (the "Redbook") that is detrimental to the Company, (iii) any breach of a noncompetition, nonsolicitation, nondisclosure or other restrictive covenant that may apply by written agreement between the Company and the Participant or (iv) Participant's having engaged in any other activity that, in the judgment of the Committee, is detrimental to the business, affairs or reputation of the Company (including, without limitation, engaging in any criminal activity). Except with respect to executive officers, the Committee may delegate the authority granted under this section to the vice president responsible for human resources.

ARTICLE VI

General Provisions

6.1 Withholding of Taxes. The Company shall have the right to withhold the amount of taxes which in the sole determination of the Company are required to be withheld under law with respect to any amount due or payable under the Plan.

6.2 Expenses. All expenses and costs in connection with the adoption and administration of the Plan shall be borne by the Company.

6.3 No Prior Right or Offer, No Right to Future Participation. Participation in the Plan for Plan Years is determined from year-to-year by the Committee in its sole discretion. Except and until expressly granted pursuant to the Plan, nothing in the Plan shall be deemed to give any employee any contractual or other right to participate in the benefits of the Plan. No award to any such Participant in any Plan Year shall be deemed to create a right to receive any award or to participate in the benefits of the Plan in any subsequent Plan Year.

6.4 Rights Personal to Employee. Any rights provided to an employee under the Plan shall be personal to such employee, shall not be transferable, except by will or pursuant to the laws of descent or distribution, and shall be exercisable during his/her lifetime, only by such employee, or a court-appointed guardian for the employee.

6.5 Non-Allocation of Award. In the event of a suspension of the Plan in any Plan Year, as described in Section 11.1, no awards under the Plan for the Plan Year during which such suspension occurs shall affect the calculation of awards for any subsequent period in which the Plan is continued.

ARTICLE VII

Limitations

7.1 No Continued Employment. Neither the establishment of the Plan nor the grant of an award thereunder shall be deemed to constitute an express or implied contract of employment of any Participant for any period of time or in any way abridge the rights of the Company to determine the terms and conditions of employment or to terminate the employment of any employee with or without notice or cause at any time.

7.2 No Vested Rights. Except as expressly provided herein, no employee or other person shall have any claim of right (legal, equitable, or otherwise) to any award, allocation, or distribution or any right, title, or vested interest in any amounts in his/her Target Bonus or Bonus Bank and no officer or employee of the Company or any other person shall have any authority to make representations or agreements to the contrary.

7.3 Non-alienation. No interest conferred herein to a Participant shall be assignable or subject to claim by a Participant's creditors. Except as provided in Subsection 6.1, no Participant or other person shall have any right or power, by draft, assignment, or otherwise, to mortgage, pledge or otherwise encumber in advance any payment under the Plan, and every attempted draft, assignment, or other disposition of any interest or payment under this Plan shall be absolutely void.

ARTICLE VIII

Committee Authority

8.1 Authority to Interpret and Administer. Except as otherwise expressly provided herein, full power and authority to interpret and administer this Plan shall be vested in the Committee. The Committee may from time to time make such decisions and adopt such rules and regulations for implementing the Plan as it deems appropriate for any Participant under the Plan. Except as to Participants who are treated by the Company as executive officers of the Company for federal securities law reporting purposes (including any Section 162(m) Participant), the Committee may delegate in writing to officers or employees of the Company the power and authority granted by this Section 8.1 to interpret and administer this Plan. Any decision taken by the Committee or officer or employee to whom authority has been delegated, arising out of or in connection with the construction, administration, interpretation and effect of the Plan shall be final, conclusive and binding upon all Participants and any person claiming under or through Participants.

8.2 Adjustments for Significant Events. Prior to the beginning of a Plan Year, the Committee may specify with respect to Declared Bonuses for the Plan Year that EVA will be determined before the effects of acquisitions, divestitures, restructurings or changes in corporate capitalization, accounting changes, and/or events that are treated as extraordinary items for accounting purposes; provided that such adjustments shall be made only to the extent permitted by Section 162(m) in the case of Section 162(m) Participants.

8.3 Financial And Accounting Terms. Except as otherwise provided, financial and accounting terms, including terms defined herein, shall be determined by the Committee in accordance with generally accepted accounting principles and as derived from the audited consolidated financial statements of the Company, prepared in the ordinary course of business.

8.4 Section 162(m) Deferrals. To the extent that, notwithstanding the terms of the Plan, the Company's tax deduction for remuneration in respect of the payment of bonuses under the Plan to a Section 162(m) Participant would be disallowed under Section 162(m) by reason of the fact that such Participant's applicable employee remuneration, as defined in Section 162(m), either exceeds or, if such bonus were paid, would exceed the $1,000,000 limitation in Section 162(m), any such excess (as determined by the Committee in its sole discretion) shall be automatically deferred under the terms of The Lilly Deferred Compensation Plan. Payment of any deferred amounts shall be made to the Participant in the first year thereafter that the Company's tax deduction in respect of the payment would not be disallowed under Section 162(m).

ARTICLE IX

Notice

9.1 Any notice to be given to the Company or Committee pursuant to the provisions of the Plan shall be in writing and directed to Secretary, Eli Lilly and Company, Lilly Corporate Center, Indianapolis, IN 46285.

ARTICLE X

Effective Date

10.1 This Plan, as amended and restated herein, shall be effective for the Plan Year commencing January 1, 2001. The terms of this restated plan shall apply to Declared Bonuses earned in 2001 and future Plan Years. All Declared Bonuses earned in Plan Years prior to 2001 shall be payable in accordance with the terms of the Plan as in effect for the year to which the Declared Bonus relates. The final Plan Year of this Plan, unless amended by the Board (or the Committee) and approved by the stockholders to the extent provided in Article XI, shall be the 2002 Plan Year.

ARTICLE XI

Amendments and Termination

11.1 This Plan may be amended, suspended or terminated at any time at the discretion of the Board of Directors of Eli Lilly and Company, and may, except for this Section 11.1, be amended at any time by the Committee. Solely to the extent deemed necessary or advisable by the Board (or the Committee) for purposes of complying with Section 162(m), the Board (or the Committee) may seek the approval of any such amendment by the Company's stockholders. Any such approval shall be by the affirmative votes of a majority of the

stockholders of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with applicable state law and the Articles of Incorporation and By-laws of the Company. The material terms of EVA must be disclosed to and reapproved by the stockholders of the Company no later than the Company's annual meeting of stockholders that occurs in the year 2003.

ARTICLE XII

Applicable Law

12.1 This Plan shall be governed by and construed in accordance with the provisions of the laws of the State of Indiana without regard to the conflicts-of-law principles of Indiana.

EXHIBIT 12. STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS FROM CONTINUING OPERATIONS TO FIXED CHARGES

Eli Lilly and Company and Subsidiaries
(Dollars in millions)

	Years Ended December 31,				
	2000	1999	1998	1997	1996
Consolidated Pretax Income from Continuing Operations before Extraordinary Item	$3,858.7	$3,245.4	$2,665.0	$2,901.1	$2,131.3
Interest from Continuing Operations and Other Fixed Charges	225.4	213.1	198.3	253.1	323.8
Less Interest Capitalized during the Period from Continuing Operations	(43.1)	(29.3)	(17.0)	(20.4)	(35.8)
Earnings	$4,041.0	$3,429.2	$2,846.3	$3,133.8	$2,419.3
Fixed Charges/1/	$ 225.4	$ 213.2	$ 200.5	$ 256.8	$ 328.5
Ratio of Earnings to Fixed Charges	17.9	16.1	14.2	12.2	7.4

/1/ Fixed charges include interest from continuing operations for all years presented and preferred stock dividends for 1996 through 1999.

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR
ENDED DECEMBER 31, 2000

REVIEW OF OPERATIONS

OPERATING RESULTS FROM CONTINUING OPERATIONS - 2000

SUMMARY

Income from continuing operations was $3.06 billion, or $2.79 per share, in 2000 and $2.55 billion, or $2.30 per share, in 1999. Comparisons between 2000 and 1999 are made difficult by the impact of several unusual items that are reflected in the company's operating results for both years. Excluding these unusual items, which are discussed further below, income from continuing operations for 2000 and 1999 would have been $2.90 billion, or $2.65 per share, and $2.52 billion, or $2.28 per share, respectively. This represents an increase in net income and earnings per share of 15 percent and 16 percent, respectively. The 2000 increases are attributed to growth in sales, improved gross margin, and increased interest income, offset by increases in operating expenses at a rate greater than sales growth. Earnings per share also benefited from a decrease in the number of shares outstanding as a result of the share repurchase plan.

UNUSUAL ITEMS

As noted above, several unusual items are reflected in the company's operating results for 2000 and 1999. These transactions are summarized as follows (see Note 3, Note 5, and Note 13 to the consolidated financial statements for additional information):

- A gain of $214.4 million on the sale of its interest in Kinetra LLC to WebMD Corporation (WebMD) and the subsequent sale of WebMD stock, which increased earnings per share by approximately $.20 in the first quarter of 2000
- Approximately $91 million in additional product sales in 1999 as a result of year-2000-related wholesaler buying that normally would have been realized during the first quarter of 2000, which increased earnings per share by approximately $.06 in the fourth quarter of 1999 and reduced earnings per share by the same amount in the first quarter of 2000
- A pretax gain of $110.0 million in settlement of litigation with Biochimica Opos S.p.A., which increased earnings per share by approximately $.06 in the fourth quarter of 1999
- A pretax charge of $26.0 million associated with the decommissioning of manufacturing facilities and other site charges, which decreased earnings per share by approximately $.02 in the fourth quarter of 1999
- A pretax gain of $67.8 million on the sale of U.S. and Puerto Rican Lorabid marketing rights, which increased earnings per share by approximately $.05 in the third quarter of 1999
- A pretax charge of $150.0 million as the result of a contribution to Eli Lilly and Company Foundation, which decreased earnings per share by approximately $.09 in the first quarter of 1999
- A pretax charge of $61.4 million associated with the impairment of certain manufacturing assets, which decreased earnings per share by approximately $.04 in the first quarter of 1999.

SALES

The company's reported worldwide sales for 2000 increased 9 percent, to $10.86 billion. Worldwide sales for 1999 included approximately $91 million of sales relating to year-2000 wholesaler buying that normally would have been recognized in 2000. Adjusting for the impact of year-2000 wholesaler buying, sales growth for 2000 would have been 10 percent. Sales growth was led by Zyprexa, a treatment for schizophrenia and related psychoses; diabetes care products; Evista, an osteoporosis treatment and prevention agent; and Gemzar, an oncolytic product. Sales in the U.S. increased 12 percent, to $7.00 billion. Sales outside the U.S. increased 2 percent, to $3.86 billion. Worldwide sales reflected volume growth of 11 percent, partially offset by a 2 percent decrease in exchange rates while prices remained flat.

Prozac and Sarafem had combined worldwide sales of $2.57 billion, representing a decrease of 2 percent. Sarafem, launched in the U.S. in August 2000 for the treatment of premenstrual dysphoric disorder (PMDD), had sales of $14.6 million in 2000. Combined sales of Prozac, an antidepressant, and Sarafem in the U.S. increased 7 percent, to $2.23 billion. The U.S. sales comparison benefited, in part, from wholesaler inventory reductions in 1999. Prozac sales outside the U.S. decreased 35 percent, to $341.0 million, primarily due to continuing generic competition in the U.K. On August 9, 2000, the Court of Appeals for the Federal Circuit affirmed a lower court decision upholding the company's February 2001 U.S. patent on Prozac but ruled that the company's December 2003 patent is invalid. Reference is made to the discussion of the Prozac patent litigation under "Legal and Environmental Matters." For additional information on the expected financial impact of the ruling, see the "Financial Expectations for 2001" section below.

Zyprexa had worldwide sales of $2.35 billion in 2000, representing an increase of 25 percent. Sales in the U.S. increased 23 percent, to $1.69 billion. Sales in 2000 benefited from the U.S. Food and Drug Administration (FDA) approval of Zyprexa for the treatment of acute mania associated with bipolar disorder in the first quarter of 2000. Sales outside the U.S. increased 28 percent, to $659.3 million.

Gemzar had worldwide sales of $559.3 million in 2000, representing an increase of 23 percent. Sales in the U.S. increased 20 percent, to $315.9 million. Sales outside the U.S. increased 27 percent, to $243.3 million.

Evista had worldwide sales of $521.5 million in 2000, representing an increase of 60 percent. Sales in the U.S. increased 52 percent, to $433.8 million. Increases in sales in the U.S. were due, in part, to the FDA approval of Evista for the treatment of postmenopausal osteoporosis in the U.S., which was granted in September 1999. Sales outside the U.S. increased 115 percent, to $87.7 million.

ReoPro had worldwide sales of $418.1 million in 2000, representing a decrease of 7 percent. Sales in the U.S. decreased 12 percent, to $315.1 million. Sales outside the U.S. increased 15 percent, to $102.9 million. The decline in sales was due to increased competition in the U.S.

Diabetes care products, composed primarily of Humulin, the company's biosynthetic human insulin; Humalog, the company's insulin analog; and Actos, an oral diabetes agent introduced in the U.S. in 1999, had worldwide revenues of $1.76 billion in 2000, representing an increase of 22 percent. Diabetes care revenues in the U.S. increased 21 percent, to $1.08 billion. Diabetes care revenues outside the U.S. increased 22 percent, to $685.8 million. Humulin had worldwide sales of $1.11 billion, representing an increase of 2 percent. Humulin sales in the U.S. decreased 6 percent, to $617.4 million, largely as a result of patients shifting to Humalog and Humalog mixture products. Humulin sales outside the U.S. increased 15 percent, to $497.0 million. Humalog had worldwide sales of $350.2 million, representing an increase of 56 percent. Sales of Humalog benefited from the U.S. launch of Humalog Mix75/25(TM) Pen in the first quarter of 2000. The company received service revenues of $223.0 million in 2000 relating to sales of Actos. Actos, an oral agent for the treatment of type 2 diabetes, was introduced to the U.S. diabetes market in the third quarter of 1999. Actos is manufactured and sold in the U.S. by Takeda Chemical Industries, Ltd., and is copromoted by Takeda and the company.

Anti-infectives had worldwide sales of $894.3 million in 2000, representing a decrease of 13 percent, due to continuing competitive pressures. Cefaclor and Lorabid accounted for the majority of the decline. Sales in the U.S. decreased 12 percent, to $189.4 million. Sales outside the U.S. decreased 13 percent, to $702.9 million.

Animal health products had worldwide sales of $668.5 million in 2000, representing an increase of 6 percent. Sales in the U.S. increased 8 percent, to $307.5 million. Sales outside the U.S. increased 5 percent, to $360.9 million. The increases were balanced across the product line.

The company's payments under federally mandated Medicaid rebate programs reduced 2000 sales by approximately $464.0 million compared with approximately $352.5 million in 1999.

GROSS MARGIN, COSTS, AND EXPENSES

The 2000 gross margin improved to 81.1 percent of sales compared with 79.0 percent for 1999. This increase was attributed primarily to favorable changes in product mix due to growth in sales of newer products and, to a lesser extent, increased production volume.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 16 percent in 2000. Research and development expenses increased 13 percent, to $2.02 billion, in 2000 as the company continued to invest in both the early and late stages of its internal product pipeline and external collaborations. Marketing and administrative expenses increased 17 percent primarily due to sales force expansions and increased marketing efforts to support the company's newer products.

Net other income for 2000 was $267.9 million, an increase of $142.8 million, excluding the gain on the sale of Kinetra LLC in 2000 and the gains from the litigation settlement and the sale of Lorabid marketing rights and a charge for the contribution to Eli Lilly and Company Foundation in 1999. The increase was primarily due to an increase in interest income.

The company's effective tax rate for 2000 was 20.8 percent compared with 21.5 percent for 1999. Excluding the unusual items discussed previously, the effective tax rate for both 2000 and 1999 was 22.0 percent. See Note 11 to the consolidated financial statements for additional information.

OPERATING RESULTS FROM CONTINUING OPERATIONS - 1999

SUMMARY

Income from continuing operations was $2.55 billion, or $2.30 per share, in 1999 and $2.10 billion, or $1.87 per share, in 1998 (before the 1998 extraordinary charge of $7.2 million, or $.01 per share). Comparisons between 1999 and 1998 are made difficult by the impact of several unusual items that are reflected in the company's operating results for both years. Excluding these unusual items, which are discussed further below, income from continuing operations before extraordinary item for 1999 and 1998 would have been $2.52 billion, or $2.28 per share, and $2.17 billion, or $1.94 per share, respectively. This represents an increase in net income and earnings per share of 16 percent and 18 percent, respectively. The 1999 increases are attributed to increased sales, improved gross margin, and increases in operating expenses at a rate less than sales growth. Earnings per share also benefited from a decrease in the number of shares outstanding as a result of the share repurchase plan.

UNUSUAL ITEMS

As noted above, several unusual items are reflected in the company's operating results for 1999 and 1998. The unusual items relating to 1999 are summarized under Operating Results From Continuing Operations - 2000. During 1998, the company recognized a pretax charge of $127.5 million for acquired in-process technology associated with a collaboration with ICOS Corporation, which reduced earnings per share by approximately $.07 net of tax. See Note 3 to the consolidated financial statements for additional information.

SALES

The company's reported worldwide sales for 1999 increased 8 percent, to $10.0 billion. Approximately $91 million of worldwide sales were related to year-2000 wholesaler buying. Sales growth was led by Zyprexa, Evista, Gemzar, diabetes care products, and ReoPro. Sales in the U.S. were $6.23 billion, a 7 percent increase, while sales outside the U.S. were $3.77 billion, an 11 percent increase. Worldwide sales reflected volume growth of 9 percent and a 1 percent increase in prices, partially offset by a 2 percent decrease in exchange rates.

Worldwide sales of Prozac in 1999 were $2.61 billion, representing a decrease of 7 percent. Approximately $12 million of worldwide Prozac sales were related to year-2000 wholesaler buying. Prozac sales in the

U.S. decreased 8 percent, to $2.09 billion. Sales of Prozac outside the U.S. decreased 3 percent, to $525.1 million. The decline in U.S. sales was largely caused by wholesaler stocking that occurred during 1998, creating a significant adverse impact on sales comparisons in 1999. Prozac sales in the U.S. were also adversely affected by increased competition from new antidepressants.

Zyprexa posted worldwide sales of $1.89 billion in 1999, representing an increase of 31 percent. Approximately $17 million of worldwide Zyprexa sales were related to year-2000 wholesaler buying. U.S. sales of Zyprexa increased 22 percent, to $1.37 billion. Sales outside the U.S. increased 62 percent, to $513.9 million.

Worldwide Gemzar sales of $455.8 million in 1999 reflected an increase of 49 percent. Sales in the U.S. increased 57 percent, to $264.2 million, and sales outside the U.S. increased 38 percent, to $191.6 million.

Worldwide ReoPro sales of $447.3 million in 1999 reflected an increase of 22 percent. U.S. sales of ReoPro increased 18 percent, to $357.5 million. ReoPro sales outside the U.S. increased 43 percent, to $89.8 million.

Worldwide diabetes care revenues, composed of Humulin, Humalog, Iletin, and Actos, increased 19 percent, to $1.38 billion, in 1999. Approximately $23 million of worldwide diabetes care revenues were related to year-2000 wholesaler buying. Diabetes care revenue in the U.S. increased 18 percent, to $827.7 million. Diabetes care revenue outside the U.S. increased 21 percent, to $547.5 million. Worldwide Humulin sales increased 13 percent, to $1.09 billion. U.S. Humulin sales increased 12 percent and Humulin sales outside the U.S. increased 15 percent. Worldwide Humalog sales were $224.5 million, representing an increase of 73 percent. The company received service revenues of $37.9 million in 1999 relating to sales of Actos.

Worldwide sales of anti-infectives decreased 12 percent in 1999, to $1.02 billion, as a result of continuing competitive pressures. U.S. and international anti-infectives sales declined 22 percent and 8 percent, respectively. Cefaclor and Lorabid accounted for the majority of the decline in anti-infectives sales, offsetting growth in Vancocin outside the U.S.

Evista sales increased $182.0 million, or 126 percent, to $326.1 million in 1999. Evista was launched in the first quarter of 1998 in the U.S. for the prevention of osteoporosis in postmenopausal women. During 1999, the company received approval from the FDA to promote Evista for the treatment of postmenopausal osteoporosis. While most of the sales dollar growth for Evista occurred in the U.S., international Evista sales reflected strong percentage growth.

Worldwide sales of animal health products of $627.8 million in 1999 reflected a 2 percent increase. Sales were flat in the U.S. and increased 4 percent outside the U.S.

The company's payments under federally mandated Medicaid rebate programs reduced 1999 sales by approximately $352.5 million compared with approximately $278.6 million in 1998.

GROSS MARGIN, COSTS, AND EXPENSES
- ---------------------------------

The 1999 gross margin improved to 79.0 percent of sales compared with 78.2 percent for 1998. This increase was attributed primarily to production efficiencies and, to a lesser extent, favorable changes in product mix, as well as the expiration of Humulin and Humalog royalties in August 1998.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) increased 3 percent in 1999. Research and development investments increased 3 percent, to $1.78 billion, in 1999 as the company continued to build internal and external capabilities. Reduced incentive compensation significantly offset the expense growth. In addition, Phase III clinical trials for certain compounds were discontinued in the first half of 1999, which contributed to the reduction in the growth rate. Marketing and administrative expenses increased 4 percent due to increased spending to support new product launches around the world and enhancements in the company's global information technology systems, including year-2000 readiness efforts. However, the impact of these increases was mitigated by expense management initiatives and reduced incentive compensation.

Excluding the gains from the litigation settlement, the sale of Lorabid marketing rights, and the charge for the contribution to Eli Lilly and Company Foundation, net other income for 1999 was $125.1 million, which represents a decrease of $24.2 million. Other income in 1998 benefited from gains generated from the sale of investments.

The company's effective tax rate for 1999 was 21.5 percent compared with 21.3 percent for 1998. Excluding the unusual items discussed previously, the effective tax rates for 1999 and 1998 were 22.0 percent and 22.2 percent, respectively.

DISCONTINUED OPERATIONS

Discontinued operations consist of the company's PCS health-care-management business. In November 1998, the company entered into an agreement to sell PCS for $1.60 billion in cash. The sale was closed in January 1999 and the resulting net gain on disposal of $174.3 million, net of $8.7 million tax benefit, was recognized in the first quarter of 1999. See Note 4 to the consolidated financial statements for further information.

FINANCIAL CONDITION

As of December 31, 2000, cash, cash equivalents, and short-term investments totaled approximately $4.62 billion compared with $3.84 billion at December 31, 1999. The increase in cash was primarily due to cash generated from operations, partially offset by dividends paid, share repurchases, and capital expenditures. The company acquired approximately 14.8 million shares, for approximately $1.09 billion, during 2000 pursuant to its previously announced $3 billion share repurchase program. Total debt at December 31, 2000, was $2.82 billion, a decrease of $235.4 million. The company believes that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund essentially all the company's operating needs, including debt service, capital expenditures, and dividends in 2001.

The company believes that amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. The company's commercial paper program is also backed by $2.02 billion of committed bank credit facilities.

In the normal course of business, operations of the company are exposed to fluctuations in interest rates. These fluctuations can vary the costs of financing, investing, and operating. The company addresses a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact on earnings of fluctuations in interest rates. All derivative activities are for purposes other than trading.

The company's primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, the company strives to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate swaps to help maintain that balance. Based on the company's overall interest rate exposure at December 31, 2000, including derivatives and other interest rate risk sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2000, would have no material impact on earnings, cash flows, or fair values of interest rate risk sensitive instruments over a one-year period. Similarly, a hypothetical 10 percent change in interest rates from 1999 applied to the fair value of the instruments as of December 31, 1999, would have had no material impact on earnings, cash flows, or fair values of interest rate risk sensitive instruments during 2000.

Capital expenditures of $677.9 million during 2000 were $149.6 million more than in 1999 as the company continued to invest in manufacturing and research and development initiatives and related infrastructure. The company expects near-term capital expenditures to increase from 2000 levels. Sufficient cash flows exist to meet these near-term requirements.

Dividends of $1.04 per share were paid in 2000, an increase of 13 percent from the $.92 per share paid in 1999. In the fourth quarter of 2000, effective for the first-quarter dividend in 2001, the quarterly dividend

was increased to $.28 per share (8 percent), resulting in an indicated annual rate for 2001 of $1.12 per share. The year 2000 was the 116th consecutive year in which the company made dividend payments and the 33rd consecutive year in which dividends have been increased.

EURO CONVERSION

On January 1, 1999, 11 European nations adopted a common currency, the euro, and formed the European Economic and Monetary Union (EMU). For a three-year transition period, both the euro and individual participants' currencies will remain in circulation. After July 1, 2002, at the latest, the euro will be the sole legal tender for EMU countries. Greece has joined the original 11 countries adopting the euro in 2002. The adoption of the euro affects a multitude of financial systems and business applications as the commerce of these nations is transacted in the euro and the existing national currency.

The company has created the capability to transact in both the euro and the legacy currency and has converted the underlying information systems within the EMU countries from the legacy currencies to the euro. The company will continue to address euro-related issues and their impact on information systems, currency exchange rate risk, taxation, contracts, competition, and pricing. Action plans currently being implemented are expected to result in compliance with all laws and regulations; however, there can be no certainty that such plans will be successfully implemented or that external factors will not have an adverse effect on the company's operations. Any costs of compliance associated with the adoption of the euro are expensed as incurred and the company does not expect these costs to be material to its results of operations, financial condition, or liquidity.

FINANCIAL EXPECTATIONS FOR 2001

As noted above, a federal appeals court has upheld the company's February 2001 U.S. Prozac patent but ruled that the 2003 patent is invalid. In addition, the FDA has granted the company an additional six months of market exclusivity for Prozac under a federal statute encouraging pediatric studies of certain medicines, extending market exclusivity for Prozac to August 2, 2001, assuming the 2003 Prozac patent ruling is not overturned. The company expects a very substantial decline in Prozac sales in the U.S. in the 12 months following the entry of generic fluoxetine in the U.S. market. Prozac sales in the U.S. represent a significant portion of the company's overall sales, accounting for approximately 20 percent of the company's consolidated worldwide sales in 2000.

As a result of the above, excluding any unusual items, the company anticipates earnings per share for 2001 to be in the range of $2.75 to $2.85, assuming the entry of generic fluoxetine in the U.S. in August 2001. Strong earnings growth in the first half of 2001 is expected to more than offset declines in the second half, resulting in single-digit earnings growth for the full year compared with 2000 earnings per share of $2.65, excluding unusual items.

In addition, excluding any unusual items, the company expects to post single-digit sales growth in 2001. Excluding worldwide sales of Prozac, the company expects sales to grow in the mid-teens for 2001. Several key products are expected to contribute to this growth, including Zyprexa; Evista; Gemzar; diabetes care products; and drotrecogin alfa (activated), also known by the proposed trade name Zovant, a therapy for sepsis, which was submitted for regulatory approval in early 2001 and is expected to launch in the second half of 2001. The growth in these products is anticipated to more than offset the very substantial expected decline of Prozac sales and continuing decreases in sales of anti-infectives and ReoPro.

Gross margins as a percent of sales are expected to decline in 2001 in the range of .5 to 1.0 percentage points as a result of the decline in Prozac sales. The company anticipates marketing and administrative expenses will grow in the low-to-mid single digits. Underlying marketing expenses for continuing products, excluding Prozac, are expected to grow in the double digits as the company continues to invest in sales force expansions and increased marketing efforts. Research and development expenses are expected to grow in the low double digits, demonstrating the company's continued commitment to invest in scientific innovation. The tax rate is expected to remain at approximately 22 percent for the full year.

The company believes that the loss of Prozac market exclusivity will not have a material adverse effect on the company's consolidated financial position or liquidity. The actual impact will depend on, among other things, the outcome of the appeal of the Federal Circuit ruling; the timing, number of entrants, and pricing strategies of generic competitors; the continuing growth of the company's other currently marketed products; developments with competitive products; the timing of regulatory approvals; and the expected introduction of new products.

LEGAL AND ENVIRONMENTAL MATTERS

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a $4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company has filed a petition requesting a rehearing by the Court of Appeals.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac, challenging one or both of the patents. In late 1998, Zenith Goldline Pharmaceuticals, Inc.; Teva Pharmaceuticals USA (Teva); and Cheminor Drugs, Ltd., together with one of its subsidiaries (Cheminor), notified the company that they had filed ANDAs challenging the 2003 patent. Also in 1998, Novex Pharma, a division of Apotex, Inc., notified the company that it had filed an ANDA challenging both patents. In 1999, Cheminor notified the company that it had filed an ANDA for a different dosage form. In 2000, Barr and Teva both notified the company that they had filed additional ANDAs for the different dosage form, and Alphapharm Pty. Ltd. also notified the company that it had filed ANDAs for two dosage forms.

The company has filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that all these challenges to the patent(s) are without merit. The cases are awaiting resolution of the petition for rehearing by the Court of Appeals in the original Barr case.

For additional information on the impact of the Prozac patent litigation, see the "Financial Expectations for 2001" section above.

In addition, the company is a defendant in numerous product liability suits involving primarily two products, diethylstilbestrol (DES) and Prozac. See Note 13 to the consolidated financial statements for further information on those matters.

The company's worldwide operations are subject to complex and changing environmental and health and safety laws and regulations, which will continue to require capital investment and operational expenses. The company has also been designated a potentially responsible party with respect to fewer than 10 sites under the federal environmental law commonly known as Superfund. For more information on those matters, see Note 13 to the consolidated financial statements.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above with respect to the Prozac patent litigation, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

OTHER MATTERS

On October 28, 2000, President Clinton signed the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for fiscal year 2001. This legislation includes a provision that repeals the federal ban on the reimportation of most prescription drugs by anyone other than the manufacturer. Consequently, under the new law, wholesalers and pharmacists may be permitted to reimport certain drugs approved for sale in the U.S. and originally sold abroad, subject to several conditions. The law authorizes reimportation from select jurisdictions, including Australia, Canada, the European Union, Israel, Japan, New Zealand, South Africa, and Switzerland.

Before the law takes effect, the secretary of Health and Human Services (HHS) must "demonstrate" to Congress that the law poses no additional risk to public health and safety and will result in significant reductions in drug costs for American consumers. If HHS can make that demonstration, then the FDA must draft regulations prior to implementing the law. In December 2000, the secretary of HHS stated that she would be unable to make the demonstration required by the law. It is uncertain what action, if any, may be taken on this bill by the incoming secretary of HHS or whether Congress will modify the legislation.

The company cannot predict at this time the extent to which it will be affected by this legislation or potential future legislative or regulatory developments in this area. However, if widespread reimportation of the company's products were to occur, this could have a material adverse effect on the company's results of operations.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 - -
A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the company cautions investors that any forward-looking statements or projections made by the company, including those made in this document, are based on management's expectations at the time they are made, but they are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological, and other factors that may affect the company's operations and prospects are discussed in Exhibit 99 to the company's most recent report on Forms 10-Q and 10-K filed with the Securities and Exchange Commission.

Consolidated Statements of Income
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

Year Ended December 31	2000	1999	1998
Net sales	$10,862.2	$10,002.9	$9,236.8
Cost of sales	2,055.7	2,098.0	2,015.1
Research and development	2,018.5	1,783.6	1,738.9
Marketing and administrative	3,228.3	2,757.6	2,658.3
Acquired in-process technology (Note 3)	-	-	127.5
Asset impairment and other site charges (Note 5)	-	87.4	-
Interest expense	182.3	183.8	181.3
Other income--net	(481.3)	(152.9)	(149.3)
	7,003.5	6,757.5	6,571.8
Income from continuing operations before income taxes and extraordinary item	3,858.7	3,245.4	2,665.0
Income taxes (Note 11)	800.9	698.7	568.7
Income from continuing operations before extraordinary item	3,057.8	2,546.7	2,096.3
Income from discontinued operations, net of tax (Note 4)	-	174.3	8.8
Extraordinary item, net of tax (Note 7)	-	-	(7.2)
Net income	$ 3,057.8	$ 2,721.0	$2,097.9
Earnings per share - basic (Note 10):			
Income from continuing operations before extraordinary item	$ 2.83	$ 2.34	$ 1.91
Income from discontinued operations	-	.16	.01
Extraordinary item	-	-	(.01)
Net income	$ 2.83	$ 2.50	$ 1.91
Earnings per share - diluted (Note 10):			
Income from continuing operations before extraordinary item	$ 2.79	$ 2.30	$ 1.87
Income from discontinued operations	-	.16	.01
Extraordinary item	-	-	(.01)
Net income	$ 2.79	$ 2.46	$ 1.87

See notes to consolidated financial statements.

Consolidated Balance Sheets
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

December 31	2000	1999
Assets		
Current Assets		
Cash and cash equivalents	$ 4,114.9	$ 3,700.4
Short-term investments	503.3	135.6
Accounts receivable, net of allowances of $115.3 (2000) and $79.9 (1999)	1,630.7	1,443.2
Other receivables	335.4	399.6
Inventories	883.1	899.6
Deferred income taxes (Note 11)	269.5	240.3
Prepaid expenses	206.1	236.8
Total current assets	7,943.0	7,055.5
Other Assets		
Prepaid retirement (Note 12)	1,032.5	741.1
Investments	395.7	180.3
Sundry	1,143.0	866.8
	2,571.2	1,788.2
Property and Equipment	4,176.6	3,981.5
	$14,690.8	$12,825.2

Consolidated Balance Sheets
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions) - Con't.

December 31	2000	1999
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 7)	$ 184.3	$ 241.5
Accounts payable	661.9	445.5
Employee compensation	468.3	489.3
Dividends payable	315.4	283.0
Income taxes payable (Note 11)	2,200.2	1,445.3
Other liabilities	1,130.6	1,030.8
Total current liabilities	4,960.7	3,935.4
Other Liabilities		
Long-term debt (Note 7)	2,633.7	2,811.9
Deferred income taxes (Note 11)	91.6	137.0
Retiree medical benefit obligation (Note 12)	83.3	115.7
Other noncurrent liabilities	874.6	812.2
	3,683.2	3,876.8
Commitments and contingencies (Note 13)	-	-
Shareholders' Equity (Notes 8 and 9)		
Common stock - no par value		
Authorized shares: 3,200,000,000		
Issued shares: 1,126,567,407 (2000) and 1,091,226,806 (1999)	704.4	682.0
Additional paid-in capital	2,610.0	-
Retained earnings	6,223.2	4,985.6
Employee benefit trust	(2,635.0)	-
Deferred costs - ESOP	(135.0)	(139.9)
Accumulated other comprehensive income (Note 14)	(611.2)	(406.4)
	6,156.4	5,121.3
Less cost of common stock in treasury:		
2000 - 1,007,235 shares		
1999 - 988,902 shares	109.5	108.3
	6,046.9	5,013.0
	$14,690.8	$12,825.2

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

Year Ended December 31	2000	1999	1998
Cash Flows From Operating Activities			
Net income	$ 3,057.8	$ 2,721.0	$ 2,097.9
Adjustments To Reconcile Net Income to Cash Flows From Operating Activities			
Depreciation and amortization	435.8	439.7	490.4
Change in deferred taxes	(442.7)	27.1	25.4
Gain on sale of Kinetra, net of tax	(214.4)	-	-
Gain on sale of PCS, net of tax	-	(174.3)	-
Asset impairment and other site charges, net of tax	-	58.1	-
Other, net	117.3	96.6	153.5
	2,953.8	3,168.2	2,767.2
Changes in operating assets and liabilities:			
Receivables - increase	(165.4)	(179.0)	(403.6)
Inventories - (increase) decrease	9.8	16.9	(55.6)
Other assets - increase	(210.5)	(88.8)	(81.1)
Accounts payable and other liabilities - increase (decrease)	1,143.8	(174.9)	649.4
	777.7	(425.8)	109.1
Net Cash Provided by Operating Activities	3,731.5	2,742.4	2,876.3
Cash Flows From Investing Activities			
Purchase of property and equipment	(677.9)	(528.3)	(419.9)
Disposals of property and equipment	5.1	78.3	30.6
Proceeds from sale of investments	983.9	216.1	273.1
Purchase of investments	(1,233.2)	(162.8)	(57.6)
Proceeds from sale of PCS	-	1,600.0	-
Other, net	(134.4)	(116.6)	(195.1)
Net Cash Provided by (Used in) Investing Activities	(1,056.5)	1,086.7	(368.9)
Cash Flows From Financing Activities			
Dividends paid	(1,126.0)	(1,000.5)	(877.7)
Purchase of common stock and other capital transactions	(1,052.8)	(1,453.0)	(1,999.8)
Issuances under stock plans	178.4	187.5	242.5
Redemption of subsidiary stock	-	-	(172.8)
Net change in short-term borrowings	(203.0)	(139.4)	(170.0)
Proceeds from issuance of long-term debt	1.1	843.5	23.8
Repayments of long-term debt	(27.2)	(13.5)	(30.2)
Net Cash Used for Financing Activities	(2,229.5)	(1,575.4)	(2,984.2)
Effect of exchange rate changes on cash	(31.0)	(49.0)	25.0
Net increase (decrease) in cash and cash equivalents	414.5	2,204.7	(451.8)
Cash and cash equivalents at beginning of year	3,700.4	1,495.7	1,947.5
Cash and cash equivalents at end of year	$ 4,114.9	$ 3,700.4	$ 1,495.7

See notes to consolidated financial statements.

aConsolidated Statements of Comprehensive Income
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

Year Ended December 31	2000	1999	1998
Net income	$3,057.8	$2,721.0	$2,097.9
Other comprehensive income (loss):			
Foreign currency translation adjustments	(170.7)	(177.7)	69.2
Net unrealized gains (losses) on securities (Note 14)	(20.5)	27.8	(2.6)
Minimum pension liability adjustment	(33.6)	(26.7)	(30.8)
Other comprehensive income (loss) before income taxes	(224.8)	(176.6)	35.8
Provision for income taxes related to other comprehensive income items	20.0	-	15.6
Other comprehensive income (loss)	(204.8)	(176.6)	51.4
Comprehensive income	$2,853.0	$2,544.4	$2,149.3

See notes to consolidated financial statements.

Segment Information
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

The company operates in one significant business segment - pharmaceutical products. Operations of the animal health business segment are not material and share many of the same economic and operating characteristics as pharmaceutical products. Therefore, they are included with pharmaceutical products for purposes of segment reporting.

Year Ended December 31	2000	1999	1998
Net sales - to unaffiliated customers			
Neurosciences	$ 5,157.6	$ 4,729.3	$4,487.8
Endocrinology	2,583.5	2,075.5	1,626.6
Anti-infectives	894.3	1,022.3	1,160.9
Animal health	668.5	627.8	614.4
Cardiovascular	587.9	637.6	536.9
Oncology	580.5	486.1	339.2
Gastrointestinal	321.4	354.7	418.0
Other pharmaceutical	68.5	69.6	53.0
Net sales	$10,862.2	$10,002.9	$9,236.8
Geographic Information			
Net sales - to unaffiliated customers/1/:			
United States	$ 7,002.9	$ 6,226.4	$5,836.2
Western Europe	1,773.9	1,888.0	1,692.3
Other foreign countries	2,085.4	1,888.5	1,708.3
	$10,862.2	$10,002.9	$9,236.8
Long-lived assets:			
United States	$ 3,621.0	$ 3,416.8	$3,363.5
Western Europe	735.3	744.2	808.4
Other foreign countries	472.1	470.3	459.3
	$ 4,828.4	$ 4,631.3	$4,631.2

/1/ Net sales are attributed to the countries based on the location of the subsidiary making the sale.

The largest category of products is the neurosciences group, which includes Prozac, Zyprexa, Permax, and Darvon. Endocrinology products consist primarily of Humulin, Evista, Humalog, Humatrope, and Actos. Anti-infectives include primarily Ceclor, Vancocin, Keflex, Nebcin, and Lorabid. Cardiovascular products consist primarily of ReoPro and Dobutrex. The gastrointestinal category is entirely composed of Axid. Oncology products consist primarily of Gemzar. Animal health products include Tylan, Rumensin, Micotil, Surmax, Coban, and other products for livestock and poultry. The other pharmaceutical product group includes other miscellaneous pharmaceutical products and services.

Most of the pharmaceutical products are distributed through wholesalers that serve physicians and other health care professionals, pharmacies, and hospitals. In 2000, the company's three largest wholesalers each accounted for between 14 percent and 18 percent of consolidated net sales. Animal health products are sold primarily to wholesale distributors.

The company's business segments are distinguished by the ultimate end user of the product: humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. The accounting policies of the individual segments are substantially the same as those described in the summary of significant accounting policies in Note 1. Income before taxes for the animal health business was approximately $180.0 million, $165.0 million, and $141.0 million in 2000, 1999, and 1998, respectively. The assets of the animal health business are intermixed with those of the pharmaceutical products

business and are not separately determinable. Long-lived assets disclosed above consist of property and equipment and certain sundry assets of the continuing operations.

The company is exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and the company's results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates.

Selected Quarterly Data (unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

2000	Fourth	Third	Second	First
Net sales	$2,977.7	$2,811.9	$2,621.5	$2,451.1
Cost of sales	565.2	490.1	491.7	508.7
Operating expenses	1,489.4	1,306.4	1,304.2	1,146.8
Other (income) expense - net	(60.6)	17.0	(28.5)	(226.9)
Income before income taxes	983.7	998.4	854.1	1,022.5
Net income	767.3	778.8	666.2	845.5
Earnings per share - basic	.71	.72	.62	.78
Earnings per share - diluted	.70	.71	.61	.77
Dividends paid per share	.26	.26	.26	.26
Common stock prices:				
High	94.50	108.24	101.33	70.86
Low	80.64	67.18	64.13	54.34

1999	Fourth	Third	Second	First
Net sales	$2,820.5	$2,585.2	$2,341.6	$2,255.6
Cost of sales	565.2	548.2	491.1	493.5
Operating expenses	1,285.8	1,139.3	1,110.1	1,006.0
Asset impairment and other site charges	26.0	-	-	61.4
Other (income) expense - net	(80.2)	(41.5)	1.4	151.2
Income from continuing operations before income taxes	1,023.7	939.2	739.0	543.5
Income from:				
Continuing operations	786.3	732.6	576.4	451.4
Discontinued operations	-	-	-	174.3
Net income	786.3	732.6	576.4	625.7
Earnings per share - basic:				
Continuing operations	.73	.68	.53	.41
Discontinued operations	-	-	-	.16
Net income	.73	.68	.53	.57
Earnings per share - diluted:				
Continuing operations	.71	.67	.52	.40
Discontinued operations	-	-	-	.16
Net income	.71	.67	.52	.56
Dividends paid per share	.23	.23	.23	.23
Common stock prices:				
High	77.38	77.19	90.25	97.44
Low	64.13	61.50	65.19	76.19

The company's common stock is listed on the New York, London, Tokyo, and other stock exchanges.

Selected Financial Data (unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

	2000	1999	1998	1997	1996
Operations					
Net sales	$ 10,862.2	$ 10,002.9	$ 9,236.8	$ 7,987.7	$ 6,998.3
Research and development	2,018.5	1,783.6	1,738.9	1,370.2	1,189.5
Other costs and expenses	4,985.0	4,973.9	4,832.9	4,348.2	3,677.5
Gain on sale of DowElanco	-	-	-	(631.8)	-
Income from continuing operations before taxes and extraordinary item	3,858.7	3,245.4	2,665.0	2,901.1	2,131.3
Income taxes	800.9	698.7	568.7	885.2	505.6
Income (loss) from:					
Continuing operations before extraordinary item	3,057.8	2,546.7	2,096.3	2,015.9	1,625.7
Discontinued operations	-	174.3	8.8	(2,401.0)	(102.2)
Net income (loss)	3,057.8	2,721.0	2,097.2/2/	(385.1)	1,523.5
Income from continuing operations before extraordinary item as a percent of sales	28.2%	25.5%	22.7%	25.2%	23.2%
Per-share data - diluted:					
Income (loss) from:					
Continuing operations before extraordinary item	$ 2.79	$ 2.30	$ 1.87	$ 1.78	$ 1.45
Discontinued operations	-	.16	.01	(2.12)	(.09)
Net income (loss)	2.79	2.46	1.87/2/	(.34)	1.36
Dividends declared per share	1.06	.95	.83	.76	.694
Weighted-average number of shares outstanding - diluted (thousands)	1,097,725	1,106,055	1,121,486	1,130,579	1,117,110
Financial Position					
Current assets	$ 7,943.0	$ 7,055.5	$ 5,406.8	$ 5,320.7	$ 3,891.3
Current liabilities	4,960.7	3,935.4	4,607.2	4,191.6	4,222.2
Property and equipment - net	4,176.6	3,981.5	4,096.3	4,101.7	4,307.0
Total assets	14,690.8	12,825.2	12,595.5	12,577.4	14,307.2
Long-term debt	2,633.7	2,811.9	2,185.5	2,326.1	2,516.5
Shareholders' equity	6,046.9	5,013.0	4,429.6	4,645.6	6,100.1
Supplementary Data/1/					
Return on shareholders' equity	55.3%	53.9%	46.2%	37.5%	28.2%
Return on assets	22.9%	21.3%	17.0%	15.4%	11.4%
Capital expenditures	$ 677.9	$ 528.3	$ 419.9	$ 366.3	$ 443.9
Depreciation and amortization	435.8	439.7	490.4	509.8	543.5
Effective tax rate	20.8%	21.5%	21.3%	30.5%/3/	23.7%
Number of employees	35,700	31,300	29,800	28,900	27,400
Number of shareholders of record	59,190	62,300	62,300	58,200	54,500

/1/ All supplementary financial data have been computed using income from continuing operations except for capital expenditures and depreciation and amortization, which include amounts from discontinued operations. The number of employees reflects continuing operations, including controlled joint ventures.

/2/ Reflects the impact of an extraordinary item (see Note 7).

/3/ Excluding the impacts of the unusual transactions reflected in 1997, the effective tax rate would have been 24.1 percent.

Notes to Consolidated Financial Statements
ELILILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

Note 1: Summary of Significant Accounting Policies

Basis of presentation: The accounts of all wholly owned and majority-owned subsidiaries are included in the consolidated financial statements. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares and the effect of all potentially dilutive common shares (primarily unexercised stock options).

Reclassifications: Certain reclassifications have been made to prior-year amounts to conform with current-year presentation.

Cash equivalents: The company considers all highly liquid investments, generally with a maturity of three months or less, to be cash equivalents. The cost of these investments approximates fair value.

Inventories: The company states all its inventories at the lower of cost or market. The company uses the last-in, first-out (LIFO) method for substantially all its inventories located in the continental United States, or approximately 60 percent of its total inventories. Other inventories are valued by the first-in, first-out (FIFO) method. Inventories at December 31 consisted of the following:

	2000	1999
Finished products	$284.3	$295.1
Work in process	380.6	372.7
Raw materials and supplies	230.1	224.7
	895.0	892.5
Increase (decrease) to LIFO cost	(11.9)	7.1
	$883.1	$899.6

Investments: All short-term debt securities are classified as held-to-maturity because the company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Substantially all long-term debt and marketable equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Realized gains and losses on sales of available-for-sale securities are computed based upon initial cost adjusted for any other than temporary declines in fair value. The company owns no investments that are considered to be trading securities.

Derivative financial instruments: The company's derivative activities, all of which are for purposes other than trading, are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As derivative contracts are initiated, the company designates the instruments individually as hedges of underlying financial instruments or anticipated transactions (i.e., underlying exposures). Management reviews the correlation and effectiveness of its derivatives on a periodic basis. Derivative contracts that do not qualify for deferral hedge accounting are marked to market.

For terminations of derivatives receiving deferral accounting, gains and losses are deferred when the related underlying exposures remain outstanding and are included in the measurement of the related transaction or balance. In addition, upon termination of the underlying exposures, the derivative is marked to market and the resulting gain or loss is included with the gain or loss on the related transaction. The company may redesignate the remaining derivative instruments as hedges of other underlying exposures.

The company enters into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally the Japanese yen and the euro). Generally, foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward contracts are principally used to manage exposures arising from affiliate foreign currency balances. These contracts are marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposures. The company also enters into purchased option contracts to hedge anticipated foreign currency transactions, primarily intercompany inventory activities expected to occur within the next year, and foreign currency forward contracts and currency swaps to hedge firm commitments. The contracts are designated and effective as hedges of those future transactions. Gains and losses on these contracts that qualify as hedges are deferred and recognized as an adjustment of the subsequent transaction when it occurs. Forward and option contracts generally have maturities not exceeding 12 months.

The company also enters into interest rate swaps to manage interest rate exposures. The company designates the interest rate swaps as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements.

Goodwill and other intangibles: Goodwill and other intangibles arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from 5-25 years, using the straight-line method. Goodwill and other intangibles are reviewed to assess recoverability when impairment indicators are present. Assets are considered to be impaired and are written down to fair value if expected future operating cash flows of the related assets are less than their carrying amounts. Fair value is the present value of the expected future cash flows of the related assets using a discount rate commensurate with the risk involved. Assets are grouped at the lowest level for which there are identifiable cash flows for purposes of impairment testing. Goodwill and other intangibles and the related allowances for amortization were $233.2 million and $117.8 million, respectively, at December 31, 2000, and $226.2 million and $107.6 million, respectively, at December 31, 1999, and are included in sundry assets in the consolidated balance sheets.

Property and equipment: Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives (generally 12 to 50 years for buildings and 5 to 18 years for equipment). At December 31, property and equipment consisted of the following:

	2000	1999
Land	$ 103.5	$ 104.6
Buildings	2,395.1	2,255.8
Equipment	4,638.5	4,458.9
Construction in progress	647.6	528.0
	7,784.7	7,347.3
Less allowances for depreciation	3,608.1	3,365.8
	$4,176.6	$3,981.5

Depreciation expense related to continuing operations for 2000, 1999, and 1998 was $393.5 million, $406.7 million, and $393.4 million, respectively. Approximately $43.1 million, $29.0 million, and $17.0 million of interest costs were capitalized as part of property and equipment in 2000, 1999, and 1998, respectively. Total rental expense for all leases related to continuing operations, including contingent rentals (not material), amounted to approximately $172.3 million for 2000, $154.9 million for 1999, and $134.8 million for 1998. Capital leases included in property and equipment in the consolidated balance

sheets, capital lease obligations entered into, and future minimum rental commitments are not material.

Revenue recognition: Revenue from sales of products is recognized at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. This is generally at the time products are shipped to the customer. Revenue from copromotion services is recognized at the time the copromotion partner records sales.

Income taxes: Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the United States and be taxable.

Earnings per share: Basic earnings per share are calculated based on the weighted-average number of outstanding common shares and incremental shares. Diluted earnings per share are calculated based on the weighted-average number of outstanding common shares plus the effect of dilutive stock options and other incremental shares.

Note 2: Implementation of New Financial Accounting Pronouncements

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Statement 133 was amended in June 1999 and is now required to be adopted in years beginning after June 15, 2000. The company will adopt Statement 133 effective as of January 1, 2001. The statement will require the company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge ineffectiveness, the amount by which the change in the value of a hedge does not exactly offset the change in the value of the hedged item, will be immediately recognized in earnings. The company estimates that the adoption of Statement 133 will not have a material effect on the consolidated results of operations or financial position of the company.

Note 3: Collaboration and Dispositions

During the first quarter of 2000, the company sold its interest in Kinetra LLC, a joint venture between the company and EDS, to WebMD Corporation (WebMD) in exchange for shares of WebMD common stock. A gain of $214.4 million was recognized on the combined effect of the transaction and the subsequent sale of the majority of those shares of WebMD stock. The gain is included in other income in the consolidated statements of income.

During 1999, the company recognized a pretax gain of $67.8 million on the sale of the U.S. and Puerto Rican marketing rights of Lorabid, an antibiotic used in the treatment of bacterial infections, to King Pharmaceuticals, Inc. The gain has been included in other income in the consolidated statements of income. The company has an opportunity to receive additional payments if certain sales performance milestones are achieved.

During 1998, the company announced a collaboration with ICOS Corporation to jointly develop and globally commercialize a phosphodiesterase type 5 (PDE5) inhibitor as an oral therapeutic agent for the treatment of male erectile dysfunction and female sexual dysfunction. The compound was in the development phase (Phase II clinical trials) and no alternative future uses were identified. As with many Phase II compounds, launch of the product, if successful, was not expected in the near term. The company's payments to acquire rights to this compound were required to be charged as an expense of $127.5 million.

Note 4: Discontinued Operations

In January 1999, the company sold PCS, its health-care-management subsidiary, to Rite Aid Corporation for $1.6 billion in cash. The transaction generated a gain of $174.3 million ($.16 per share), net of $8.7 million tax benefit, in the first quarter of 1999.

The results of operations of PCS have been classified as discontinued operations in the consolidated statements of income. Selected 1998 income statement information for PCS follows:

Revenues	$814.5
Income tax expense	32.2
Income from discontinued operations	8.8

Note 5: Asset Impairment and Other Site Charges

The company recognized two separate asset impairments and other site charges totaling $87.4 million in 1999 ($61.4 million and $26.0 million in the first and fourth quarters, respectively). The impairment charges were necessary to adjust the carrying value of certain manufacturing assets to fair value. The major portion of the charges ($75.0 million) related to the decommissioning of manufacturing buildings and the related equipment, which resulted from the consolidation of certain manufacturing processes. The company plans to continue ownership of the vacated buildings although no planned future uses have been identified. The fair values of the facilities were estimated based upon anticipated future cash flows, discounted at a rate commensurate with the risk involved.

Note 6: Financial Instruments

Risk-Management Instruments and Off-Balance-Sheet Risk

In the normal course of business, operations of the company are exposed to fluctuations in currency values and interest rates. These fluctuations can vary the costs of financing, investing, and operating. The company addresses a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments.

The notional amounts of derivatives summarized in the following paragraphs do not represent amounts exchanged by the parties and thus are not a measure of the exposure of the company through its use of derivatives. The company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given their high credit ratings.

At December 31, the stated, or notional, amounts of the company's outstanding derivative financial instruments were as follows:

	2000	1999
Forward exchange contracts	$1,384.9	$608.7
Foreign currency options - purchased	639.8	756.0
Interest rate swaps	445.0	295.0

Financial instruments that potentially subject the company to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-sciences products and managed care organizations account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by the company's ongoing credit review procedures. The company places substantially all its interest-bearing investments with major financial institutions, in U.S. government securities, or with top-rated corporate issuers. In accordance with documented corporate policies, the company limits the amount of credit exposure to any one financial institution.

Fair Value of Financial Instruments

A summary of the company's outstanding financial instruments at December 31 follows. As summarized, "cost" relates to investments while "carrying amount" relates to long-term debt.

	2000		1999	
	Cost/ Carrying Amount	Fair Value	Cost/ Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 503.3	$ 504.3	$ 135.6	$ 136.0
Noncurrent investments:				
Marketable equity	79.8	90.1	63.9	96.8
Debt securities	266.2	271.2	35.6	35.6
Nonmarketable equity	7.5	7.5	14.9	14.9
Long-term debt, including current portion	2,796.6	2,861.7	3,026.7	2,990.6

The company determines fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair values of nonmarketable equity securities, which represent either equity investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value information provided by these ventures. The fair value and carrying amount of risk-management instruments were not material at December 31, 2000 and 1999.

At December 31, 2000 and 1999, the gross unrealized holding gains on available-for-sale securities were $24.3 million and $42.5 million, respectively, and the gross unrealized holding losses were $14.9 million and $12.6 million, respectively. Substantially all these gains and losses are associated with the marketable equity securities. The proceeds from sales of available-for-sale securities totaled $773.8 million, $56.2 million, and $36.3 million in 2000, 1999, and 1998, respectively. Purchases of available-for-sale securities totaled $443.0 million in 2000 and were not material in 1999 and 1998. Realized gains on sales of available-for-sale securities were $71.6 million, $25.0 million, and $20.6 million in 2000, 1999, and 1998, respectively. Realized losses on sales of available-for-sale securities were $16.5 million, negligible, and $2.5 million in 2000, 1999, and 1998, respectively. The net adjustment to unrealized gains and losses on available-for-sale securities decreased other comprehensive income by $12.3 million in 2000 and increased other comprehensive income by $18.6 million in 1999.

Note 7: Borrowings

Long-term debt at December 31 consisted of the following:

	2000	1999
6.57 to 7.13 percent notes (due 2016-2036)	$1,000.0	$1,000.0
6.25 to 8.38 percent notes (due 2001-2006)	650.0	650.0
Floating rate capital securities (due 2029)	525.0	525.0
8.38 percent eurodollar bonds (due 2005)	150.0	350.0
Resettable coupon capital securities (due 2029)	300.0	300.0
6.55 percent ESOP debentures (due 2017)	97.6	98.6
Other, including capitalized leases	74.0	103.1
	2,796.6	3,026.7
Less current portion	162.9	214.8
	$2,633.7	$2,811.9

On August 5, 1999, the company issued $525.0 million floating rate capital securities and $300.0 million adjustable rate capital securities. These capital securities are subordinated to the notes, bonds, and debentures listed above. The floating rate capital securities pay cumulative interest at an annual rate

equal to LIBOR plus a predetermined spread, reset quarterly. The rates at December 31, 2000 and 1999, were 7.951 percent and 7.355 percent, respectively. The securities may be redeemed any time on or after August 5, 2004, for a defined redemption price. The resettable coupon capital securities pay cumulative interest at an annual rate of 7.717 percent until August 1, 2004. At this date and every fifth anniversary thereafter, the interest rate will be reset equal to the weekly average interest rate of U.S. treasury securities having an index maturity of five years for the week immediately preceding the reset date plus a predetermined spread. The securities may be redeemed on August 1, 2004, and anytime thereafter for a defined redemption price.

The 6.55 percent Employee Stock Ownership Plan (ESOP) debentures are obligations of the ESOP but are shown on the consolidated balance sheet because they are guaranteed by the company. The principal and interest on the debt are funded by contributions from the company and by dividends received on certain shares held by the ESOP. Because of the amortizing feature of the ESOP debt, bondholders will receive both interest and principal payments each quarter. These debentures replaced other ESOP debentures pursuant to a refinancing in March 1998. An extraordinary charge of $7.2 million, net of a $4.8 million income tax benefit, was recorded as a result of this refinancing.

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 2001, $162.9 million; 2002, $13.5 million; 2003, $212.0 million; 2004, $8.8 million; and 2005, $157.9 million.

At December 31, 2000 and 1999, short-term borrowings included $21.4 million and $26.7 million, respectively, of notes payable to banks. At December 31, 2000, unused committed lines of credit totaled approximately $2.01 billion. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

Cash payments of interest on borrowings totaled $195.9 million, $170.6 million, and $188.2 million in 2000, 1999, and 1998, respectively.

Note 8: Stock Plans

Stock options are granted to employees at exercise prices equal to the fair market value of the company's stock at the dates of grant. Generally, options vest 100 percent three years from the grant date and have a term of 10 years. Performance awards are granted to officers and key employees and are payable in shares of the company's common stock. The number of performance award shares actually issued varies depending upon the achievement of certain earnings targets. In general, performance awards vest 100 percent at the end of the second fiscal year following the grant date.

In 1999, the company issued its third grant under the GlobalShares program. Essentially all employees were given an option to buy 100 shares of the company's stock at a price equal to the fair market value of the company's stock on the date of the grant. Options to purchase approximately 2.8 million shares were granted as part of the program. Individual grants generally become exercisable on or after the third anniversary of the grant date and have a term of 10 years.

The company has elected to follow Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options and performance awards. Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Total compensation expense for stock-based performance awards reflected in income on a pretax basis was $88.3 million, $117.1 million, and $257.8 million in 2000, 1999, and 1998, respectively. However, SFAS No. 123, "Accounting for Stock-Based Compensation," requires presentation of pro forma information as if the company had accounted for its employee stock options and performance awards granted subsequent to December 31, 1994, under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the vesting period. Under the fair value method, the company's net income and earnings per share would have been as follows:

	2000	1999	1998
Net income	$2,969.3	$2,639.6	$2,120.9
Earnings per share - diluted	2.70	2.39	1.89

The weighted-average per-share fair value of the individual options and performance awards granted during 2000, 1999, and 1998 were as follows on the date of grant:

	2000	1999	1998
Employee stock options	$29.25	$20.27	$16.64
Performance awards	93.06	66.50	88.88

The fair values of the options were determined using a Black-Scholes option-pricing model with the following assumptions:

	2000	1999	1998
Dividend yield	2.26%	2.73%	2.96%
Volatility	32.7 %	25.2 %	23.5 %
Risk-free interest rate	5.02%	6.15%	4.29%
Forfeiture rate	0	0	0
Expected life	7 years	7 years	7 years

Stock option activity during 1998-2000 is summarized below:

	Shares of Common Stock Attributable to Options (in thousands)	Weighted-Average Exercise Price of Options
Unexercised at January 1, 1998	60,894	$24.05
Granted	6,803	74.18
Exercised	(13,697)	16.88
Forfeited	(1,047)	24.29
Unexercised at December 31, 1998	52,953	32.35
Granted	12,494	68.22
Exercised	(10,849)	19.04
Forfeited	(875)	50.46
Unexercised at December 31, 1999	53,723	43.08
Granted	1,315	86.75
Exercised	(9,242)	22.33
Forfeited	(671)	64.97
Unexercised at December 31, 2000	45,125	48.28

The following table summarizes information concerning outstanding and exercisable options at December 31, 2000 (shares in millions, contractual life in years):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$10 - $25	16.27	2.82	13.56	16.27	13.56
$25 - $65	9.13	5.55	38.23	9.04	38.11
$65 - $95	19.73	8.50	71.39	.82	71.97

Shares exercisable at December 31, 2000, were 26.1 million (1999 - 29.9 million shares, 1998 - 35.8 million shares).

As noted above, the number of shares ultimately issued pursuant to the performance award program is dependent upon the earnings achieved during the vesting period. Pursuant to this plan, approximately 1.2 million shares, 2.2 million shares, and 1.5 million shares were issued in 2000, 1999, and 1998, respectively. At December 31, 2000, plan participants had the right to receive up to 4.1 million additional shares (reduced to the extent necessary to satisfy payroll tax withholdings), contingent upon earnings achieved.

At December 31, 2000, additional options, performance awards, or restricted stock grants may be granted under the 1998 Lilly Stock Plan and the Lilly GlobalShares Stock Plan for not more than 32.8 million shares and 7.9 million shares, respectively.

Note 9: Shareholders' Equity

Changes in certain components of shareholders' equity were as follows:

	Additional Paid-in Capital	Retained Earnings	Deferred Costs - ESOP	Common Stock in Treasury	
				Shares (in thousands)	Amount
Balance at January 1,1998	$ -	$ 4,497.3	$(155.7)	1,000	$ 109.5
Net income		2,097.9			
Cash dividends declared per share: $.83		(908.9)			
Retirement of treasury shares	(2,035.2)			(29,010)	(2,053.3)
Purchase for treasury				28,350	2,005.8
Issuance of stock under employee stock plans	558.7			660	47.5
ESOP transactions	23.6		8.8		
Other	5.4	(10.0)		(5)	(0.5)
Reclassification	1,447.5	(1,447.5)			
Balance at December 31, 1998	-	4,228.8	(146.9)	995	109.0
Net income		2,721.0			
Cash dividends declared per share: $.95		(1,030.5)			
Retirement of treasury shares	(1,488.4)			(19,689)	(1,500.8)
Purchase for treasury				19,147	1,455.1
Issuance of stock under employee stock plans	530.6			542	45.7
ESOP transactions	20.8		7.0		
Other	3.3			(6)	(0.7)
Reclassification	933.7	(933.7)			
Balance at December 31,1999	-	4,985.6	(139.9)	989	108.3
Net income		3,057.8			
Cash dividends declared per share: $1.06		(1,158.4)			
Retirement of treasury share	(1,117.6)			(15,256)	(1,126.9)
Purchase for treasury				14,794	1,089.8
Issuance of stock under employee stock plans	405.6			494	39.8

Issuance of stock for employee benefit trust	2,610.0				
ESOP transactions	16.7		4.9		
Other	33.7	(0.2)		(14)	(1.5)
Reclassification	661.6	(661.6)			
Balance at December 31, 2000	$ 2,610.0	$ 6,223.2	$(135.0)	1,007	$ 109.5

As shown above, the company completed $1.09 billion of its announced $3.0 billion share repurchase program in 2000. A $1.5 billion share repurchase program was completed in 1999. The company acquired approximately 14.8 million and 19.1 million shares in 2000 and 1999, respectively, pursuant to these programs.

In connection with the share repurchase program, the company has entered into agreements to purchase shares of the company's stock. As of December 31, 2000, the company has agreements to purchase up to approximately 4.0 million shares of company stock from an independent third party at various times through the expiration of the agreements in December 2002, at prices ranging from $83 to $100 per share. The number of shares to be purchased will be reduced ratably each quarter through the expiration of the agreements. In addition, as of December 31, 2000, written equity put options, purchased call options, and other derivative contracts, which provide for purchase of a total of approximately 4.6 million shares, remain outstanding at prices ranging from $69 to $98 per share with expiration dates ranging from February 2001 to November 2002. If the options are exercised, the contracts allow the company, at its option, to repurchase the shares for cash or deliver to the holder cash or shares for the difference between the contractual exercise price and the market price of the company's stock. The company's objective with the above agreements is to reduce the average price of repurchased shares.

During the second quarter of 2000, the company funded an employee benefit trust with 40 million shares of Lilly common stock to provide a source of funds to assist the company in meeting its obligations under various employee benefit plans. The funding had no net impact on shareholders' equity as the employee benefit trust is consolidated with the company. The cost basis of the shares held in the trust was $2.64 billion and is shown as a reduction in shareholders' equity, which offsets the resulting increases of $2.61 billion in additional paid-in capital and $25 million in common stock. Any dividend transactions between the company and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of earnings per share.

The company has an ESOP as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from the company to purchase shares of common stock from the treasury. The ESOP issued $200 million of third-party debt, repayment of which was guaranteed by the company (see Note 7). The proceeds were used to purchase shares of the company's common stock on the open market. Shares of common stock held by the ESOP will be allocated to participating employees annually through 2017 as part of the company's savings plan contribution. The fair value of shares allocated each period is recognized as compensation expense.

Under a Shareholder Rights Plan adopted by the company's board of directors in 1998, all shareholders receive along with each common share owned a preferred stock purchase right entitling them to purchase from the company one one-thousandth of a share of Series B Junior Participating Preferred Stock (the "Preferred Stock") at a price of $325. The rights are not exercisable until after the "Distribution Date," which is generally the 10th business day after the date of a public announcement that a person (the "Acquiring Person") has acquired ownership of 15 percent or more of the company's common stock. The company may redeem the rights for $.005 per right up to and including the Distribution Date. The rights will expire on July 28, 2008, unless redeemed earlier by the company.

The plan provides that, if an Acquiring Person acquires 15 percent or more of the outstanding common stock of the company and the company's redemption right has expired, generally each holder of a right (other than the Acquiring Person) will have the right to purchase at the exercise price the number of shares of common stock of the company as have a value of two times the exercise price.

Alternatively, if, in a transaction not approved by the board of directors, the company is acquired in a business combination transaction or sells 50 percent or more of its assets or earning power after a Distribution Date, generally each holder of a right (other than the Acquiring Person) will have the right to purchase at the exercise price the number of shares of common stock of the acquiring company as have a value of two times the exercise price.

At any time after an Acquiring Person has acquired 15 percent or more but less than 50 percent of the company's outstanding common stock, the board of directors may exchange the rights (other than those owned by the Acquiring Person) for company common stock or Preferred Stock at an exchange ratio of one common share (or one one-thousandth of a share of Preferred Stock) per right.

Note 10: Earnings per Share

The following is a reconciliation of the numerators and denominators used in computing earnings per share from continuing operations before extraordinary item:

	2000	1999	1998
	(Shares in thousands)		
Income from continuing operations before extraordinary item available to common shareholders:			
Income from continuing operations before extraordinary item	$ 3,057.8	$ 2,546.7	$ 2,096.3
Preferred stock dividends	-	(0.1)	(1.7)
Income from continuing operations before extraordinary item available to common shareholders	$ 3,057.8	$ 2,546.6	$ 2,094.6
Basic earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares	1,081,559	1,087,652	1,095,834
Basic earnings per share from continuing operations before extraordinary item	$ 2.83	$ 2.34	$ 1.91
Diluted earnings per share:			
Weighted-average number of common shares outstanding	1,081,409	1,087,368	1,095,537
Stock options and other incremental shares	16,316	18,687	25,949
Weighted-average number of common shares outstanding - diluted	1,097,725	1,106,055	1,121,486
Diluted earnings per share from continuing operations before extraordinary item	$ 2.79	$ 2.30	$ 1.87

Note 11: Income Taxes

Following is the composition of income taxes attributable to continuing operations before extraordinary item:

	2000	1999	1998
Current:			
Federal	$ 928.4	$ 439.2	$ 322.1
Foreign	322.4	260.4	238.9
State	(7.2)	(4.9)	(8.9)
	1,243.6	694.7	552.1
Deferred:			
Federal	(81.2)	104.0	36.3
Foreign	(58.6)	22.4	9.4
State	0.9	2.7	9.6
	(138.9)	129.1	55.3
Utilization of capital loss carryforwards	(303.8)	(125.1)	(38.7)
Income taxes	$ 800.9	$ 698.7	$ 568.7

Significant components of the company's deferred tax assets and liabilities as of December 31 are as follows:

	2000	1999
Deferred tax assets:		
Tax credit carryforwards and carrybacks	$ 734.5	$ 496.0
Other carryforwards	450.4	243.9
Sale of intangibles	230.6	76.5
Capital loss carryforward	158.8	561.7
Compensation and benefits	109.0	188.8
Inventory	70.2	172.9
Other	378.6	300.4
	2,132.1	2,040.2
Valuation allowances	(408.0)	(703.4)
Total deferred tax assets	1,724.1	1,336.8
Deferred tax liabilities:		
Property and equipment	(527.7)	(527.2)
Prepaid employee benefits	(429.2)	(257.4)
Unremitted earnings	(182.0)	(381.9)
Other	(29.2)	(65.1)
Total deferred tax liabilities	(1,168.1)	(1,231.6)
Deferred tax assets - net	$ 556.0	$ 105.2

At December 31, 2000, the company had capital loss and other carryforwards for income tax purposes of $694.7 million: $643.4 million will expire within five years and $43.9 million thereafter; $7.4 million of the carryforwards will never expire. The company also has tax credit carryforwards of $734.5 million available to reduce future income taxes: $495.1 million will expire within five years and $183.2 million thereafter; $56.2 million of the tax credit carryforwards will never expire.

As discussed in Note 4, the company sold its PCS health-care-management subsidiary in January 1999. As a consequence of the sale, the company recorded a deferred tax asset of $655.3 million for the tax

capital loss that resulted from this transaction. A portion of this loss carryforward has been used; the remainder can be carried forward four more years. A valuation allowance was established for this asset due to the uncertain realization of the benefit.

Domestic and Puerto Rican companies contributed approximately 56 percent, 56 percent, and 60 percent in 2000, 1999, and 1998, respectively, to consolidated income from continuing operations before income taxes and extraordinary item. Unremitted earnings of foreign subsidiaries that have been, or are intended to be, permanently reinvested for continued use in foreign operations and that, if distributed, would result in taxes at approximately the U.S. statutory rate aggregated $5.2 billion at December 31, 2000. Cash payments of income taxes totaled $294.0 million, $252.0 million, and $273.0 million in 2000, 1999, and 1998, respectively.

Following is a reconciliation of the effective income tax rate applicable to income from continuing operations:

	2000	1999	1998
United States federal statutory tax rate.....	35.0%	35.0%	35.0%
Add (deduct):			
International operations, including Puerto Rico.....	(12.9)	(7.5)	(10.5)
General business credits.....	(1.2)	(1.6)	(2.4)
Sundry.....	(0.1)	(4.4)	(0.8)
Effective income tax rate.....	20.8%	21.5%	21.3%

Note 12: Retirement Benefits

The change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets at December 31 for the company's defined benefit pension and retiree health benefit plans were as follows:

	Defined Benefit Pension Plans		Retiree Health Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year.....	$3,004.4	$2,898.8	$ 687.6	$ 621.5
Service cost.....	130.1	127.7	23.2	16.8
Interest cost.....	219.6	193.7	49.6	41.5
Actuarial loss.....	144.3	16.5	51.4	60.5
Benefits paid.....	(179.8)	(175.0)	(61.5)	(48.5)
Foreign currency exchange rate changes and other adjustments.....	61.5	(57.3)	1.0	(4.2)
Benefit obligation at end of year.....	3,380.1	3,004.4	751.3	687.6
Change in plan assets:				
Fair value of plan assets at beginning of year.....	3,532.0	3,069.6	332.1	252.5
Actual return on plan assets.....	138.7	543.6	(16.4)	80.4
Employer contribution.....	270.0	122.1	95.0	47.7
Benefits paid.....	(179.8)	(175.0)	(61.5)	(48.5)
Foreign currency exchange rate changes and other adjustments.....	(28.8)	(28.3)	-	-
Fair value of plan assets at end of year.....	3,732.1	3,532.0	349.2	332.1

Funded status	352.0	527.6	(402.1)	(355.5)
Unrecognized net actuarial (gain) loss	298.8	(36.0)	317.1	240.9
Unrecognized prior service cost (benefit)	227.2	119.3	(0.1)	(1.1)
Unrecognized net obligation at January 1, 1986	1.7	2.0	1.8	-
Net amount recognized	$ 879.7	$ 612.9	$ (83.3)	$(115.7)
Amounts recognized in the consolidated balance sheet consisted of:				
Prepaid benefit cost	$1,032.5	$ 741.1	$ -	$ -
Accrued benefit liability	(302.9)	(237.6)	(83.3)	(115.7)
Intangible asset	41.1	34.0	-	-
Accumulated other comprehensive income before income taxes	109.0	75.4	-	-
Net amount recognized	$ 879.7	$ 612.9	$ (83.3)	$(115.7)

	Defined Benefit Pension Plans		Retiree Health Benefits	
(Percents)	2000	1999	2000	1999
Weighted-average assumptions as of December 31:				
Discount rate	7.4	7.4	7.5	7.5
Expected return on plan assets	10.5	10.5	10.5	10.5
Rate of compensation increase	3.5-8.0	3.5-8.0	-	-

Health-care-cost trend rates were assumed to increase at an annual rate of 6.5 percent in 2001 for participants under age 65, decreasing one-half percent to 6.0 percent in 2002 and thereafter. For participants over age 65, the rate was assumed to increase 6.0 percent in 2001 and thereafter.

The projected benefit obligation, accumulated benefit obligation, and fair value of the plan assets for the defined benefit pension plans with projected benefit obligations in excess of plan assets were $736.8 million, $616.8 million, and $381.6 million, respectively, as of December 31, 2000, and $637.1 million, $539.0 million, and $364.5 million, respectively, as of December 31, 1999.

Net pension and retiree health benefit expense included the following components related to continuing operations:

	Defined Benefit Pension Plans			Retiree Health Benefits		
	2000	1999	1998	2000	1999	1998
Components of net periodic benefit cost:						
Service cost	$ 130.1	$ 127.7	$ 112.9	$ 23.2	$ 16.8	$ 12.8
Interest cost	219.6	193.7	184.2	49.6	41.5	34.3
Expected return on plan assets	(341.0)	(295.1)	(277.1)	(30.1)	(24.2)	(23.0)
Amortization of prior service cost (benefit)	16.9	11.5	9.7	0.1	-	(3.3)
Recognized actuarial loss	5.9	3.7	3.4	21.9	17.6	7.3
Net periodic benefit cost	$ 31.5	$ 41.5	$ 33.1	$ 64.7	$ 51.7	$ 28.1

The assumed health-care-cost trend rates have a significant effect on the amounts reported. If these trend rates were to be increased by one percentage point each future year, the December 31, 2000, accumulated postretirement benefit obligation would increase by 13 percent and the aggregate of the service cost and interest cost components of 2000 annual expense would increase by 15 percent. A one-percentage-point decrease in these rates would decrease the December 31, 2000, accumulated postretirement benefit obligation by 12 percent and the aggregate of the 2000 service cost and interest cost by 13 percent.

The company has defined contribution savings plans that cover its eligible employees worldwide. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plan are based on employee contributions and the level of company match. Expenses under the plans related to continuing operations totaled $65.2 million, $56.4 million, and $50.3 million for the years 2000, 1999, and 1998, respectively.

The company provides certain other postemployment benefits primarily related to disability benefits and accrues for the related cost over the service lives of the employees. Expenses associated with these benefit plans in 2000, 1999, and 1998 were not significant.

Note 13: Contingencies

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that two U.S. patents held by Lilly covering Prozac are invalid and unenforceable. The company filed suit against Barr and Geneva in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In January 1999, the trial court granted summary judgment in favor of Lilly on two of the four claims raised by Barr and Geneva against Lilly's patents. That decision was appealed to the Court of Appeals for the Federal Circuit. Barr and Geneva dismissed their other two claims in exchange for a $4 million payment. On August 9, 2000, the Court of Appeals upheld the 2001 compound patent but held that the 2003 method of use patent was invalid. The company has filed a petition requesting a rehearing by the Court of Appeals.

Several other generic manufacturers have also filed ANDAs for generic forms of Prozac, challenging one or both of the patents. In late 1998, Zenith Goldline Pharmaceuticals, Inc.; Teva Pharmaceuticals USA (Teva); and Cheminor Drugs, Ltd., together with one of its subsidiaries (Cheminor), notified the company that they had filed ANDAs challenging the 2003 patent. Also in 1998, Novex Pharma, a division of Apotex, Inc., notified the company that it had filed an ANDA challenging both patents. In 1999, Cheminor notified the company that it had filed an ANDA for a different dosage form. In 2000, Barr and Teva both notified the company that they had filed additional ANDAs for the different dosage form, and Alphapharm Pty. Ltd. also notified the company that it had filed ANDAs for two dosage forms.

The company has filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that all these challenges to the patent(s) are without merit. The cases are awaiting resolution of the petition for rehearing by the Court of Appeals in the original Barr case.

Assuming the Prozac patent ruling is not overturned, the company expects a very substantial decline in Prozac sales in the U.S. in the 12 months following the entry of generic fluoxetine in the U.S. market in August 2001. Prozac sales in the U.S. represent a significant portion of the company's overall sales, accounting for approximately 20 percent of the company's consolidated worldwide sales in 2000. The company believes that the Prozac patent litigation will not have a material adverse effect on the company's consolidated financial position or liquidity.

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol (DES) and Prozac. The company has accrued for its estimated exposure with respect to all current product liability claims. In addition, the company has accrued for certain claims incurred, but not filed, to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The company also continues remediation of certain of its own sites. The company has accrued for estimated Superfund cleanup costs, remediation, and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs, and the extent to which other parties can be expected to contribute to payment of those costs. The company has reached a settlement with its primary liability insurance carrier and certain excess carriers providing for coverage for certain environmental liabilities. Litigation seeking coverage from certain other excess carriers is ongoing.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately $138.9 million at December 31, 2000. Estimated insurance recoverables of approximately $74.1 million at December 31, 2000, have been reflected as assets in the consolidated balance sheet.

The company recognized a pretax gain of $110.0 million as a result of a cash payment received in settlement of litigation with Biochimica Opos S.p.A. relating to the manufacture, sale, or distribution of cefaclor and certain other products made by Biochimica Opos S.p.A. The gain, which was recorded in other income, increased earnings per share by approximately $.06 in the fourth quarter of 1999.

While it is not possible to predict or determine the outcome of the patent, product liability, or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above with respect to the Prozac patent litigation, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period.

Note 14: Other Comprehensive Income

The accumulated balances related to each component of other comprehensive income were as follows:

	Foreign Currency Translation	Unrealized Gains (Losses) on Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Beginning balance at January 1, 2000	$(375.6)	$ 20.1	$(50.9)	$(406.4)
Other comprehensive income (loss)	(170.7)	(12.3)	(21.8)	(204.8)
Balance at December 31, 2000	$(546.3)	$ 7.8	$(72.7)	$(611.2)

The amounts above are net of income taxes. The income taxes related to other comprehensive income were not significant as income taxes were generally not provided for foreign currency translation.

The unrealized gains (losses) on securities is net of reclassification adjustments of $43.9 million, $8.5 million, and $4.8 million, net of tax, in 2000, 1999, and 1998, respectively, for realized gains and losses on sales of securities included in net income.

Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made to shareholders' equity rather than to income.

Responsibility for Financial Statements

Eli Lilly and Company and Subsidiaries

The consolidated financial statements and related notes have been prepared by management, who are responsible for their integrity and objectivity. The statements have been prepared in accordance with generally accepted accounting principles and include amounts based on judgments and estimates by management. The other financial information in this annual report is consistent with that in the financial statements.

The company maintains internal accounting control systems that are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgments with respect to the relative cost and expected benefits of specific control measures. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls.

In addition to the system of internal accounting controls, the company maintains guidelines of company policy emphasizing proper overall business conduct, possible conflicts of interest, compliance with laws, and confidentiality of proprietary information. The guidelines are reviewed on a periodic basis with employees worldwide.

The financial statements have been audited by Ernst & Young LLP, independent auditors. Their responsibility is to examine the company's financial statements in accordance with generally accepted auditing standards and to express their opinion with respect to the fairness of presentation of the statements.

The members of the audit committee of the board of directors, none of whom are employees of the company, recommend independent auditors for appointment by the board of directors, review the services performed by the independent auditors, and receive and review the reports submitted by them. The audit committee meets several times during the year with management, the internal auditors, and the independent auditors to discuss audit activities, internal controls, and financial reporting matters. The internal auditors and the independent auditors have full and free access to the committee.

Sidney Taurel
Chairman of the Board,
  President, and Chief Executive Officer

Charles E. Golden
Executive Vice President and
  Chief Financial Officer

January 29, 2001

Report of Independent Auditors

Board of Directors and Shareholders
Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, cash flows, and comprehensive income for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Indianapolis, Indiana

January 29, 2001

Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 2000

Set forth below, converted to tabular format, are the graphs contained in the paper format of the Company's Annual Report to Shareholders that are contained in Exhibit 13.

Graph #1--Net Sales

($ millions)

Class	Amount
Prozac/Sarafem	$2,573.7
Zyprexa	2,349.5
Humulin	1,114.5
Gemzar	559.3
Evista	521.5
ReoPro	418.1
Humalog	350.2
Axid	321.4
Humatrope	300.7
Ceclor	285.4
Actos	223.0
Vancocin	205.0

In total, 12 products, spanning various therapeutic classes, had annual revenues in excess of $200 million.

Graph #2--Lilly's Decreasing Dependency on Prozac
(Percentages represent the Prozac share of total net sales)

Year	Percent
1996	34%
1997	32%
1998	30%
1999	26%
2000	24%

Through strong growth of newer products, Lilly is consistently lessening its reliance on sales of Prozac. In 2000, Prozac (including Sarafem) accounted for 24 percent of Lilly's total net sales, down from 34 percent in 1996.

Graph #3--Revenue Growth of Newer Products

($ millions; growth percentages represent change from 1999)

Product	Amount	Percent Change from 1999
Zyprexa	$465	25%
Evista	195	60%
Actos	185	489%
Humalog	126	56%
Gemzar	104	23%

Five of the company's newer products - Zyprexa, Evista, Actos, Humalog, and Gemzar - generated $4.0 billion in revenues in 2000. These newer products and ReoPro now represent 41 percent of total net sales compared with 34 percent in 1999 and 26 percent in 1998. During the fourth quarter of 2000, Zyprexa became the company's top selling product.

Graph #4--Gross Margin

(as a percent of total net sales)

Year	Amount
1996	73.2%
1997	75.6%
1998	78.2%
1999	79.0%
2000	81.1%

In 2000, gross margin improved by 2.1 percentage points, primarily due to favorable changes in product mix and, to a lesser extent, increased production volume. This continuous improvement in gross margin has enabled the company to aggressively fund investments in research and development, sales, and marketing.

Graph #5--Research and Development

($ millions)

Year	Amount
1996	$1,189.5
1997	1,370.2
1998	1,738.9
1999	1,783.6
2000	2,018.5

Worldwide research and development expenditures increased 13 percent in 2000 in support of the company's strong pipeline. Research and development expenditures represented 19 percent of total net sales in 2000 compared with 18 percent in 1999. The late-stage pipeline includes 10 new products for a wide range of serious, unmet medical needs that are expected to be launched during the period from 2001 to 2004.

Graph #6--Capital Expenditures

($ millions)

Year	Amount
1996	$443.9
1997	366.3
1998	419.9
1999	528.3
2000	677.9

Capital expenditures increased 28 percent from the 1999 level, primarily due to the increased support of various manufacturing and research initiatives and related infrastructure. The company expects near-term capital expenditures to increase from 2000 levels due to continuing investment in research and manufacturing capacity to support its growing portfolio.

Graph #7--Dividends Paid per Share

(dollars)

Year	Amount
1996	$0.685
1997	0.740
1998	0.800
1999	0.920
2000	1.040

Dividends paid during 2000 increased 13 percent over 1999. The year 2000 became the 33rd consecutive year in which dividends were increased. The continued earnings growth in 2000 enabled the company to declare a first-quarter 2001 dividend of $.28 per share, an 8 percent increase over 2000. The increase reflects the company's continued commitment to delivering shareholder value.

Graph #8--Economic Value Added

($ millions)

Year	Amount
1996	$ 460
1997	751
1998	1,429
1999	1,584
2000	1,776

In 2000, Lilly's Economic Valued Added (EVA) was $1.8 billion, an increase of 12 percent, reflecting the company's commitment to effective asset management and focus on earnings growth in order to deliver shareholder value.

Exhibit 21 - List of Subsidiaries

The following are the consolidated subsidiaries of Eli Lilly and Company as of December 31, 2000. Certain subsidiaries have been omitted because they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY	Indiana
Eli Lilly Interamerica, Inc.	Indiana
Eli Lilly do Brasil Limitada	Brazil
Elanco Quimica Limitada	Brazil
Darilor Sociedad Anonima	Uruguay
Beimirco Sociedad Anonima	Uruguay
Eli Lilly Interamerica Inc., y Compania Limitada	Chile
STC Pharmaceuticals, Inc.	Indiana
Lilly ICOS, L.L.C.	Delaware
Dista, Inc.	Indiana
Dista, Inc. - Branch:	Colombia
Eli Lilly de Centro America, S.A.	Guatemala
Eli Lilly de Centro America, Sociedad Anonima	Costa Rica
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico
Dista Mexicana, S.A. de C.V.	Mexico
Farmatel	Mexico
Eli Lilly de Mexico, S.A. de C.V.	Mexico
Eli Lilly Industries, Inc.	Delaware
Del Sol Financial Services, Inc.	British V.I.
Lilly del Caribe, Inc.	Cayman Isls.
Eli Lilly and Company (Taiwan), Inc.	Taiwan
CBI Uniforms, Inc.*	Delaware
Control Diabetes Services, Inc.	Indiana
Integrated Medical Systems, Inc.	Colorado
ELCO Dominicana, S.A.	Dominican Rep.
ELCO International Sales Corporation	Virgin Is.-US
Eli Lilly Finance S.A.	Switzerland

ELI LILLY AND COMPANY, continued	Indiana
Lilly Del Mar, Inc.	British Virgin Islands
Lilly Investment Management, Inc.	Indiana
Eli Lilly International Corporation	Indiana
Eli Lilly International Corporation-Intercontinental Operations	England
Eli Lilly Iran, S.A.	Iran
ELCO Insurance Company, Ltd.	Bermuda
Eli Lilly Holdings Ltd	England
Eli Lilly Group Limited	England
Eli Lilly & Co. LTD.	England
Dista Products Limited	England
Eli Lilly & Co (Ireland) Trustee Limited	Ireland
Lilly Industries Limited	England
Lilly Research Centre Limited	England
Elanco Products Limited	England
Creative Packaging Limited	England
Greenfield Pharmaceuticals Limited	England
Eli Lilly (Basingstoke) Limited	England
Eli Lilly UK Limited	England
Eli Lilly Group Pension Trustees Limited	England
Lilly Pharma Holding GmbH	Germany
Lilly Deutschland GmbH	Germany
Lilly Pharma Fertigung & Distribution GmbH	Germany
Lilly Pharma Produktion GmbH & Co. KG	Germany
Lilly Forschung GmbH	Germany
Eli Lilly Ges.m.b.H.	Austria
Lilly GmbH	Germany
Eli Lilly Danmark A/S	Denmark
OY Eli Lilly Finland Ab	Finland
Eli Lilly Norge A.S.	Norway
Eli Lilly & Co. (Ireland) Limited	Ireland
Eli Lilly Sweden AB	Sweden
Eli Lilly Asia, Inc.	Delaware

ELI LILLY AND COMPANY, continued	Indiana
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Australian Custodian Pty. Limited	Australia
Eli Lilly and Company (N.Z.) Limited	New Zealand
Eli Lilly (NZ) Staff Benefits Custodian Limited	New Zealand
Integrated Disease Management (NZ) Limited	New Zealand
E L Management Incorporated	Delaware/Nova Scotia
Eli Lilly Canada Inc.	Canada
Eli Lilly S.A.	Switzerland
Eli Lilly Export S.A.	Switzerland
GEMS Services, S.A.	Belgium
Elanco Trustees Limited	Ireland
Kinsale Financial Services, Ltd.	Ireland
Eli Lilly (Suisse) S.A.	Switzerland
Eli Lilly Vostok SA, Geneva	Switzerland
Eli Lilly MHC S.A.R.L.	Switzerland
Oldfields Financial Management S.A.	Switzerland
Eli Lilly Suzhou Pharmaceutical Company Limited	China
Eli Lilly Nederland B.V.	Netherlands
Lilly Development Centre S.A.	Belgium
Lilly Services S.A.	Belgium
Lilly Clinical Operations S.A.	Belgium
Eli Lilly CR s.r.o.	Czech Repub.
Eli Lilly Regional GmbH	Austria
Eli Lilly Egypt	Egypt
ELCO SAE	Egypt
PaRxner B.V.	Netherlands

ELI LILLY AND COMPANY, continued	Indiana
E L Management Incorporated, continued	Delaware/Nova Scotia
Eli Lilly S.A., continued	Switzerland
Eli Lilly Nederland B.V., continued	Netherlands
Elco Participation, sarl	France
Lilly France S.A.	France
Elsa France, S.A.	France
LICO sarl	France
Eli Lilly Italia S.p.A.	Italy
Eli Lilly Benelux, S.A.	Belgium
Dista-Produtos Quimicos & Farmaceuticos, LDA	Portugal
Lilly-Farma, Produtos Farmaceuticos, Lda.	Portugal
Vital Farma Productos Farmaceuticos	Portugal
Dista Italia S.r.l.	Italy
Pharmaserve - Lilly S.A.C.I.	Greece
Pharmabrand, S.A.C.I.	Greece
PRAXICO Ltd.	Hungary
Lilly Hungaria KFT	Hungary
Eli Lilly (Philippines), Incorporated	Philippines
Eli Lilly Ranbaxy Limited	India
Eli Lilly Israel Ltd.	Israel
Eli Lilly Japan K.K.	Japan
Chugai Lilly Clinical Research Co, LTD.	Japan
Lilly Korea LTD.	Korea
Elanco Animal Health, Korea, Ltd.	Korea
Eli Lilly Malaysia Sdn Bhd.	Malaysia
Eli Lilly Maroc S.a.r.l.	Morocco
ELCO Production Services B.V.	Netherlands
Andean Technical Operations Center	Peru
Lilly Pharma Ltd.	Russia
Eli Lilly-Gohar (Private) Limited	Pakistan
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan
Eli Lilly Polska Sp. z.o.o. (Ltd.)	Poland
Lilly Grodzisk Sp. z.o.o.	Poland
Vitalia Pharma Sp. Z.o.o.	Poland
ELVA Joint Laboratory	Russia
Eli Lilly Asia Pacific Pte. Ltd.	Singapore
Lilly-NUS Centre for Clinical Pharmacology Pte. Ltd.	Singapore
Eli Lilly (S.A.) (Proprietary) Limited	South Africa
Glaxo/Eli Lilly Partnership	South Africa
The Medikredit Joint Venture Partnership	South Africa
Medikredit Pty. Ltd.	South Africa

ELI LILLY AND COMPANY, continued	Indiana
E L Management Incorporated, continued	Delaware/Nova Scotia
Eli Lilly S.A., continued	Switzerland
Eli Lilly Nederland B.V., continued	Netherlands
Elanco-Valquimica, S.A.	Spain
Dista, S.A.	Spain
Lilly, S.A.	Spain
Spaly Bioquimica, S.A.	Spain
Irisfarma S.A.	Spain
Eli Lilly Nigeria Ltd.	Nigeria
Lilly Ilac Ticaret A.S.	Turkey
Eli Lilly y Compania de Venezuela, S.A.	Venezuela
Dista Products & Compania Venezuela S.A.	Venezuela

EXHIBIT 23. CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Eli Lilly and Company of our report dated January 29, 2001, included in the 2000 Annual Report to Shareholders of Eli Lilly and Company.

We also consent to the incorporation by reference in the following registration statements of our report dated January 29, 2001 with respect to the consolidated financial statements incorporated by reference in the 2000 Annual Report (Form 10-K) of Eli Lilly and Company:

Registration Statement No.	Type of Statement	Date
33-29482	S-8	June 23, 1989
33-37341	S-8	October 17, 1990
33-58466	S-3	February 17, 1993
33-50783	S-8	October 27, 1993
33-56141	S-8	October 24, 1994
333-02021	S-8	March 28, 1996
333-62015	S-8	August 21, 1998
333-66113	S-8	October 26, 1998
333-90397	S-8	November 5, 1999
333-35248	S-3	April 20, 2000

ERNST & YOUNG LLP

Indianapolis, Indiana
March 27, 2001

EXHIBIT 99. Cautionary Statement Under Private Securities Litigation Reform Act Of 1995 - "Safe Harbor" For Forward-Looking Disclosures

Certain forward-looking statements are included in this Form 10-K and may be made by Company spokespersons based on then-current expectations of management. All forward-looking statements made by the Company are subject to risks and uncertainties. One can identify forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects," "believes," "anticipates" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, regulatory issues, status of product approvals, development programs, litigation and investigations.

Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

. Competitive factors, including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and new patented products or expanded indications for existing products introduced by competitors, which can lead to declining demand for the Company's products.

. Changes in inventory levels maintained by pharmaceutical wholesalers can cause reported sales for a particular period to differ significantly from underlying prescriber demand.

. Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates, and overall economic conditions in volatile areas such as Latin America.

. Governmental factors, including federal, state and foreign laws and regulations that affect pharmaceutical pricing, such as Medicaid, Medicare, pharmaceutical importation laws, and other laws and regulations that could, directly or indirectly, impose governmental controls on the prices at which the Company's products are sold.

. The difficulties and uncertainties inherent in new product development. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain necessary regulatory approvals, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others.

. Delays and uncertainties in the FDA approval process and the approval processes in other countries, resulting in lost market opportunity.

. Regulatory issues concerning compliance with current good manufacturing practice (cGMP) regulations for pharmaceutical products, that can lead to product recalls and seizures, interruption of production, and delays in the approvals of new products pending resolution of the cGMP issues.

. Unexpected safety or efficacy concerns arising with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.

. Legal factors including unanticipated litigation of product liability or other liability claims; antitrust litigation; environmental matters; and patent disputes with competitors that could preclude

commercialization of products or negatively affect the profitability of existing products. In particular, see "Financial Expectations for 2001" under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations (pages 6-7 of Exhibit 13), for a discussion of the expected impact of litigation involving the Company's U.S. patents on Prozac.

. Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits.

. Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission, and the American Institute of Certified Public Accountants which are adverse to the Company.

. Internal factors such as changes in business strategies and the impact of restructurings and business combinations.

The Company undertakes no duty to update forward-looking statements.