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, 1999

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:

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, 2000 (Common Stock): $56,399,202,838.

Number of shares of common stock outstanding as of February 15, 2000: 1,092,565,591.

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

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

PART 1

Item 1. Business

Eli Lilly and Company (the "Company" or "Registrant", which may be referred to as "we", "us", or "our") 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 28 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.

In January 1999, we completed the sale of our PCS Health Systems business, which provided pharmacy benefit management services in the United States.

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 1999 Annual Report at pages 27-28 under “Segment Information” (pages 15-16 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.

Products and Services

Registrant ’s Document	Parts Into Which Incorporated
Annual Report to Shareholders for fiscal year ended December 31, 1999	Parts I, II, and IV
Proxy Statement dated March 3, 2000	Part III

Our pharmaceutical products include:

Pharmaceutical Products

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; and Permax®, a treatment for Parkinson’s disease;

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 Takeda Chemical Industries, Inc. 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® (cefaclor), 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; the oral macrolide antibiotic Dynabac®; the injectable cephalosporin antibiotics Tazidime ®, Kefurox®, and Kefzol®, used to treat a wide range of bacterial infections in the hospital setting; and Nebcin®, an injectable aminoglycoside antibiotic used in hospitals to treat various infections caused by staphylococci and Gram-negative bacteria;

Cardiovascular agents, including ReoPro®, a monoclonal antibody product developed and manufactured by Centocor, Inc. 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 and patients with unstable angina who are not responding to conventional medical therapy when PCI is planned within 24 hours; 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 advanced or metastatic 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 malignant neoplastic conditions; and Eldisine®, indicated for treatment of acute childhood leukemia resistant to other drugs; and

An antiulcer agent, Axid ®.

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; and Surmax® (sold as Maxus ® in some countries), a performance enhancer for swine and poultry.

Marketing

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

Animal Health Products

In the United States, we distribute pharmaceutical products principally through approximately 200 independent wholesale distributing outlets. 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 accounted for approximately 18%, 15%, and 13%, respectively, of our consolidated net sales in 1999. No other distributor accounted for more than 10% of consolidated net sales. We also sell pharmaceutical products directly to the United States government and other manufacturers, but those direct sales are not material to consolidated net sales.

Salaried sales representatives promote our major pharmaceutical products in the United States under the Lilly and Dista trade names. 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, cardiovascular, endocrinology, and oncology. We have entered into licensing arrangements under which other companies market certain products manufactured by the Company, such as Ceclor CD, Dynabac, Keftab, and Permax. Most recently, in September 1999 we sold the rights to market Lorabid in the United States and Puerto Rico to King Pharmaceuticals, Inc.

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 —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.

Pharmaceuticals —Outside the United States

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 substantial 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 successfully marketing alternative products 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 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 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 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, and Evista—to be important to our operations.

The United States compound patent covering Prozac expires in February 2001 and a patent for the method of use of the compound expires in December 2003. *See* "Legal Proceedings" at page 10 for a discussion of certain litigation involving those two patents. We are also eligible to receive an additional six months of marketing exclusivity for Prozac in the U.S. under the terms of the Food and Drug Administration Modernization Act of 1997 ("FDAMA"). Under this law we are conducting clinical studies of Prozac in pediatric populations under a written request of the FDA. To obtain exclusivity, we must submit a report on these studies and the FDA must determine that the studies have been conducted in accordance with the written request, commonly accepted scientific principles and protocols, and the requirements of FDAMA. 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 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.

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.

We also grant licenses under our patents, trademarks, and know-how, and we manufacture and sell products and use technology and know-how under licenses from others. The amount of royalties paid and received were not material.

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 at the time 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 effectively market them 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.

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 1999, we employed approximately 6,050 people, including a substantial number who are physicians or scientists holding graduate or postgraduate degrees or highly skilled technical personnel, in pharmaceutical and animal health research and development activities. We expended $1.37 billion on research and development activities in 1997, $1.74 billion in 1998, and $1.78 billion in 1999.

Our research is concerned primarily with the effects of synthetic chemicals and natural products on biological systems. We apply the results of that research to develop products to treat diseases in humans and animals, with the primary effort devoted to human pharmaceutical products. We concentrate our pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular 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 seek to expand the value of existing products through new uses and formulations.

To supplement our internal efforts, we sponsor and fund research and development by independent 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 establish through clinical evidence 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 unpredictable. 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 ten 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 depression, various cancers, diabetic complications, osteoporosis, infectious diseases, sepsis, stroke, male erectile dysfunction, and attention deficit/hyperactivity disorder. 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 Prozac, Zyprexa, Gemzar, ReoPro, Humalog, 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.

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.

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 17, 2000, 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.

Animal Health Products

Employees

At the end of 1999, we employed approximately 31,300 people, including approximately 15,800 employees outside the United States. A substantial number of our employees have long records of continuous service.

Financial Information Relating to Foreign and Domestic Operations

You can find financial information relating to foreign and domestic operations in the Company’s 1999 Annual Report at pages 27-28 under “Segment Information” (pages 15-16 of Exhibit 13). That information is incorporated in the 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, 1999, 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 18 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 approximately 525,000 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 March 1996 we were informed by Barr Laboratories, Inc. (“Barr”), a generic pharmaceutical manufacturer, that it had 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 has alleged that our U.S. patents covering Prozac are invalid and unenforceable. The compound patent expires in February 2001 and a patent for the method of use of the compound expires in December 2003. These patents are material to the Company.

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 and, like Barr, asserted that our U.S. Prozac patents are invalid and unenforceable. 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 (the day trial was to have begun), 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. The Court of Appeals held oral arguments on the appeal on March 8, 2000.

In late 1998, three additional generic manufacturers, Zenith Goldline Pharmaceuticals, Inc., Teva Pharmaceuticals USA, and Cheminor Drugs, Ltd. together with one of its subsidiaries filed ANDAs for generic forms of Prozac, asserting that our December 2003 patent is invalid and unenforceable. Finally, in January 1999, Novex Pharma, a division of Apotex, Inc. filed an ANDA asserting that both the 2001 and 2003 patents are invalid and unenforceable. We filed lawsuits in the United States District Court of the Southern District of Indiana seeking rulings that the four companies' challenges to the patent(s) are without merit. In November 1999, we filed a lawsuit in federal court in Indiana against Cheminor Drugs and Schein Pharmaceuticals, Inc., based on their ANDA filing for an additional dosage form. A trial date of October 30, 2000, has been set for the cases involving Zenith, Teva, Cheminor, and Schein.

We believe that the claims of the seven generic manufacturers are without merit and that we should be successful in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that we will prevail. An unfavorable outcome could have a material adverse effect on our consolidated financial position, liquidity, or results of operations.

Product Liability Litigation. We are currently a defendant in a variety of product liability litigation lawsuits involving primarily diethylstilbestrol ("DES") and Prozac. In approximately 85 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 ten actions, plaintiffs seek to recover damages as a result of the ingestion of Prozac.

Pricing Litigation. We have been named, together with numerous other U.S. prescription pharmaceutical manufacturers and in some cases wholesalers or distributors, as a defendant in a large number of related actions brought by retail pharmacies and consumers of prescription pharmaceuticals in the United States alleging violations of federal or state antitrust laws, or both, based on the practice of providing discounts or rebates to managed-care organizations and certain other purchasers. The federal cases have been consolidated or coordinated in the Northern District of Illinois as *In re Brand Name Prescription Drugs Antitrust Litigation* (MDL No. 997).

The federal suits include a certified class action on behalf of a majority of retail pharmacies in the United States (the "Federal Class Action "). The class plaintiffs allege an industrywide agreement in violation of the Sherman Act to deny favorable pricing on sales of brand-name prescription pharmaceuticals to certain retail pharmacies in the United States. The other federal suits (the "Federal Individual Actions"), brought as individual claims by several thousand pharmacies, allege price discrimination in violation of the

Robinson-Patman Act as well as Sherman Act claims. The suits seek treble damages and injunctive relief against allegedly discriminatory pricing practices.

In 1995, we and several other manufacturers agreed with the plaintiffs to settle the Federal Class Action. In addition, in 1997 and 1998 we reached settlements with two large groups of retail pharmacy and supermarket chains that were plaintiffs in the Federal Individual Actions. More recently, we have reached an agreement in principle to settle with approximately 3,800 of the Federal Individual Action plaintiffs. As a result of the various settlements, we have disposed of the claims of all but a few hundred of the U.S. retailers. With respect to the remaining Federal Individual Actions, the District Court has designated certain plaintiffs and defendants named in the individual suits (not including the Company) to participate in an initial trial or trials of the claims. No trial dates have been set. Robinson-Patman claims asserted in the Federal Individual Actions against nondesignated defendants, including the Company, are stayed.

In addition, a number of related state court cases were filed. The state court suits typically seek money damages and injunctive relief against allegedly discriminatory pricing practices. Cases were brought in Alabama, California, Minnesota, Mississippi, and Wisconsin by retail pharmacies alleging violations of various state antitrust and pricing laws, purporting to be class actions on behalf of all retail pharmacies in those states. Settlements have been approved in Minnesota and Wisconsin and the cases in those states are now dismissed. Cases were also brought in state courts in Alabama, Arizona, California, District of Columbia, Florida, Kansas, Maine, Michigan, Minnesota, New Mexico, New York, North Carolina, North Dakota, South Dakota, Tennessee, West Virginia, and Wisconsin that purport to be class actions on behalf of consumers of prescription pharmaceuticals, alleging violations of state antitrust, pricing or consumer protection laws. Settlements have been approved and the cases dismissed in all states except Alabama, New Mexico, North Dakota, South Dakota, Tennessee, and West Virginia.

Other Matters. In March 1996, the Federal Trade Commission (“FTC”) commenced a non-public investigation focusing on the pricing practices described under “Pricing Litigation” above. 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 noted above, 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 1999, 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 1999 Annual Report under “Selected Quarterly Data (unaudited),” at page 29 (pages 17-18 of Exhibit 13), and “Selected Financial Data (unaudited), ” at page 30 (pages 19-20 of Exhibit 13). That information is incorporated in this Report by reference.

Item 6.

Selected Financial Data

You can find selected financial data for each of our five most recent fiscal years in our 1999 Annual Report under “Selected Financial Data (unaudited), ” at page 30 (pages 19-20 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 the Company ’s 1999 Annual Report (found at pages 1-9 of Exhibit 13):

Name	Age	Offices
Sidney Taurel	51	Chairman of the Board (since January 1999), President and Chief Executive Officer (since June 1998), and a Director
Charles E. Golden	53	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
Gerhard N. Mayr	53	Executive Vice President, Pharmaceutical Operations (since October 1999)
August M. Watanabe, M.D.	58	Executive Vice President, Science and Technology (since February 1996) and a Director
Mitchell E. Daniels, Jr.	50	Senior Vice President, Corporate Strategy and Policy (since June 1998)
Rebecca O. Kendall	52	Senior Vice President and General Counsel (since June 1998)
Pedro P. Granadillo	52	Senior Vice President, Human Resources and Manufacturing (since June 1998)
John C. Lechleiter	46	Senior Vice President, Pharmaceutical Products (since June 1998)

“Review of Operations—Sale of PCS Health-Care-Management Business” (page 16)

“Review of Operations—Operating Results From Continuing Operations —1999” (pages 16-19)

“Review of Operations—Operating Results From Continuing Operations —1998” (pages 19-21)

“Review of Operations—Discontinued Operations” (pages 21-22)

“Review of Operations—Financial Condition” (pages 22 and 24)

“Review of Operations—Year 2000 Readiness Disclosure” (page 24)

“Review of Operations—Euro Conversion” (pages 24-25)

“Review of Operations—Legal and Environmental Matters” (page 25)

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 and foreign currency exchange risk) in the Company’s 1999 Annual Report at “Review of Operations —Financial Condition” at page 22 (pages 6-7 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 1999 Annual Report at pages 18, 23, 26, and 27 (Consolidated Statements of Income, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Consolidated Statements of Comprehensive Income), pages 27-28 (Segment Information), and pages 31-45 (Notes to Consolidated Financial Statements) (together, pages 10-16 and 20-38 of Exhibit 13). You can find the Report of Independent Auditors at page 47 of the Annual Report (page 40 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 1999 Annual Report under “Selected Quarterly

Data (unaudited)," at page 29 (pages 17-18 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 the Company's Proxy Statement dated March 3, 2000 (the "Proxy Statement"), under "Item 1. Election of Directors" at pages 4-7, 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 31. 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", "Executive Compensation", "Retirement Plan", and "Change-in-Control Severance Pay Arrangements" at pages 13-22. That information is incorporated in this Report by reference, except that the Compensation Committee Report and Performance Graph are not so incorporated.

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 "Common Stock Ownership by Directors and Executive Officers," at pages 11-12, and "Principal Holders of Common Stock," at page 12. 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**

"Review of Operations—Private Securities Litigation Reform Act of 1995 —a Caution Concerning Forward-Looking Statements" (page 25)

The following consolidated financial statements of the Company and its subsidiaries, included in the Company's 1999 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income—Years Ended December 31, 1999, 1998, and 1997 (page 18) (page 10 of Exhibit 13)

Consolidated Balance Sheets—December 31, 1999 and 1998 (page 23) (pages 11-12 of Exhibit 13)

Consolidated Statements of Cash Flows—Years Ended December 31, 1999, 1998, and 1997 (page 26) (page 13 of Exhibit 13)

Consolidated Statements of Comprehensive Income—Years Ended December 31, 1999, 1998, and 1997 (page 27) (page 14 of Exhibit 13)

Segment Information (pages 27-28) (pages 15-16 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**

Notes to Consolidated Financial Statements (pages 31-45) (pages 21-38 of Exhibit 13)

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, N.A., 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, N.A., 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, N.A., 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)
10.1	1989 Lilly Stock Plan, as amended(2)
10.2	1994 Lilly Stock Plan, as amended(2)
10.3	1998 Lilly Stock Plan(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, 1999 (portions incorporated by reference into this Form 10-K)
21.	List of Subsidiaries
23.	Consent of Independent Auditors
27.	Financial Data Schedule for the Year Ended December 31, 1999
99.	Cautionary Statement under Private Securities Litigation Reform Act of 1995 —"Safe Harbor" for Forward-Looking Disclosures

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

(2) Indicates management contract or compensatory plan.

(b) **Reports on Form 8-K**

The Company filed no reports on Form 8-K during the fourth quarter of 1999.

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.

(3) EVA® is a registered trademark of Stern Stewart & Co.

ELI LILLY AND COMPANY

By /S / SIDNEY TAUREL

Sidney Taurel,
Chairman of the Board,

March 24,
2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 24, 2000 by the following persons on behalf of the Registrant and in the capacities indicated.

President and Chief Executive Officer

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:

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 , M.D. (Steven C. Beering, M.D.)	Director
/S / KAREN N. HORN (Karen N. Horn, Ph.D.)	Director
/S / ALFRED G. GILMAN , M.D., PH .D. (Alfred G. Gilman, M.D., Ph.D.)	Director
/S / KENNETH L. LAY , PH .D. (Kenneth L. Lay, Ph.D.)	Director
/S / FRANKLYN G. PRENDERGAST , M.D., PH .D. (Franklyn G. Prendergast, M.D., Ph.D.)	Director
/S / KATHI P. SEIFERT (Kathi P. Seifert)	Director
/S / AUGUST M. WATANABE , M.D. (August M. Watanabe, M.D.)	Director
/S / ALVA O. WAY	Director

(Alva O. Way)

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 Statement 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.	*
10.1	1989 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.2 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1993
10.2	1994 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 1996
10.3	1998 Lilly Stock Plan	Incorporated by reference from Exhibit A to the Company's proxy statement dated March 4, 1998

Exhibit		Location
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	Attached
10.6	The Eli Lilly and Company EVA® Bonus Plan, as amended	Incorporated by reference from Exhibit 10.6 to the Company's Report on Form 10-K for the year ended December 31, 1998
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, 1999 (portions incorporated by reference in this Form 10-K)	Attached
21.	List of Subsidiaries	Attached
23.	Consent of Independent Auditors	Attached
27.	Financial Data Schedule for the Year Ended December 31, 1999	EDGAR filing only
99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 — "Safe Harbor" for Forward-Looking Disclosures	Attached

Exhibit 10.5

THE LILLY DIRECTORS' DEFERRAL PLAN
(As amended and restated through December 20, 1999)

Section 1. Establishment of the Plan.

Effective January 1, 1996, there is hereby established a plan whereby certain Directors of the Company who are not current salaried employees of the Company may voluntarily defer compensation (the "Deferred Compensation" portion of the Plan), and certain Directors of the Company who are not current or former full-time salaried employees of the Company can share in the long-term growth of the Company by acquiring an ownership interest in the Company (the "Deferred Stock" portion of the Plan). Prior to January 1, 1996, the Company maintained the Deferred Compensation portion of the Plan and the Deferred Stock portion of the Plan as two separate plans, The Lilly Directors' Deferred Compensation Plan and The Lilly Non-Employee Directors' Deferred Stock Plan, respectively (the "Prior Plans"). The Plan is deemed to consist of the amounts held under the Prior Plans, and any election made by a Director under the Prior Plans, unless and until amended by the Director in accordance with this Plan, shall remain in effect under this Plan.

Section 2. Definitions.

When used in the Plan, the following terms shall have the definitions set forth in this Section 2:

2.1. Accrual Date. The term "Accrual Date" means the first day in December of each calendar year on which the common stock of the Company is traded, or such other annual date, not earlier than the third Monday in February, established by the Committee as the date as of which Shares are allocated to each Share Account.

2.2. Beneficiary. The term "Beneficiary" means the beneficiary or beneficiaries (including any contingent beneficiary or beneficiaries) designated pursuant to subsection 8.3 hereof.

2.3. Board of Directors. The term "Board of Directors" means the Board of Directors of the Company.

2.4. Committee. The term "Committee" refers to the Directors and Corporate Governance Committee of the Board of Directors.

2.5. Company. The term "Company" means Eli Lilly and Company.

2.6. Company Credit. The term "Company Credit" means an amount computed, and credited annually to a Participant's Deferred Compensation Account at a rate that is two percent (2%) above the rate that the Treasurer of the Company determines was the prime rate of interest charged by Chemical Bank, New York, New York or its successor bank (the "Bank"), on loans made on the immediately preceding December 15 or, if the Bank was closed on December 15, the last day preceding December 15 on which the Bank was open for business.

2.7. Compensation. The term "Compensation" means the retainer and the aggregate of all meeting fees to which a Director is entitled for services rendered to the Company as a Director.

2.8. Deferral Allocation Date. The term "Deferral Allocation Date" means the third Monday of any month, or if Shares are not traded on The New York Stock Exchange on such third Monday of the month, the last day before the third Monday of the month on which Shares are traded on The New York Stock Exchange, that follows the earlier of (a) the date on which an amount deferred under the Plan would have been paid in cash if a deferral election had not been made hereunder, or (b) in the case of an award of compensation which by its terms is subject to a deferred payment date, the date of award.

2.9. Deferred Amount. The term "Deferred Amount" means the amount of a Deferred Compensation Participant's Compensation that the Participant elects to defer in accordance with Section 4 hereof.

2.10. Deferred Compensation Participant. The term "Deferred Compensation Participant" means a Director who is not a salaried employee of the Company and who has elected to defer all or part of his Compensation pursuant to the Plan in accordance with Section 4 hereof.

2.11. Deferred Stock Participant. The term "Deferred Stock Participant" means a Director who is not a current or former full-time salaried employee of the Company and who becomes a Participant in the Plan in accordance with Section 3 hereof.

2.12. Director. The term "Director" means each member of the Board of Directors.

2.13. Dividend Allocation Date. The term "Dividend Allocation Date" means the first Monday that (a) follows a Dividend Payment Date and (b) is the third Monday of a Month.

2.14. Dividend Payment Date. The term "Dividend Payment Date" means the date as of which the Company pays a cash dividend on Shares.

2.15. Dividend Record Date. The term "Dividend Record Date" means, with respect to any Dividend Payment Date, the date established by the Board of Directors as the record date for determining shareholders entitled to receive payment of the dividend.

2.16. Individual Accounts. The term "Individual Accounts" or "Accounts" means the separate accounts (the Deferred Compensation Account and the Share Account), described in Section 7 hereof, one or both of which is established under the Plan for each Participant. When used in the singular, the term shall refer to one of these two accounts, as the context requires.

2.17. Participant. The term "Participant" means a Director who is a Deferred Stock Participant, a Deferred Compensation Participant, or both, as the case may be.

2.18. Plan. The term "Plan" means The Lilly Directors' Deferral Plan, as set forth herein and as it may be amended from time to time.

2.19. Share. The term "Share" means a share of common stock of the Company.

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Each person who is thereafter elected or appointed as a Director, and who is not and has never been a full-time salaried employee of the Company, shall become a Deferred Stock Participant beginning with the month in which such Director takes office. A Deferred Stock Participant shall cease to participate in the Plan when the Participant ceases to be a Director. For purposes of the Plan, a Deferred Stock Participant shall be deemed to cease to be a Director on the first day of the month next following the month in which he or she last serves as a Director.

Section 4. Deferred Compensation Participants.

Each Director who participated in The Lilly Directors' Deferred Compensation Plan immediately before the effective date of the Plan shall

continue as a Deferred Compensation Participant on such effective date, and all elections in effect under The Lilly Directors' Deferred Compensation Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Prior to the beginning of each calendar year, any Director who is not a salaried employee of the Company may defer the receipt of Compensation to be earned by the Director during such year by filing with the Company a written election that:

(i) defers payment of a designated amount (of one Thousand Dollars ($1,000) or more) or percentage of his or her Compensation for services attributable to the following calendar year or portion thereof (the "Deferred Amount");

(ii) specifies the payment option selected by the Participant pursuant to subsection 8.2 hereof for such Deferred Amount; and

(iii) specifies the option selected by the Participant pursuant to Section 5 hereof for such Deferred Amount.

The amount deferred may not exceed the Director's Compensation for the calendar year. Notwithstanding the foregoing, any individual who is newly elected or appointed to serve as a Director may, not later than thirty (30) days after his election or appointment becomes effective, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Compensation earned during the portion of the current calendar year that follows the filing of the election with the Company. Except as provided in subsections 8.2 and 8.4 hereof, any elections made pursuant to this Section 4 with respect to a calendar year shall be irrevocable when made. If a Participant fails to make an election under section 5 with respect to his or her Deferred Amount for a future calendar year, the Participant's previous election shall remain in effect, provided that the Participant may amend his or her election with regard to a future calendar year at any time.

Section 5. Form of Deferred Compensation Credits.

5.1. Deferred Compensation Account. Except with respect to the deferral of Compensation for a calendar year in which a Deferred Compensation Participant elects to have all or a percentage of the Deferred Amount credited in Shares in accordance with subsection 5.2 hereof, the Deferred Amount shall be denominated in U.S. dollars and credited to the Participant's Deferred Compensation Account pursuant to subsection 7.1 hereof.

5.2. Shares. Prior to the beginning of each calendar year, a Deferred Compensation Participant may elect to have all or a percentage of the Deferred Amount for the following calendar year credited in Shares and allocated to the Participant's Share Account pursuant to subsection 7.2 hereof.

Section 6. Allocations to Share Accounts.

6.1. Allocation of Shares. As of the Accrual Date of each calendar year, there shall be allocated to the Share Account of each Deferred Stock Participant, as part of the compensation to such Deferred Stock Participant for service on the Board of Directors, seven hundred (700) Shares (or such other number of Shares as may be specified from time to time by resolution of the Board of Directors), at the average of the high and low prices of Shares on The New York Stock Exchange on the Accrual Date. Shares allocated to each Deferred Stock Participant's Share Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 8 hereof.

Section 7. Individual Accounts.

The Company shall maintain Individual Accounts for Participants, as follows:

7.1. Deferred Compensation Account. The Company shall maintain a Deferred Compensation Account in the name of each Deferred Compensation Participant in respect of each calendar year the Deferred Compensation Participant elects to defer the receipt of Compensation pursuant to Section 4 hereof and does not elect to have the Deferred Amount for such calendar year credited in Shares pursuant to subsection 5.2 hereof. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. A Deferred Amount allocated to a Deferred Compensation Account pursuant to subsection 5.1 hereof shall be credited to the Deferred Compensation Account as of the Deferral Allocation Date.

7.2. Share Account. The Company shall maintain a Share Account for each Deferred Stock Participant and for each Deferred Compensation Participant who elects to have a Deferred Amount credited in Shares pursuant to subsection 5.2 hereof, or who elects to convert all or a portion of his or her final account balance under The Lilly Directors' Deferred Compensation Plan to Shares pursuant to subsection 5.3 hereof. The Share Account shall be denominated in Shares, and shall be maintained in fractions rounded to three (3) decimal places.

Shares allocated to a Deferred Compensation Participant's Share Account in accordance with the Participant's election under subsection 5.2 hereof shall be credited to the Participant's Share Account as of the Deferral Allocation Date. Shares and, if necessary, fractional Shares, shall be credited to a Participant's Share Account based upon the average of the high and low price of Shares on The New York Stock Exchange on the Deferral Allocation Date.

7.3. Former Interest Account. All balances in the Account known previously as the "Interest Account" under The Lilly Non-Employee Directors' Deferred Stock Plan shall be transferred to the Share Account effective on January 1, 1996, utilizing the same price of Shares set forth in subsection 5.3 hereof for purposes of the calculation.

7.4. Accrual of Company Credit. The Treasurer of the Company shall determine the annual rate of Company Credit on or before December 31 of each calendar year. This rate shall be effective for the following calendar year. The Company Credit shall accrue monthly, at one-twelfth of the applicable annual rate, on all amounts credited to a Participant's Deferred Compensation Account, including the Company Credits for prior years. The Company Credit shall not accrue on any amount distributed to a Participant (or to the Participant's Beneficiary) during the month for which the accrual is determined, except where an amount is distributed to a Beneficiary in the month of the Participant's death. The Company Credit for each year shall be credited to each Deferred Compensation Account as of December 31 of that year and shall be compounded monthly.

7.5. Cash Dividends. Cash dividends paid on Shares shall be deemed to have been paid on the Shares allocated to each Participant's Share Account as if the allocated Shares were actual Shares issued and outstanding on the Dividend Record Date. An amount equal to the amount of such dividends shall be credited in Shares to each Share Account as of each Dividend Allocation Date based upon the average of the high and low prices for Shares on The New York Stock Exchange on the Divided Allocation Date, or, if Shares are not traded on the Divided Allocation Date, the next day on which Shares are traded.

7.6. Capital Adjustments. The number of Shares referred to in Section 6 hereof and the number of Shares allocated to each Share Account shall be adjusted by the Committee, as it deems appropriate, to reflect stock dividends, stock splits, reclassifications, spinoffs, and other extraordinary distributions, as if those Shares were actual Shares.

7.7. Account Statements. Within a reasonable time following the end of each calendar year, the Company shall render an annual statement to each Participant. The annual statement for each Deferred Stock Participant shall report the number of Shares credited to the Participant's Share Account as of December 31 of that year. The annual statement for each Deferred Compensation Participant shall report the dollar amount credited to the Participant's Deferred Compensation Account as of December 31 of that year, and the number of Shares credited to the Participant's Share Account as of December 31 of that year.

Section 8. Payment Provisions.

8.1. Method of Payment. All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Deferred Compensation Account shall be paid in cash. Except as provided in Section 8.5, all payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Share Account shall be paid in Shares, at which time the Shares shall be issued or transferred on the books of the Company. All Shares to be transferred hereunder shall be transferred out of treasury shares to the extent available. Fractional Shares shall not be transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fractions remaining in the Participant's Share Account shall be rounded up to the next whole Share and that number of whole Shares shall be transferred to the Participant (or, after the Participant's death, to the Participant's Beneficiary). If Shares are not traded on The New York Stock Exchange on any day on which a payment of Shares is to be made under the Plan, then that payment shall be made on the next day on which Shares are traded on The New York Stock Exchange.

8.2. Payment Options. Prior to each calendar year, or within 30 days after becoming a Participant, the Participant shall select a payment election with respect to the payment of one or both of the Participant's Individual Accounts from the following payment elections:

(i) a lump sum in January of the calendar year immediately following the calendar year in which the Participant ceases to be a Director; or

(ii) a lump sum in January of the second calendar year following the calendar year in which the Participant ceases to be a Director;

(iii) annual (or, in the case of the Deferred Compensation Account only, monthly) installments over a period of two to ten years commencing in January of the calendar year following the calendar year during which the Participant ceases to be a Director; or

(iv) annual (or in the case of the Deferred Compensation Account only, monthly) installments over a period of two to ten years commencing in January of the second calendar year following the calendar year in which the Participant ceases to be a director.

If the payment option described in paragraphs (i) or (ii), above, has been elected, the amount of the lump sum with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the December 31 next preceding the date of the payment, and the amount of the lump sum with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Share Account as of the December 31 next preceding the date of payment. If the payment option described in paragraphs (iii) or (iv), above, has been elected, the amount of each installment with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the last day of the month next preceding the date of a monthly installment payment, or the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. The amount of each installment with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Participant's Share Account as of the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made.

A Participant may elect that his final payment election may control over all prior payment elections. If the Participant fails to elect a payment option, the amount credited to the Participant's Individual Account shall be distributed in a lump sum in accordance with the payment option described in paragraph (i), above. If the amount credited to a Participant's Deferred Compensation Account or the value of Shares credited to a Participant's Share Account is less than $25,000, the Committee, in its sole discretion, may pay out the amount credited to the Participant's Individual Account in a lump sum.

8.3. Payment Upon Death. Within a reasonable period of time following the death of a Participant, the amount credited to a Participant's Deferred Compensation Account and all of the Shares credited to the Participant's Share Account shall be paid by the Company in a lump sum to the Participant's Beneficiary. For purposes of this subsection 8.3, the amount credited to the Participant's Deferred Compensation Account and the number of Shares credited to the Participant's Share Account shall be determined as of the date of payment. A Participant may designate the Beneficiary, in

writing, in a form acceptable to the Committee before the Participant's death. A Participant may, before the Participant's death, revoke a prior designation of Beneficiary and may also designate a new Beneficiary without the consent of the previously designated Beneficiary, provided that such revocation and new designation (if any) are in writing, in a form acceptable to the Committee, and filed with the Committee before the Participant's death. If the Participant does not designate a Beneficiary, or if no designated Beneficiary survives the Participant, any amount not distributed to the Participant during the Participant's life shall be paid to the Participant's estate in a lump sum in accordance with this subsection 8.3.

8.4. Payment on Unforeseeable Emergency. The Committee may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Individual Account balance, notwithstanding an election under subsection 8.2 above, at any time that it determines that such Participant has an unforeseeable emergency, and then only to the extent reasonably necessary to meet the emergency. For purposes of this section, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is, or may be, relieved --

(i) through reimbursement or compensation by insurance or otherwise,

(ii) by liquidation of the Participant's assets, to the extent the liquidation of such assets would not itself cause severe financial hardship, or

(iii) by cessation of deferrals under the Plan.

Examples of what are not considered to be unforeseeable emergencies include the need to send a Participant's child to college or the desire to purchase a home.

8.5. Payment of Cash in Lieu of Shares. If at any time the Committee shall determine that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Committee may, in its discretion, pay all or a portion of the Participant's Share Account in cash. In this case, the amount of cash

shall be determined with reference to the average of the high and low trading price for Shares on the December 31 next preceding the date of payment, or if Shares are not traded on that day, the next preceding trading day.

Section 9. Ownership of Shares.

A Participant shall have no rights as a shareholder of the Company with respect to any Shares until the Shares are transferred to the Participant on the books of the Company.

Section 10. Prohibition Against Transfer.

The right of a Participant to receive payments of Shares and cash under the Plan may not be transferred except by will or applicable laws of descent and distribution. A Participant may not assign, sell, pledge, or otherwise transfer Shares or cash to which he is entitled hereunder prior to transfer or payment thereof to the Participant.

Section 11. General Provisions.

11.1. Director's Rights Unsecured. The Plan is unfunded. The right of any Participant to receive payments of cash or Shares under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

11.2. Administration. Except as otherwise provided in the Plan, the Plan shall be administered by the Committee, which shall have the final authority to adopt rules and regulations for carrying out the Plan, and to interpret, construe, and implement the provisions of the Plan.

11.3. Legal Opinions. The Committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligations and duties under the Plan, or with respect to any action, proceeding, or any questions of law, and shall not be liable with respect to any action taken, or omitted, by it in good faith pursuant to the advice of such counsel.

11.4. Liability. Any decision made or action taken by the Board of Directors, the Committee, or any employee of the Company or any of its subsidiaries, arising out of or in connection with the construction, administration, interpretation, or effect of the Plan, shall be absolutely discretionary, and shall be conclusive and binding on all parties. Neither the Committee nor a member of the Board of Directors and no employee of the Company or any of its subsidiaries shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving bad faith, for anything done or omitted to be done.

11.5. Withholding. The Company shall have the right to deduct from all payments hereunder any taxes required by law to be withheld from such payments. The recipients of such payments shall bear all taxes on amounts paid under the Plan to the extent that no taxes are withheld thereon, irrespective of whether withholding is required.

11.6. Incapacity. If the Committee determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to such person's spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person.

11.7. Inability to Locate. If the Committee is unable to locate a person to whom a payment is due under the plan for a period of twelve (12) months, commencing with the first day of the month as of which the payment becomes payable, the total amount payable to such person shall be forfeited.

11.8. Legal Holidays. If any day on (or on or before) which action under the Plan must be taken falls on a Saturday, Sunday, or legal holiday, such action may be taken on (or on or before) the next succeeding day that is not a Saturday, Sunday, or legal holiday; provided, that this subsection 11.8 shall not permit any action that must be taken in one calendar year to be taken in any subsequent calendar year.

Section 12. Amendment, Suspension, and Termination.

The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, provided that no amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account, and provided further that the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year.

Section 13. Applicable Law.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Indiana, except to the extent that such laws are preempted by Federal law.

Section 14. Effective Date.

The effective date of this Plan is January 1, 1996. Nothing herein shall invalidate or adversely affect any previous election, designation, deferral, or accrual in accordance with the terms of The Lilly Directors' Deferred Compensation Plan or The Lilly Non-Employee Directors' Deferred Stock Plan that were in effect prior to the effective date of this Plan.

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,				
	1999	1998	1997	1996	1995
Consolidated Pretax Income from Continuing Operations before Extraordinary Item	$3,245.4	$2,665.0	$2,901.1	$2,131.3	$1,866.6
Interest from Continuing Operations and Other Fixed Changes	213.1	198.3	253.1	323.8	323.9
Less Interest Capitalized during the Period from Continuing Operations	(29.3)	(17.0)	(20.4)	(35.8)	(38.3)
Earnings	$3,429.2	$2,846.3	$3,133.8	$2,419.3	$2,152.2
Fixed Charges /1/	$ 213.2	$ 200.5	$ 256.8	$ 328.5	$ 323.9
Ratio of Earnings to Fixed Charges	16.1	14.2	12.2	7.4	6.6

/1/ Fixed charges include interest from continuing operations for all years presented and beginning in 1996, preferred stock dividends.

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR
ENDED DECEMBER 31, 1999

REVIEW OF OPERATIONS

SALE OF PCS HEALTH-CARE-MANAGEMENT BUSINESS

In November 1998, the company signed a definitive agreement to sell to Rite Aid Corporation the company's PCS health-care-management subsidiary for $1.60 billion in cash. The sale, which was completed in January 1999, is allowing the company to further focus on pharmaceutical innovation and the realization of optimal demand for company products in the marketplace. As a consequence of the divestiture, the operating results of PCS have been reflected as "discontinued operations" in the company's financial statements for all periods and have been excluded from consolidated sales and expenses reflected therein. The company recognized a gain on disposal of $174.3 million, net of $8.7 million tax benefit, which increased earnings per share by approximately $.16, net of tax, in the first quarter of 1999.

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 earnings 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 transactions are reflected in the company's operating results for 1999 and 1998. These transactions are summarized as follows (see Note 3, Note 4, and Note 12 to the consolidated financial statements for additional information):

- - The company realized approximately $90 million in additional product sales as a result of year-2000-related wholesaler buying, which increased earnings per share by approximately $.06 in the fourth quarter of 1999.
- - The company recognized 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.
- - The company recognized 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.
- - The company recognized a pretax gain of $67.8 million on the sale of Lorabid marketing rights, which increased earnings per share by approximately $.05 in the third quarter of 1999.
- - The company recognized 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.

- - The company recognized 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.
- - 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 in 1998.

SALES
- -----

The company's worldwide sales for 1999 increased 8 percent, to $10.0 billion. Approximately $90 million of worldwide sales were related to year 2000 wholesaler buying. Sales growth was led by Zyprexa, a treatment for schizophrenia and related psychoses; the osteoporosis treatment and prevention agent Evista; the oncolytic product Gemzar; diabetes care products; and the cardiovascular agent 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 the antidepressant 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. The company expects slight declines in worldwide Prozac sales in 2000 compared with 1999 primarily due to increased generic competition outside the U.S. Actual sales levels will depend on the effectiveness of the company's marketing efforts in offsetting increased competition, the rate of growth of the antidepressant market, and the stocking patterns of wholesalers, retailers, and consumers.

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. During the fourth quarter of 1999, the U.S. Food and Drug Administration (FDA) issued an approvable letter for Zyprexa for the treatment of acute mania associated with bipolar disorder. The company expects continued strong sales growth for Zyprexa in 2000 due, in part, to the anticipated new indication.

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. The company anticipates strong sales growth for Gemzar in 2000.

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. The company anticipates strong sales growth for ReoPro in 2000.

Worldwide diabetes care revenues, composed of Humulin, the company's biosynthetic human insulin; Humalog, the company's insulin analog; the animal source insulin Iletin; and Actos, an oral diabetes agent introduced in the U.S. in 1999, 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 anticipates moderate growth in sales of diabetes care products, excluding Actos, in 2000. 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 the company. The company received service revenues of $37.9 million in 1999 relating to Actos sales. The company anticipates very strong growth in Actos revenues in 2000.

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. The company expects a continued decline in anti-infectives sales in 2000.

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. The company anticipates strong growth in worldwide Evista sales in 2000.

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 worldwide sales growth was driven primarily by Surmax, a performance enhancer for poultry and swine, and Micotil, an antibiotic for bovine respiratory disease, offset, in part, by decreases in worldwide sales of Tylan, a performance enhancer for poultry, swine, and cattle. In January 2000, the company received approval for Paylean, a new swine lean-meat enhancer, from the FDA's Center for Veterinary Medicine.

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. The company anticipates that Medicaid rebates will increase in 2000 due, in part, to the continuing growth of Zyprexa sales.

GROSS MARGIN, COSTS, AND EXPENSES
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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. The company anticipates a slight improvement in gross margin in 2000.

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. The increases were 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. For 2000, the company expects operating expenses will return to a more typical growth rate of low double-digit to mid-teen increases. The actual 2000 increase will vary depending upon a number of factors, particularly the level of research collaboration activity.

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. The company expects that a comparable tax rate will be sustainable under present law for the near term. See Note 10 to the consolidated financial statements for additional information.

OPERATING RESULTS FROM CONTINUING OPERATIONS -- 1998

SUMMARY

Income from continuing operations (before the 1998 extraordinary charge of $7.2 million, or $.01 per share) was $2.10 billion, or $1.87 per share, in 1998 and $2.02 billion, or $1.78 per share, in 1997. Comparisons between 1998 and 1997 are made difficult by the impact of several unusual transactions 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 1998 and 1997 would have been $2.17 billion, or $1.94 per share, and $1.83 billion, or $1.62 per share, respectively. This represents an increase in earnings and earnings per share of 19 percent and 20 percent, respectively. The 1998 increases are attributed to increased sales, improved gross margin, reduced interest expense, and a lower effective tax rate, partially offset by increases in operating expenses.

UNUSUAL ITEMS

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 company's payments to acquire rights to this compound were required to be charged as an expense of $127.5 million, which reduced earnings per share by approximately $.07 net of tax. The company's reported tax rate was also affected by this item. See Note 4 to the consolidated financial statements for additional information.

The company's reported results from continuing operations for 1997 include the following unusual transactions: a pretax gain of $631.8 million from the sale of the company's interest in the DowElanco joint venture, a $97.8 million noncash charge for an asset impairment, a charge for the settlement of a significant portion of the company's remaining retail pharmacy pricing litigation, and a $24.1 million charge for the discontinuance of the research collaboration with Somatogen, Inc. The company's reported tax rate for 1997 was also affected by these transactions.

SALES

The company's sales for 1998 increased 16 percent, to $9.24 billion. Sales growth was led by four of the company's newer products: Zyprexa, ReoPro, Gemzar, and Evista, as well as Prozac. Sales in the U.S. were $5.84 billion, a 20 percent increase, while sales outside the U.S. were $3.40 billion, a 9 percent increase. Worldwide sales reflected volume growth of 15.3 percent and a 2.1 percent increase in selling prices, which were partially offset by an unfavorable exchange rate impact of 1.8 percent.

Worldwide sales of Prozac in 1998 were $2.81 billion, representing an increase of 10 percent. Prozac sales in the U.S. increased 13 percent, to $2.27 billion, due, in part, to wholesaler stocking in advance of a 1999 price increase. Sales of Prozac outside the U.S. were substantially the same as 1997. Continued competitive pressures affected sales outside the U.S.

Zyprexa posted worldwide sales of $1.44 billion in 1998, representing an increase of 98 percent. U.S. sales of Zyprexa increased 91 percent, to $1.12 billion. Sales outside the U.S. increased 127

percent, to $317.9 million. Sales comparisons for Zyprexa benefited to some extent from U.S wholesaler stocking in the fourth quarter of 1998.

Worldwide diabetes care revenue, composed of Humulin, Humalog, and Iletin, increased 8 percent, to $1.15 billion, in 1998. Insulin sales in the U.S. increased 4 percent, to $701.5 million. Insulin sales outside the U.S. increased 14 percent, to $453.4 million. Worldwide Humulin sales increased 3 percent, to $959.3 million. Worldwide Humalog sales were $129.6 million, representing an increase of 91 percent, or $61.9 million, over 1997. Iletin sales were essentially flat compared with 1997.

Worldwide sales of anti-infectives decreased 9 percent, to $1.16 billion. U.S. and international anti-infectives sales declined 20 percent and 4 percent, respectively. These declines were due, in part, to continued generic competition in certain markets and the impact of unfavorable exchange rates. Cefaclor, Lorabid, and Vancocin accounted for the majority of the decline in anti-infectives sales with declines of 10 percent, 14 percent, and 5 percent, respectively.

Worldwide Axid sales decreased 20 percent, to $418.0 million, due to continuing competition from other branded and generic antiulcer agents.

As mentioned above, the newer products ReoPro, Gemzar, and Evista contributed significantly to worldwide sales growth. Worldwide ReoPro sales of $365.4 million reflected an increase of 44 percent. Worldwide Gemzar sales increased 76 percent, to $306.8 million. Evista, introduced in the first quarter of 1998, had worldwide sales of $144.1 million. Sales of Evista benefited somewhat from U.S. wholesaler stocking in the fourth quarter of 1998.

Worldwide sales of animal health products increased 4 percent, to $614.4 million. Sales increased 7 percent in the U.S. and 2 percent outside the U.S. The worldwide sales growth was driven primarily by Micotil, Tylan, and Surmax. Weakness in the general economic condition of the Asia-Pacific region negatively affected sales of animal health products outside the U.S. These products have a greater sensitivity to adverse economic conditions in the Asia-Pacific region than pharmaceutical products.

The company's payments under federally mandated Medicaid rebate programs reduced 1998 sales by approximately $278.6 million compared with approximately $199.1 million in 1997.

GROSS MARGIN, COSTS, AND EXPENSES
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The gross margin improved to 78.2 percent of sales compared with 75.6 percent for 1997. This increase was due primarily to favorable changes in product mix and, to a lesser extent, to productivity improvements.

Operating expenses (the aggregate of research and development and marketing and administrative expenses) for 1998, excluding the effect of the expenses for acquired in-process technology related to the ICOS collaboration, increased 22 percent. The increase reflects a 27 percent growth rate in research and development, to $1.74 billion. This growth was the result of greater investments in both internal research efforts and external research collaborations. Marketing and administrative expenses increased 19 percent, to $2.66 billion. This increase was driven by increased expenditures to support continued new product launches around the world, including the U.S. launch of Evista and direct-to-consumer advertising campaigns in the U.S. In addition to the above, operating expenses were also affected by investments in the company's global information technology capabilities, which include expenditures relating to the company's year 2000 computer initiatives and increased compensation due to the company's performance-based bonus programs.

Interest expense in 1998 decreased $51.4 million, or 22 percent, due largely to declines in the company's borrowings.

Net other income for 1998 was $149.3 million, a decrease of $12.1 million from 1997. Net other income in 1998 benefited from gains on the sale of certain investments and increased interest income. Also, in comparison with 1997, 1998 benefited from the inclusion in the 1997 amount of the charges associated with the discontinuance of a collaboration with Somatogen, Inc. These increases were more than offset by the absence of both DowElanco joint venture income and certain license fee income in 1998.

The company's effective tax rate for 1998 was 21.3 percent compared with 30.5 percent for 1997. The company's 1997 effective tax rate was distorted by the gain from the sale of DowElanco and the asset impairment charge. The company's tax rate for 1997, excluding the impact of these items, was 24.1 percent. Excluding the ICOS transaction discussed previously, the company's effective tax rate for 1998 was 22.2 percent. The lower 1998 rate is primarily the result of changes in the mix of earnings between jurisdictions with lower tax rates and those with higher rates.

The company refinanced an ESOP debenture during 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.

DISCONTINUED OPERATIONS

Discontinued operations consists 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 was recognized in the first quarter of 1999. See Note 3 to the consolidated financial statements for further information.

In the second quarter of 1997, the company recognized an asset impairment (a noncash charge) of approximately $2.30 billion to adjust the carrying value of PCS's long-lived assets, primarily goodwill, to their fair value of approximately $1.50 billion. The company determined that PCS's estimated future undiscounted cash flows were below the carrying value of PCS's long-lived assets. As a consequence, the carrying value was adjusted to the estimated fair value based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

FINANCIAL CONDITION

As of December 31, 1999, cash, cash equivalents, and short-term investments totaled approximately $3.84 billion compared with $1.60 billion at December 31, 1998. Total debt at December 31, 1999, was $3.05 billion, an increase of $686.5 million. The increase in cash was due to the sale of PCS in January 1999, the issuance of debt in August 1999, and cash flows generated from operations. Substantially all the decreases in accounts receivable ($524.7 million) and accounts payable ($740.5 million) during 1999 were also a result of the sale of PCS. The company has completed its previously announced $1.50 billion share repurchase, acquiring approximately 19.1 million shares in 1999. 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 2000.

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 $2.05 billion of committed bank credit facilities.

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 objective of controlling these risks is to limit the impact on earnings of fluctuations in interest and currency exchange 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, 1999, 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, 1999, 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 1998 applied to the fair value of the instruments as of December 31, 1998, would have had no material impact on earnings, cash flows, or fair values of interest rate risk sensitive instruments during 1999.

The company's foreign currency risk exposure results from fluctuating currency exchange rates, primarily the strengthening of the U.S. dollar against the Japanese yen and the euro. The company faces transactional currency exposures that arise when its foreign subsidiaries (or the company itself) enter into transactions, generally on an intercompany basis, denominated in currencies other than their local currency. The company also faces currency exposure that arises from translating the results of its global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. The company uses forward contracts and purchased options to manage its foreign currency exposures. Company policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative positions offset, in part, the impact of currency fluctuations on the existing assets, liabilities, commitments, and anticipated revenues. Considering the company's derivative financial instruments outstanding at December 31, 1999, a hypothetical 10 percent weakening in the exchange rates (primarily against the U.S. dollar) over a one-year period would increase pretax earnings by $70.0 million, while a 10 percent strengthening in the exchange rates would decrease pretax earnings by $49.1 million. Comparatively, considering the company's derivative financial instruments outstanding at December 31, 1998, a hypothetical 10 percent weakening in the exchange rate (primarily against the U.S. dollar) over a one-year period would have increased pretax earnings by $45.9 million, while a 10 percent strengthening in the exchange rates would have decreased pretax earnings by $26.1 million. This calculation does not reflect the impact of exchange gains/losses on the underlying positions that would be offset, in part, by the results of the derivative instruments.

Capital expenditures of $528.3 million during 1999 were $108.4 million more than in 1998 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 1999 levels. Sufficient cash flows exist to meet these near-term requirements.

Dividends of $.92 per share were paid in 1999, an increase of 15 percent from the $.80 per share paid in 1998. In the fourth quarter of 1999, effective for the first-quarter dividend in 2000, the quarterly dividend was increased to $.26 per share (13 percent), resulting in an indicated annual rate for 2000 of $1.04 per share. The year 1999 was the 115th consecutive year in which the company made dividend payments and the 32nd consecutive year in which dividends have been increased.

YEAR 2000 READINESS DISCLOSURE

Many of the company's global information technology (IT) systems and non-IT systems, including laboratory and process automation devices, required modification or replacement in order to render the systems ready for the year 2000. In late 1996, the company initiated a comprehensive program to reduce the likelihood of a material impact of the year 2000 on the business.

The company's inventory of IT systems, including software applications, was divided into various categories. Those most critical to the company's global operations were generally assessed and renovated, when necessary, first. The company completed renovation of substantially all its applications that needed some form of renovation.

The most important non-IT systems were various laboratory and process automation devices. The company completed a global assessment of all devices. Based on this assessment, only a small percentage (15 percent) of all automation devices appeared to require upgrade or replacement. The company completed remediation of the critical devices.

The company completed a comprehensive risk management analysis of the operational problems and costs (including loss of revenues) that would be reasonably likely to result from the failure by the company and certain third parties to complete efforts necessary to achieve year 2000 compliance on a timely basis or from abnormal wholesaler or consumer buying in anticipation of the year 2000. Contingency plans were developed for the company and its critical vendors, customers, and suppliers to address the flow of products to the consumer. The company increased inventories of certain key products in order to have additional finished stock in the event excessive consumer purchasing occurred in late 1999. Business continuity plans were developed to address the company's approach for dealing with extended disruptions.

The company currently estimates it will spend between $160 million and $165 million over the life of the program and that approximately 98 percent of the anticipated costs were incurred by December 31, 1999. Expenses associated with addressing year 2000 issues are being recognized as incurred.

The company went through the year 2000 rollover with minimal disruptions to its business. There were no failures of IT systems or automation devices deemed critical or essential. All incidents reported were corrected and resulted in no material impact on the business. While the company continues to be cautious about the impact of similar issues that could possibly occur around February 29, 2000, it does not expect a material impact on the business. Plans have been put into place to monitor issues around the leap year rollover.

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. The adoption of the euro will affect a multitude of financial systems and business applications as the commerce of these nations will be 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 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 will be expensed as incurred and the company does not expect these costs to be material to its results of operations, financial condition, or liquidity.

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. On January 12, 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 has been appealed. On January 25, 1999, Barr and Geneva dismissed their other two claims in exchange for a $4 million payment, which Barr and Geneva will share with a third defendant. In late 1998, three additional generic pharmaceutical companies, Zenith Goldline Pharmaceuticals, Inc.; Teva Pharmaceuticals USA; and Cheminor Drugs, Ltd., together with one of its subsidiaries, filed ANDAs for generic forms of Prozac, asserting that the later of the two patents (expiring in December 2003) is invalid and unenforceable. In early 1999, Novex Pharma, a division of Apotex, Inc., changed its previously filed ANDA to assert that both the 2001 and 2003 patents are invalid and unenforceable. Lilly has filed suits against the four companies in federal court in Indianapolis. In November 1999, Lilly filed a lawsuit against Cheminor Drugs and Schein Pharmaceuticals, Inc., based on their ANDA filing for an additional dosage form. A trial date of October 30, 2000, has now been set for these cases. While the company believes that the claims of the seven generic companies are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the company's consolidated financial position, liquidity, and results of operations.

In addition, the company is a defendant in numerous product liability suits involving primarily two products, diethylstilbestrol (DES) and Prozac. See Note 12 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 12 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, 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.

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	1999	1998	1997
Net sales	$10,002.9	$9,236.8	$ 7,987.7
Cost of sales	2,098.0	2,015.1	1,946.0
Research and development	1,783.6	1,738.9	1,370.2
Marketing and administrative	2,757.6	2,658.3	2,233.1
Acquired in-process technology (Note 4)	-	127.5	-
Asset impairment and other site charges (Note 3)	87.4	-	97.8
Gain on sale of DowElanco (Note 4)	-	-	(631.8)
Interest expense	183.8	181.3	232.7
Other income--net	(152.9)	(149.3)	(161.4)
	6,757.5	6,571.8	5,086.6
Income from continuing operations before income taxes and extraordinary item	3,245.4	2,665.0	2,901.1
Income taxes (Note 10)	698.7	568.7	885.2
Income from continuing operations before extraordinary item	2,546.7	2,096.3	2,015.9
Income (loss) from discontinued operations, net of tax (Note 3)	174.3	8.8	(2,401.0)
Extraordinary item, net of tax (Note 6)	-	(7.2)	-
Net income (loss)	$ 2,721.0	$2,097.9	$ (385.1)
Earnings (loss) per share - basic (Note 9):			
Income from continuing operations before extraordinary item	$ 2.34	$ 1.91	$ 1.83
Income (loss) from discontinued operations	.16	.01	(2.18)
Extraordinary item	-	(.01)	-
Net income (loss)	$ 2.50	$ 1.91	$ (.35)
Earnings (loss) per share - diluted (Note 9):			
Income from continuing operations before extraordinary item	$ 2.30	$ 1.87	$ 1.78
Income (loss) from discontinued operations	.16	.01	(2.12)
Extraordinary item	-	(.01)	-
Net income (loss)	$ 2.46	$ 1.87	$ (.34)

See notes to consolidated financial statements.

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

December 31	1999	1998
Assets		
Current Assets		
Cash and cash equivalents	$ 3,700.4	$ 1,495.7
Short-term investments	135.6	101.4
Accounts receivable, net of allowances of $79.9 (1999) and $64.3 (1998)	1,443.2	1,967.9
Other receivables	399.6	275.8
Inventories	899.6	999.9
Deferred income taxes (Note 10)	240.3	332.7
Prepaid expenses	236.8	233.4
Total current assets	7,055.5	5,406.8
Other Assets		
Prepaid retirement (Note 11)	741.1	612.3
Investments	180.3	204.0
Goodwill and other intangibles, net of allowances for amortization of $107.6 (1999) and $171.4 (1998)	118.6	1,517.9
Sundry	748.2	758.2
	1,788.2	3,092.4
Property and Equipment	3,981.5	4,096.3
	$12,825.2	$12,595.5

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

December 31	1999	1998
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 6)	$ 241.5	$ 181.4
Accounts payable	445.5	1,186.0
Employee compensation	489.3	704.0
Dividends payable	283.0	252.9
Income taxes payable (Note 10)	1,445.3	1,290.2
Other liabilities	1,030.8	992.7
Total current liabilities	3,935.4	4,607.2
Other Liabilities		
Long-term debt (Note 6)	2,811.9	2,185.5
Deferred income taxes (Note 10)	137.0	247.9
Retiree medical benefit obligation (Note 11)	115.7	114.7
Other noncurrent liabilities	812.2	1,010.6
	3,876.8	3,558.7
Commitments and contingencies (Note 12)	-	-
Shareholders' Equity (Notes 7 and 8)		
Common stock - no par value		
Authorized shares: 3,200,000,000		
Issued shares: 1,091,226,806 (1999) and 1,098,396,306 (1998)	682.0	686.5
Retained earnings	4,985.6	4,228.8
Deferred costs - ESOP	(139.9)	(146.9)
Accumulated other comprehensive income (Note 13)	(406.4)	(229.8)
	5,121.3	4,538.6
Less cost of common stock in treasury:		
1999 - 988,902 shares		
1998 - 995,492 shares	108.3	109.0
	5,013.0	4,429.6
	$12,825.2	$12,595.5

See notes to consolidated financial statements.

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

Year Ended December 31	1999	1998	1997
Cash Flows From Operating Activities			
Net income (loss)	$ 2,721.0	$ 2,097.9	$ (385.1)
Adjustments To Reconcile Net Income (Loss) to Cash Flows From Operating Activities			
Depreciation and amortization	439.7	490.4	509.8
Change in deferred taxes	27.1	25.4	(293.0)
Gain on sale of PCS, net of tax	(174.3)	-	-
Gain on sale of DowElanco, net of tax	-	-	(303.5)
Asset impairment and other site charges, net of tax	58.1	-	2,429.6
Other noncash income--net	(26.1)	(93.0)	(37.8)
	3,045.5	2,520.7	1,920.0
Changes in operating assets and liabilities:			
Receivables - increase	(179.0)	(403.6)	(4.7)
Inventories - (increase) decrease	16.9	(55.6)	(65.8)
Other assets - increase	(88.8)	(81.1)	(22.2)
Accounts payable and other liabilities - increase (decrease)	(174.9)	649.4	573.1
	(425.8)	109.1	480.4
Net Cash From Operating Activities	2,619.7	2,629.8	2,400.4
Cash Flows From Investing Activities			
Additions to property and equipment	(528.3)	(419.9)	(366.3)
Disposals of property and equipment	78.3	30.6	11.5
Net additions to other assets	(116.6)	(120.1)	(34.2)
Reductions of investments	216.1	273.1	365.7
Additions to investments	(162.8)	(57.6)	(388.5)
Proceeds from sale of DowElanco	-	-	1,221.5
Proceeds from sale of PCS	1,600.0	-	-
Net Cash From (Used for) Investing Activities	1,086.7	(293.9)	809.7
Cash Flows From Financing Activities			
Dividends paid	(1,000.5)	(877.7)	(818.0)
Purchases of common stock and other capital transactions	(1,453.0)	(1,999.8)	(351.3)
Issuances under stock plans	310.2	414.0	205.4
Issuance (redemption) of subsidiary stock	-	(172.8)	160.0
Decrease in short-term borrowings	(139.4)	(170.0)	(1,146.0)
Additions to long-term debt	843.5	23.8	2.8
Reductions of long-term debt	(13.5)	(30.2)	(7.5)
Net Cash Used for Financing Activities	(1,452.7)	(2,812.7)	(1,954.6)
Effect of exchange rate changes on cash	(49.0)	25.0	(121.7)
Net increase (decrease) in cash and cash equivalents	2,204.7	(451.8)	1,133.8
Cash and cash equivalents at beginning of year	1,495.7	1,947.5	813.7
Cash and cash equivalents at end of year	$ 3,700.4	$ 1,495.7	$ 1,947.5

See notes to consolidated financial statements.

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

Year Ended December 31	1999	1998	1997
Net income (loss)	$2,721.0	$2,097.9	$(385.1)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(177.7)	69.2	(209.3)
Net unrealized gains (losses) on securities (Note 13)	27.8	(2.6)	(13.4)
Minimum pension liability adjustment	(26.7)	(30.8)	(16.8)
Other comprehensive income (loss) before income taxes	(176.6)	35.8	(239.5)
Provision for income taxes related to other comprehensive income items	-	15.6	5.4
Other comprehensive income (loss)	(176.6)	51.4	(234.1)
Comprehensive income (loss)	$2,544.4	$2,149.3	$(619.2)

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	1999	1998	1997
Net sales - to unaffiliated customers			
Neurosciences	$ 4,729.3	$4,487.8	$3,515.3
Endocrinology	2,075.5	1,626.6	1,381.8
Anti-infectives	1,022.3	1,160.9	1,272.5
Cardiovascular	637.6	536.9	421.0
Animal health	627.8	614.4	589.8
Oncology	486.1	339.2	210.6
Gastrointestinal	354.7	418.0	525.4
Other pharmaceutical	69.6	53.0	71.3
Net sales	$10,002.9	$9,236.8	$7,987.7
Geographic Information			
Net sales - to unaffiliated customers/1/:			
United States	$ 6,226.4	$5,836.2	$4,881.8
Western Europe	1,888.0	1,692.3	1,462.9
Other foreign countries	1,888.5	1,708.3	1,643.0
	$10,002.9	$9,236.8	$7,987.7
Long-lived assets:			
United States	$ 3,416.8	$3,363.5	$3,281.8
Western Europe	568.4	642.6	595.5
Other foreign countries	646.1	625.1	638.0
	$ 4,631.3	$4,631.2	$4,515.3

/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, Humatrope, Humalog, Actos, and Iletin. Anti-infectives include primarily Ceclor, Vancocin, Keflex, Lorabid, Nebcin, and Tazidime. Cardiovascular products consist primarily of ReoPro and Dobutrex. The gastrointestinal group is entirely composed of Axid. Oncology products consist primarily of Gemzar. Animal health products include Tylan, Micotil, Surmax, Rumensin, 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 1999, the company's three largest wholesalers each accounted for between 13 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 $165.0 million, $141.0 million, and $142.0 million in 1999, 1998, and 1997, respectively. The assets of the animal health business are intermixed with those of the pharmaceutical products business and are not separately determinable.

Total assets on the consolidated balance sheet include amounts from the discontinued operations of PCS for 1998 (see Note 3). Total assets from continuing operations for both 1998 and 1997 were $10.6 billion. 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)

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

1998	Fourth	Third	Second	First/1/
Net sales	$2,635.4	$2,359.4	$2,155.0	$2,087.0
Cost of sales	583.5	495.7	478.6	457.3
Operating expenses	1,329.2	1,107.5	1,054.1	906.4
Acquired in-process technology	-	127.5	-	-
Other (income) expense - net	7.4	29.6	(25.0)	20.0
Income from continuing operations before income taxes and extraordinary item	715.3	599.1	647.3	703.3
Income (loss) from:				
Continuing operations and before extraordinary item	561.6	512.2	490.9	531.6
Discontinued operations	5.7	6.0	0.4	(3.3)
Net income	567.3	518.2	491.3	521.1
Earnings per share - basic:				
Continuing operations before extraordinary item	.51	.47	.45	.48
Discontinued operations	.01	-	-	-
Net income	.52	.47	.45	.47
Earnings per share - diluted:				

Continuing operations before extraordinary item	.50	.46	.44	.47
Discontinued operations	.01	-	-	-
Net income	.51	.46	.44	.46
Dividends paid per share	.20	.20	.20	.20
Common stock prices:				
High	91.31	81.63	73.75	72.38
Low	68.00	62.56	57.88	57.69

/1/Reflects the impact of an extraordinary item (see Note 6).

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)

	1999	1998	1997	1996	1995
Operations					
Net sales	$ 10,002.9	$ 9,236.8	$ 7,987.7	$ 6,998.3	$ 6,508.8
Research and development	1,783.6	1,738.9	1,370.2	1,189.5	1,042.3
Other costs and expenses	4,973.9	4,832.9	4,348.2	3,677.5	3,599.9
Gain on sale of DowElanco	-	-	(631.8)	-	-
Income from continuing operations before taxes and extraordinary item	3,245.4	2,665.0	2,901.1	2,131.3	1,866.6
Income taxes	698.7	568.7	885.2	505.6	457.6
Income (loss)from:					
Continuing operations before extraordinary item	2,546.7	2,096.3	2,015.9	1,625.7	1,409.0
Discontinued operations	174.3	8.8	(2,401.0)	(102.2)	881.9
Net income (loss)	2,721.0	2,097.9/2/	(385.1)	1,523.5	2,290.9
Income from continuing operations before extraordinary item as a percent of sales	25.5%	22.7%	25.2%	23.2%	21.6%
Per-share data - diluted:					
Income (loss) from:					
Continuing operations before extraordinary item	$ 2.30	$ 1.87	$ 1.78	$ 1.45	$ 1.22
Discontinued operations	.16	.01	(2.12)	(.09)	.77
Net income (loss)	2.46	1.87/2/	(.34)	1.36	1.99
Dividends declared per share	.95	.83	.76	.694	.665
Weighted-average number of shares outstanding - diluted (thousands)	1,106,055	1,121,486	1,130,579	1,117,110	1,152,016
Financial Position					
Current assets	$ 7,055.5	$ 5,406.8	$ 5,320.7	$ 3,891.3	$ 4,138.6
Current liabilities	3,935.4	4,607.2	4,191.6	4,222.2	4,967.0
Property and equipment - net	3,981.5	4,096.3	4,101.7	4,307.0	4,239.3
Total assets	12,825.2	12,595.5	12,577.4	14,307.2	14,412.5
Long-term debt	2,811.9	2,185.5	2,326.1	2,516.5	2,592.9
Shareholders' equity	5,013.0	4,429.6	4,645.6	6,100.1	5,432.6
Supplementary Data/1/					
Return on shareholders' equity	53.9%	46.2%	37.5%	28.2%	26.1%
Return on assets	21.3%	17.0%	15.4%	11.4%	9.6%
Capital expenditures	$ 528.3	$ 419.9	$ 366.3	$ 443.9	$ 551.3
Depreciation and amortization	439.7	490.4	509.8	543.5	553.7
Effective tax rate	21.5%	21.3%	30.5%/3/	23.7%	24.5%
Number of employees	31,300	29,800	28,900	27,400	26,800
Number of shareholders of record	62,300	62,300	58,200	54,500	52,600

/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 6).

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

(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).

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 50 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:

	1999	1998
Finished products	$295.1	$325.1
Work in process	372.7	435.8
Raw materials and supplies	224.7	236.3
	892.5	997.2
Increase to LIFO cost	7.1	2.7
	$899.6	$999.9

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. 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.

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:

	1999	1998
Land	$ 104.6	$ 141.1
Buildings	2,255.8	2,178.5
Equipment	4,458.9	4,556.6
Construction in progress	528.0	398.3
	7,347.3	7,274.5
Less allowances for depreciation	3,365.8	3,178.2
	$3,981.5	$4,096.3

Depreciation expense related to continuing operations for 1999, 1998, and 1997 was $406.7 million, $393.4 million, and $382.3 million, respectively. Approximately $29.0 million, $17.0 million, and $20.4 million of interest costs were capitalized as part of property and equipment in 1999, 1998, and 1997, respectively. Total rental expense for all leases related to continuing operations, including contingent rentals (not material), amounted to approximately $154.9

million for 1999, $134.8 million for 1998, and $111.8 million for 1997. Capital leases included in property and equipment in the consolidated balance sheets and future minimum rental commitments are not material. However, the company entered into capital lease obligations aggregating $10.2 million in 1999 and $13.3 million in 1998.

Revenue recognition: Revenue from sales of products is recognized at the time products are shipped to the customer. Revenue from copromotion services is recognized at the time the co-promotion 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 (loss) per share: Basic earnings (loss) per share are calculated based on the weighted-average number of outstanding common shares and incremental shares. Diluted earnings (loss) 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 statement permits early adoption as of the beginning of any fiscal quarter after its issuance. The company will adopt Statement 133 on 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 has determined that adopting Statement 133 and applying it to the company's interest rate derivatives will not have a material effect on the earnings and financial position of the company based on the interest rate derivatives owned by the company at December 31, 1999. The effect of applying Statement 133 to the company's foreign currency derivative instruments cannot be determined at this time as the company's foreign currency derivative instruments have durations of less than a year.

Note 3: Discontinued Operations and 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.

In November 1998, the company signed a definitive agreement for Rite Aid Corporation to acquire PCS, the company's health-care-management subsidiary for $1.6 billion in cash. The transaction closed on January 22, 1999, and 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 income statement information for PCS follows:

	1998	1997
Revenues	$814.5	$ 529.9
Income tax expense	32.2	10.1
Income (loss) from discontinued operations	8.8	(2,401.0)

In the second quarter of 1997, concurrent with PCS's annual planning process, the company determined that PCS's estimated future undiscounted cash flows were below the carrying value of PCS's long-lived assets. Accordingly, during the second quarter of 1997, the company adjusted the carrying value of PCS's long-lived assets, primarily goodwill, to their estimated fair value of approximately $1.5 billion, resulting in a noncash impairment loss of approximately $2.3 billion ($2.07 per share), which is included in discontinued operations. The estimated fair value was based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

The consolidated balance sheet and consolidated statements of cash flows include PCS for periods prior to its sale. Selected balances, excluding intercompany amounts, as of December 31, 1998, were as follows:

Current assets	$ 528.7
Goodwill	1,397.4
Total assets	2,026.5
Current liabilities	886.3

An asset impairment charge related to continuing operations was also identified in the second quarter of 1997, concurrent with the annual planning process. The primary component of the $97.8 million noncash asset impairment charge was an adjustment to the carrying value of certain long-lived assets, which were subsequently disposed of by the company. Similar to the impairment of PCS's long-lived assets discussed above, the company determined that the estimated future undiscounted cash flows were below the carrying value of the related long-lived assets. Accordingly, the carrying value was adjusted to estimated fair value based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

Note 4: Collaboration and Dispositions

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 will manufacture Lorabid for King and has an opportunity to receive additional payments if certain sales performance milestones are achieved.

In December 1999, the company signed an agreement to sell its interest in Kinetra LLC. The sale closed in January 2000 and will generate a gain in the first quarter of 2000.

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.

On June 30, 1997, The Dow Chemical Company acquired the company's 40 percent interest in the DowElanco joint venture. The cash purchase price was $1.2 billion, resulting in a gain of $631.8 million ($303.5 million aftertax).

Note 5: 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:

	1999	1998
Forward exchange contracts	$608.7	$448.3
Foreign currency options - purchased	756.0	606.0
Interest rate swaps	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.

	1999		1998	
	Cost/ Carrying Amount	Fair Value	Cost/ Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 135.6	$ 136.0	$ 101.4	$ 102.7
Noncurrent investments:				
Marketable equity	63.9	96.8	66.5	70.4
Debt securities	35.6	35.6	38.6	38.6
Nonmarketable equity	14.9	14.9	26.1	26.1
Long-term debt, including current portion	3,026.7	2,990.6	2,337.7	2,629.7

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, 1999 and 1998.

At December 31, 1999 and 1998, the gross unrealized holding gains on available-for-sale securities were $42.5 million and $22.7 million, respectively, and the gross unrealized holding losses were $12.6 million and $20.6 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 $56.2 million, $36.3 million, and $39.7 million in 1999, 1998, and 1997, respectively. Realized gains on sales of available-for-sale securities were $25.0 million, $20.6 million, and $6.6 million in 1999, 1998, and 1997, respectively. Realized losses on sales of available-for-sale securities were negligible, $2.5 million, and $25.3 million in 1999, 1998, and 1997, respectively. The net adjustment to unrealized gains and losses on available-for-sale securities increased other comprehensive income by $18.6 million in 1999 and decreased other comprehensive income by $1.7 million in 1998.

Note 6: Borrowings

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

	1999	1998
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	750.0
Floating rate capital securities (due 2029)	525.0	-
8.13 to 8.38 percent eurodollar bonds (due 2000-2005)	350.0	350.0
Resettable coupon capital securities (due 2029)	300.0	-
7.10 percent medium-term notes	-	36.5
6.55 percent ESOP debentures (due 2017)	98.6	99.6
Other, including capitalized leases	103.1	101.6
	3,026.7	2,337.7
Less current portion	214.8	152.2
	$2,811.9	$2,185.5

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 rate at December 31, 1999, is 7.355 percent. 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: 2000, $214.8 million; 2001, $166.1 million; 2002, $13.9 million; 2003, $211.8 million; and 2004, $9.6 million.

At December 31, 1999 and 1998, short-term borrowings included $26.7 million and $29.2 million, respectively, of notes payable to banks. At December 31, 1999, unused committed lines of credit totaled approximately $2.05 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 $170.6 million, $188.2 million, and $243.9 million in 1999, 1998, and 1997, respectively.

Note 7: 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 July 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 $117.1 million, $257.8 million, and $242.1 million in 1999, 1998, and 1997, 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 (loss) and earnings (loss) per share would have been as follows:

	1999	1998	1997
Net income (loss)	$2,639.6	$2,120.9	$(339.5)
Earnings (loss) per share - diluted	2.39	1.89	(.30)

Because SFAS No. 123 is applicable only to options and performance awards granted subsequent to December 31, 1994, and the options and performance awards have three-year and two-year vesting periods, respectively, the pro forma effect was not fully reflected until 1998.

The weighted-average per-share fair value of the individual options and performance awards granted during 1999, 1998, and 1997 were as follows on the date of grant:

	1999	1998	1997
Employee stock options	$20.27	$16.64	$15.55
Performance awards	66.50	88.88	69.63

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

	1999	1998	1997
Dividend yield	2.73%	2.96%	3.14%
Volatility	25.2%	23.5%	21.5%
Risk-free interest rate	6.15%	4.29%	6.18%
Forfeiture rate	0	0	0
Expected life	7 years	7 years	7 years

Stock option activity during 1997-1999 is summarized below:

	Shares of Common Stock Attributable to Options	Weighted-Average Exercise Price of Options
Unexercised at January 1, 1997	65,909,876	$18.86
Granted	5,854,408	64.73
Exercised	(10,072,728)	13.88
Forfeited	(797,912)	22.30
Unexercised at December 31, 1997	60,893,644	24.05
Granted	6,803,350	74.18
Exercised	(13,696,906)	16.88
Forfeited	(1,047,023)	24.29
Unexercised at December 31, 1998	52,953,065	32.35
Granted	12,493,848	68.22
Exercised	(10,848,573)	19.04
Forfeited	(875,253)	50.46
Unexercised at December 31, 1999	53,723,087	43.08

The following table summarizes information concerning outstanding and exercisable options at December 31, 1999 (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 - $20	12.37	3.64	13.82	12.37	13.82
$20 - $65	22.33	6.32	36.10	17.14	27.69
$65 - $90	19.02	9.41	70.30	.42	74.21

Shares exercisable at December 31, 1999, were 29.9 million (1998 - 35.8 million shares, 1997 - 29.6 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 2.2 million shares, 1.5 million shares, and 1.1 million shares were issued in 1999, 1998, and 1997, respectively. At December 31, 1999, plan participants had the right to receive up to 5.2 million additional shares (reduced to the extent necessary to satisfy payroll tax withholdings), contingent upon earnings achieved.

At December 31, 1999, additional options, performance awards, or restricted stock grants may be granted under the 1998 Lilly Stock Plan for not more than 35.6 million shares.

Note 8: 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	Common Stock in Treasury Amount
Balance at January 1, 1997	$ 67.4	$ 7,197.0	$(176.9)	16,079,323	$ 1,295.9
Net loss		(385.1)			
Cash dividends declared per share: $.76		(840.9)			
Stock dividend declared		(346.5)			
Retirement of treasury shares	(1,134.5)			(14,223,272)	(1,143.4)
Purchase for treasury				3,400,000	355.3
Issuance of stock under employee stock plans	(99.7)			(4,247,216)	(397.4)
ESOP transactions	39.6		21.2		
Other	(0.3)	0.3		(8,835)	(0.9)
Reclassification	1,127.5	(1,127.5)			
Balance at December 31, 1997	-	4,497.3	(155.7)	1,000,000	109.5
Net income		2,097.9			
Cash dividends declared per share: $.83		(908.9)			
Retirement of treasury shares	(2,035.2)			(29,009,799)	(2,053.3)
Purchase for treasury				28,349,900	2,005.8
Issuance of stock under employee stock plans	558.7			659,899	47.5
ESOP transactions	23.6		8.8		
Other	5.4	(10.0)		(4,508)	(0.5)
Reclassification	1,447.5	(1,447.5)			
Balance at December 31, 1998	-	4,228.8	(146.9)	995,492	109.0
Net income		2,721.0			
Cash dividends declared per share: $.95		(1,030.5)			
Retirement of treasury shares	(1,488.4)			(19,688,522)	(1,500.8)
Purchase for treasury				19,147,000	1,455.1
Issuance of stock under employee stock plans	530.6			541,522	45.7
ESOP transactions	20.8		7.0		
Other	3.3			(6,590)	(0.7)
Reclassification	933.7	(933.7)			
Balance at December 31, 1999	$ -	$ 4,985.6	$(139.9)	988,902	$ 108.3

As shown above, the company has completed its 1999 $1.5 billion and 1998 $2.0 billion share repurchase programs, acquiring approximately 19.1 million and 28.3 million shares in 1999 and 1998, respectively.

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 6). 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 9: 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:

	1999	1998	1997
	(Shares in thousands)		
Income from continuing operations before extraordinary item available to common shareholders:			
Income from continuing operations before extraordinary item	$ 2,546.7	$ 2,096.3	$ 2,015.9
Preferred stock dividends	(.1)	(1.7)	(2.6)
Income from continuing operations before extraordinary item available to common shareholders	$ 2,546.6	$ 2,094.6	$ 2,013.3
Basic earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares	1,087,652	1,095,834	1,101,513
Basic earnings per share from continuing operations before extraordinary item	$ 2.34	$ 1.91	$ 1.83
Diluted earnings per share:			
Weighted-average number of common shares outstanding	1,087,368	1,095,537	1,101,099
Stock options and other incremental shares	18,687	25,949	29,480
Weighted-average number of common shares outstanding - diluted	1,106,055	1,121,486	1,130,579
Diluted earnings per share from continuing operations before extraordinary item	$ 2.30	$ 1.87	$ 1.78

Note 10: Income Taxes

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

	1999	1998	1997
Current:			
Federal	$ 439.2	$ 322.1	$ 766.1
Foreign	260.4	238.9	392.3
State	(4.9)	(8.9)	51.5
	694.7	552.1	1,209.9
Deferred:			
Federal	104.0	36.3	(284.5)
Foreign	22.4	9.4	9.6
State	2.7	9.6	(49.8)
	129.1	55.3	(324.7)
Utilization of capital loss carryforwards	(125.1)	(38.7)	0.0
Income taxes	$ 698.7	$ 568.7	$ 885.2

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

	1999	1998
Deferred tax assets:		
Capital loss carryforward	$ 561.7	$ 703.7
Tax credit carryforwards and carrybacks	496.0	589.9
Other carryforwards	243.9	223.2
Compensation and benefits	188.8	183.1
Inventory	172.9	251.0
Other	376.9	322.7
	2,040.2	2,273.6
Valuation allowances	(703.4)	(810.0)
Total deferred tax assets	1,336.8	1,463.6
Deferred tax liabilities:		
Property and equipment	(527.2)	(540.4)
Unremitted earnings	(381.9)	(512.8)
Prepaid employee benefits	(257.4)	(238.3)
Other	(65.1)	(54.7)
Total deferred tax liabilities	(1,231.6)	(1,346.2)
Deferred tax assets - net	$ 105.2	$ 117.4

At December 31, 1999, the company had operating and capital loss carryforwards for income tax purposes of $1,608.2 million: $1,513.1 million will expire within five years and $74.5 million thereafter; $20.6 million of the carryforwards will never expire. The company also has tax credit carryforwards of $496.0 million available to reduce future income taxes: $303.6 million will expire within five years and $116.8 million thereafter; $75.6 million of the tax credit carryforwards will never expire.

As discussed in Note 3, 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. This loss can be carried forward five 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, 60 percent, and 73 percent in 1999, 1998, and 1997, 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 $2.61 billion at December 31, 1999 ($1.01 billion at December 31, 1998). Cash payments of income taxes totaled $252 million, $273 million, and $542 million in 1999, 1998, and 1997, respectively.

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

	1999	1998	1997
United States federal statutory tax	35.0%	35.0%	35.0%
Add (deduct):			
International operations, including Puerto Rico	(7.5)	(10.5)	(1.3)
General business credits	(1.6)	(2.4)	(2.2)
Valuation allowance reversal	(3.9)	(1.5)	-
Sale of investments	-	-	(1.7)
Sundry	(0.5)	0.7	0.7
Effective income tax	21.5%	21.3%	30.5%

Excluding the impact of the gain on the sale of DowElanco and asset impairment, the effective income tax rate applicable to continuing operations for 1997 would have been 24.1 percent.

Note 11: 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	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$2,898.8	$2,550.9	$ 621.5	$ 477.5
Service cost	127.7	115.5	16.8	13.3
Interest cost	193.7	185.8	41.5	34.5
Actuarial loss	16.5	229.8	60.5	139.2
Benefits paid	(175.0)	(170.3)	(48.5)	(43.3)
Foreign currency exchange rate changes and other adjustments	(57.3)	(12.9)	(4.2)	0.3
Benefit obligation at end of year	3,004.4	2,898.8	687.6	621.5
Change in plan assets:				
Fair value of plan assets at				

beginning of year	3,069.6	2,923.2	252.5	228.1
Actual return on plan assets	543.6	286.4	80.4	33.8
Employer contribution	122.1	28.1	47.7	33.9
Benefits paid	(175.0)	(170.3)	(48.5)	(43.3)
Foreign currency exchange rate changes and other adjustments	(28.3)	2.2	-	-
Fair value of plan assets at end of year	3,532.0	3,069.6	332.1	252.5
Funded status	527.6	170.8	(355.5)	(369.0)
Unrecognized net actuarial (gain) loss	(36.0)	202.7	240.9	254.9
Unrecognized prior service cost (benefit)	119.3	130.5	(1.1)	(0.6)
Unrecognized net obligation at January 1, 1986	2.0	2.6	-	-
Net amount recognized	$ 612.9	$ 506.6	$(115.7)	$(114.7)
Amounts recognized in the consolidated balance sheet consisted of:				
Prepaid benefit cost	$ 741.1	$ 612.3	$ -	$ -
Accrued benefit liability	(237.6)	(192.3)	(115.7)	(114.7)
Intangible asset	34.0	37.9	-	-
Accumulated other comprehensive income before income taxes	75.4	48.7	-	-
Net amount recognized	$ 612.9	$ 506.6	$(115.7)	$(114.7)

	Defined Benefit Pension Plans		Retiree Health Benefits	
	1999	1998	1999	1998
(Percents)				
Weighted-average assumptions as of December 31:				
Discount rate	7.4	6.9	7.5	7.0
Expected return on plan assets	10.5	10.5	10.5	10.5
Rate of compensation increase	3.5-8.0	4.0-8.0	-	-

Health-care-cost trend rates were assumed to increase at an annual rate of 7 percent in 2000 for participants under age 65, decreasing one-half percent per year to 6.0 percent in 2002 and thereafter. For participants over age 65, the rate was assumed to increase 6.0 percent in 2000 and thereafter. The discount rate increase at December 31, 1999, decreased the projected benefit obligation for the defined benefit plans and the retiree health benefits plans by approximately $171.8 million and $35.3 million, respectively.

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 $637.1 million, $539.0 million, and $364.5 million, respectively, as of December 31, 1999, and $586.6 million, $502.3 million, and $349.7 million, respectively, as of December 31, 1998.

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

	Defined Benefit Pension Plans			Retiree Health Benefits		
	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost:						
Service cost	$ 127.7	$ 112.9	$ 86.3	$ 16.8	$ 12.8	$ 10.9
Interest cost	193.7	184.2	178.0	41.5	34.3	31.5
Expected return on plan assets	(295.1)	(277.1)	(252.2)	(24.2)	(23.0)	(21.1)
Amortization of prior service cost (benefit)	11.5	9.7	9.2	-	(3.3)	(7.9)
Recognized actuarial loss	3.7	3.4	0.3	17.6	7.3	4.0
Net periodic benefit cost	$ 41.5	$ 33.1	$ 21.6	$ 51.7	$ 28.1	$ 17.4

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, 1999, accumulated postretirement benefit obligation would increase by 11 percent and the aggregate of the service cost and interest cost components of 1999 annual expense would increase by 32 percent. A one-percentage-point decrease in these rates would decrease the December 31, 1999, accumulated postretirement benefit obligation by 10 percent and the aggregate of the 1999 service cost and interest cost by 1 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 $56.4 million, $50.3 million, and $43.5 million for the years 1999, 1998, and 1997, 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 1999, 1998, and 1997 were not significant.

Note 12: 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. On January 12, 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 has been appealed. On January 25, 1999, Barr and Geneva dismissed their other two claims in exchange for a $4 million payment, which Barr and Geneva will share with a third defendant. In late 1998, three additional generic pharmaceutical companies, Zenith Goldline Pharmaceuticals, Inc.; Teva Pharmaceuticals USA; and Cheminor Drugs, Ltd., together with one of its subsidiaries, filed ANDAs for generic forms of Prozac, asserting that the later of the two patents (expiring in December 2003) is invalid and unenforceable. In early 1999, Novex Pharma, a division of Apotex, Inc., changed its previously-filed ANDA to assert that both the 2001 and 2003 patents are invalid and unenforceable. Lilly has filed suits against the four companies in federal court in Indianapolis. In November 1999, Lilly filed a lawsuit against Cheminor Drugs and Schein Pharmaceuticals, Inc., based on their ANDA filing for an additional dosage form. A trial date of October 30, 2000, has now been set for these cases. While the company believes that the claims of the seven generic companies are without merit, there can be no assurance that the company will prevail. An

unfavorable outcome of this litigation could have a material adverse effect on the company's consolidated financial position, liquidity, and results of operations.

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 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 less 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 providing for coverage for certain environmental liabilities and has instituted litigation seeking coverage from certain excess carriers.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated condensed balance sheet at the gross amount of approximately $245.7 million at December 31, 1999. Estimated insurance recoverables of approximately $142.9 million at December 31, 1999, 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, antitrust, or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above, 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 13: 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, 1999	$(197.8)	$ 1.5	$(33.5)	$(229.8)
Other comprehensive income (loss)	(177.8)	18.6	(17.4)	(176.6)
Balance at December 31, 1999	$(375.6)	$20.1	$(50.9)	$(406.4)

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 $8.5 million and $4.8 million, net of tax, in 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 31, 2000

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, 1999 and 1998, and the related consolidated statements of income, cash flows, and comprehensive income for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Indianapolis, Indiana

January 31, 2000

Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 1999

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

Graph #1--Sales Outside the U.S.

($ millions)

Year	Amount
1990	$1,636.9
1991	1,807.0
1992	1,996.2
1993	2,097.5
1994	2,430.2
1995	2,950.9
1996	3,081.0
1997	3,105.9
1998	3,400.6
1999	3,776.0

International sales continued to increase due to strong growth of Zyprexa, Gemzar, Humalog, and Evista in numerous affiliates. Strong volume growth of 14 percent and price increases of 1 percent were partially offset by an adverse exchange rate impact of 4 percent, resulting in net sales growth outside the U.S. of 11 percent in 1999. International sales now represent 38 percent of total worldwide net sales compared with 37 percent of 1998.

Graph #2--Net Sales

($ millions, percentages represent changes from 1998)

Class	Amount	Percent Change from 1998
Prozac	$2,613.4	(7)%
Zyprexa	1,885.0	31%
Diabetes Care	1,375.2	19%
Anti-Infectives	1,022.3	(12)%
Animal Health	627.8	2%
Gemzar	455.8	49%
ReoPro	447.3	22%
Axid	354.7	(15)%
Evista	326.1	126%
Humatrope	300.0	12%

In total, 16 products, spanning all therapeutic classes, had annual sales in excess of $100 million.

Graph #3--Research and Development

($ millions)

Year	Amount
1995	$1,042.3
1996	1,189.5
1997	1,370.2
1998	1,738.9
1999	1,783.6

Worldwide research and development expenditures increased 3 percent in 1999 in support of the company's strong pipeline, which includes 21 compounds in Phase II or Phase III clinical trials. Excluding the impact of incentive compensation adjustments, the underlying growth in R&D during 1999 was 8 percent.

Graph #4--Economic Value Added

($ millions)

Year	Amount
1995	$ 333
1996	460
1997	751
1998	1,429
1999	1,584

In 1999, Lilly's Economic Valued Added (EVA) was $1.6 billion, an increase of 11 percent, reflecting the company's commitment to delivering exceptional shareholder value.

Graph #5--Capital Expenditures

($ millions)

Year	Amount
1995	$551.3
1996	443.9
1997	366.3
1998	419.9
1999	528.3

Capital expenditures increased 26 percent from the 1998 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 1999 levels due to continuing investment in research and manufacturing capabilities.

Graph #6--Dividends Paid per Share

(dollars)

Year	Amount
1995	$0.655
1996	0.685
1997	0.740
1998	0.800
1999	0.920

Dividends paid during 1999 increased 15 percent over 1998. Nineteen ninety-nine was the 32nd consecutive year in which dividends were increased. The continued earnings growth in 1999 enabled the company to declare a first-quarter 2000 dividend of $.26 per share, a 13 percent increase over 1999. The increase reflects the company's continued commitment to delivering shareholder value.

Exhibit 21-List of Subsidiaries and Affiliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1999. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY (1)	Indiana
Eli Lilly International Corporation	Indiana
Eli Lilly Iran, S.A.	Iran
ELCO Insurance Company, Ltd.	Bermuda
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
ICOS JV	Delaware
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
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 Islands
Eli Lilly and Company (Taiwan), Inc.	Taiwan
CBI Uniforms, Inc. *	Delaware
Control Diabetes Services, Inc.	Indiana
SANOFI Lilly Oncology LLC	Delaware
Integrated Medical Systems, Inc.	Colorado
ELCO Dominicana, S.A.	Dominican Rep.
ELCO International Sales Corporation	Virgin Is.-US
Eli Lilly Finance S.A.	Switzerland
Lilly Del Mar, Inc.	British Virgin Islands
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	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
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

Exhibit 21-List of Subsidiaries and Affiliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1999. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY (1) Cont'd	
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Australia Custodian Pty. Limited	Bermuda
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
Eli Lilly Mauritius	Mauritius
Ranbaxy Lilly Company	India
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	Eqypt
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 Produtos 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 Regional Office	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

Exhibit 21-List of Subsidiaries and Affiliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1999. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
Eli Lilly Nederland B.V. (cont'd)	Netherlands
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
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 31, 2000, included in the 1999 Annual Report to Shareholders of Eli Lilly and Company.

We also consent to the incorporation by reference in Registration Statement Number 33-29482 on Form S-8 dated June 23, 1989, in Registration Statement Number 33-37341 on Form S-8 dated October 17, 1990, in Registration Statement Number 33-58466 on Form S-3 dated February 17, 1993, in Registration Statement Number 33-50783 on Form S-8 dated October 27, 1993, in Registration Statement Number 33-56141 on Form S-8 dated October 24, 1994, in Registration Statement Number 333-02021 on Form S-8 dated March 28, 1996, in Registration Statement Number 333-62015 on Form S-8 dated August 21, 1998, in Registration Statement Number 333-66113 on Form S-8 dated October 26, 1998, and in Registration Statement Number 333-90397 on Form S-8 dated November 5, 1999 of our report dated January 31, 2000 with respect to the consolidated financial statements incorporated by reference in the 1999 Annual Report (Form 10-K) of Eli Lilly and Company.

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

Indianapolis,
Indiana
March 24,
2000

5
1,000

YEAR	
	DEC-31-1999
	JAN-01-1999
	DEC-31-1999
	3,700,387
	135,594
	1,523,140
	79,896
	899,612
	7,055,472
	7,347,257
	3,365,796
	12,825,178
	3,935,359
	2,811,898
	0
	0
	682,043
	4,330,985
	12,825,178
	10,002,953
	10,002,953
	2,098,035
	2,098,035
	4,628,611
	0
	183,802
	3,245,403
	698,716
	2,546,687
	174,296
	0
	0
	2,720,983
	2.50
	2.46

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 current expectations of management. All forward-looking statements made by the Company are subject to risks and uncertainties. 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 laws and regulations and judicial decisions at the state and federal level related to Medicare, Medicaid and health care reform that could adversely affect pricing and reimbursement of the Company's products; and laws and regulations affecting international operations.

- - 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.

- - 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 which could preclude commercialization of products or negatively affect the profitability of existing products. In particular, while the Company believes that its U.S. patents on Prozac are valid and enforceable, there can be no assurance that the Company will prevail in the various legal challenges to those patents.

- - 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.