TWENTY NINETEEN ELI LILLY AND COMPANY FINANCIAL REPORT

2019 FINANCIAL REPORT
NOTICE OF 2020 ANNUAL MEETING
PROXY STATEMENT

2019 Financial Highlights

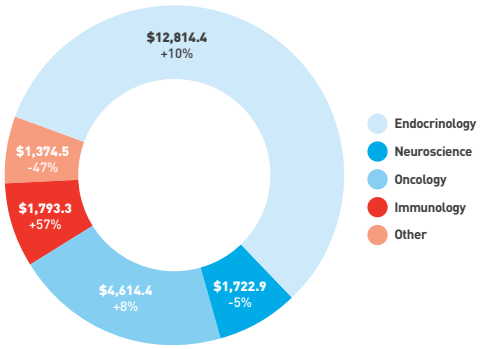
ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except per-share data)	2019 Year ended December 31	2018	CHANGE %
REVENUE	**$ 22,319.5**	$ 21,493.3	4%
RESEARCH AND DEVELOPMENT	**5,595.0**	5,051.2	11%
RESEARCH AND DEVELOPMENT AS A PERCENT OF REVENUE	**25.1%**	23.5%	
NET INCOME (LOSS)	**$ 8,318.4**	$ 3,232.0	NM
EARNINGS (LOSS) PER SHARE—DILUTED	**8.89**	3.13	NM
RECONCILING ITEMS:			
Discontinued Operations from disposition of Elanco[1]	**(3.93)**	(0.08)	
Asset impairment, restructuring, and other special charges[1]	**0.58**	0.24	
Gain on sale of China antibiotics business[1]	**(0.26)**	--	
Charge related to repurchase of debt[1]	**0.22**	--	
Acquired in-process research and development[1]	**0.21**	1.96	
Amortization of intangible assets	**0.18**	0.28	
Charges related to withdrawal of Lartruvo	**0.14**	--	
Impact of reduced shares outstanding for non-GAAP reporting[2]	**0.07**	0.20	
Income taxes[3]	**(0.05)**	(0.27)	
Other, net	**--**	(0.02)	
NON-GAAP EARNINGS PER SHARE—DILUTED[3]	**6.04**	5.44	11%
DIVIDENDS PAID PER SHARE	**2.58**	2.25	15%
CAPITAL EXPENDITURES	**1,033.9**	1,210.6	(15%)
EMPLOYEES	**33,625**	33,090	2%

1 For more information on these reconciling items, see the Financial Results section of the Executive Overview in Management's Discussion and Analysis. 2 Non-GAAP earnings per share assume that the disposition of Elanco occurred at the beginning of all periods presented and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer. 3 For 2019, amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock. For 2018, amount relates to adjustments to the 2017 Toll Tax for U.S. tax reform proposed regulations and tax expenses associated with the separation of Elanco. 4 Numbers may not add due to rounding.

REVENUE GROWTH ACROSS THERAPEUTIC AREAS

($ millions, percent growth)

Revenue in Endocrinology increased 10 percent primarily driven by growth of Trulicity, Basaglar, and Jardiance. Taltz drove the 57 percent revenue increase in Immunology. Oncology revenue increased 8 percent due to Verzenio launch in the US. Neuroscience experienced a 5 percent decrease due to lower volume for Strattera as a result of loss of patent protection, offset in part by the launch of Emgality. Other Pharmaceutical revenue decreased 47 percent driven by lower volumes for Cialis, due to patent losses.

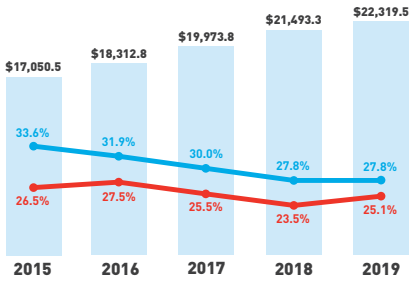


OPERATING EXPENSES

($ millions, percent of revenue)

Revenue R&D Marketing, Selling & Administrative

Over the past five years, Lilly has maintained relatively flat operating expenses while growing revenue, resulting in steady improvement in operating expense as a percent of revenue.

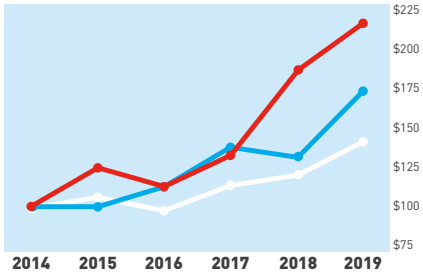


TOTAL SHAREHOLDER RETURN

Value of $100 invested in Lilly, S&P 500 and Peer Group*

Lilly S&P 500 Peer Group

Over the past five years, Lilly's annualized total shareholder return has averaged 16.7 percent, compared to 11.7 percent for the S&P benchmark, due to the increase in the stock price and increasing dividend stream.



* The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are reinvested in that company's stock. See "Performance Graph" for those companies included in our peer group.

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Forward-Looking Statements

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 (Exchange Act), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "intend," "anticipate," "plan," "continue," or similar expressions.

In particular, information appearing under "Business," "Risk Factors," and "Management's Discussion and Analysis of Results of Operations and Financial Condition" includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- uncertainties in the pharmaceutical research and development process, including with respect to the timing of anticipated regulatory approvals and launches of new products;
- market uptake of recently launched products;
- competitive developments affecting current products and our pipeline;
- the expiration of intellectual property protection for certain of our products;
- our ability to protect and enforce patents and other intellectual property;
- the impact of actions of governmental and private payers affecting pricing of, reimbursement for, and access to pharmaceuticals;
- regulatory compliance problems or government investigations;
- regulatory actions regarding currently marketed products;
- unexpected safety or efficacy concerns associated with our products;
- issues with product supply stemming from manufacturing difficulties or disruptions;
- regulatory changes or other developments;
- changes in patent law or regulations related to data-package exclusivity;
- litigation, investigations, or other similar proceedings involving past, current, or future products or commercial activities as we are largely self-insured;
- unauthorized disclosure, misappropriation, or compromise of trade secrets or other confidential data stored in our information systems, networks, and facilities, or those of third parties with whom we share our data;
- changes in tax law, including the impact of United States tax reform legislation enacted in December 2017 and related guidance, or events that differ from our assumptions related to tax positions;
- changes in foreign currency exchange rates, interest rates, and inflation;
- asset impairments and restructuring charges;
- changes in accounting and reporting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission;
- acquisitions and business development transactions and related integration costs;
- information technology system inadequacies or operating failures;
- reliance on third-party relationships and outsourcing arrangements; and
- the impact of global macroeconomic conditions.

Investors should not place undue reliance on forward-looking statements. You should carefully read the factors described in the "Risk Factors" section of this Annual Report for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this report and are expressly qualified in their entirety by the cautionary statements included in this report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this report.

Business

Eli Lilly and Company (the "company" or "registrant" or "Lilly") 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 market products in a single business segment—human pharmaceutical products.

Our purpose is to unite caring with discovery to create medicines that make life better for people around the world. 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 or acquire, develop, and bring to market innovative new medicines.

In September 2018 Elanco Animal Health Incorporated (Elanco), an animal health business previously wholly owned by the company, completed an initial public offering of its common stock, which trades on the New York Stock Exchange, and in March 2019, we completed the disposition of our remaining ownership of Elanco common stock. For more information on the exchange offer, see "Management's Discussion and Analysis - Results of Operations - Executive Overview."

We manufacture and distribute our products through facilities in the United States (U.S.), Puerto Rico, and 8 other countries. Our products are sold in approximately 120 countries.

Products

Our products include:

Diabetes and other endocrinology products, including:

- *Baqsimi*® (glucagon), a nasal powder formulation for the treatment of severe hypoglycemia in patients with diabetes (approved in the U.S. and Europe in 2019)
- *Basaglar*® (insulin glargine injection), a long-acting human insulin analog for the treatment of diabetes (launched in Japan and Europe under the trade name Abasaglar™)
- *Forteo*®, for the treatment of osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women
- *Humalog*®, *Humalog Mix 75/25, Humalog U-100, Humalog U-200, Humalog Mix 50/50*, and *insulin lispro,* insulin analogs for the treatment of diabetes
- *Humatrope*®, for the treatment of human growth hormone deficiency and certain pediatric growth conditions
- *Humulin*®, *Humulin 70/30, Humulin N, Humulin R,* and *Humulin U-500,* human insulins of recombinant DNA origin for the treatment of diabetes
- *Jardiance*®, for the treatment of type 2 diabetes and to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease
- *Trajenta*®, for the treatment of type 2 diabetes
- *Trulicity*®, for the treatment of type 2 diabetes

Immunology products, including:

- *Olumiant*®, for the treatment of adults with moderately-to-severely active rheumatoid arthritis (approved in Europe and Japan in 2017, and in the U.S. in 2018)
- *Taltz*®, for the treatment of moderate-to-severe plaque psoriasis, active psoriatic arthritis (approved in the U.S. in 2017, and in Europe in 2018), and ankylosing spondylitis (approved in the U.S. in 2019)

Neuroscience products, including:

- *Cymbalta*®, for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, fibromyalgia, and chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis
- *Emgality*®, a once-monthly subcutaneously injected calcitonin gene-related peptide (CGRP) antibody for migraine prevention (approved in the U.S. and Europe in 2018) and the treatment of episodic cluster headache (approved in the U.S. in 2019)
- *Reyvow*™, an oral medicine for the acute treatment of migraine (launched in the U.S. in 2020)

- *Strattera®,* for the treatment of attention-deficit hyperactivity disorder
- *Zyprexa®,* for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance

Oncology products, including:

- *Alimta®,* for the first-line treatment, in combination with another agent, of advanced non-small cell lung cancer (NSCLC) for patients with non-squamous cell histology; for the second-line treatment of advanced non-squamous NSCLC; as monotherapy for the maintenance treatment of advanced non-squamous NSCLC in patients whose disease has not progressed immediately following chemotherapy treatment; and in combination with another agent, for the treatment of malignant pleural mesothelioma
- *Cyramza®,* for use as a single agent or in combination with another agent as a second-line treatment of advanced or metastatic gastric cancer or gastro-esophageal junction adenocarcinoma; in combination with another agent as a second-line treatment of metastatic NSCLC; in combination with another agent as a second-line treatment of metastatic colorectal cancer; as a single agent as a second-line treatment of hepatocellular carcinoma (approved in the U.S. in 2019); and in combination with another agent as a first-line treatment of adult patients with metastatic NSCLC with activating epidermal growth factor receptor (EGFR) mutations (approved in Europe in 2020)
- *Erbitux®,* indicated both as a single agent and in combination with another chemotherapy agent for the treatment of certain types of colorectal cancers; and as a single agent, in combination with chemotherapy, or in combination with radiation therapy for the treatment of certain types of head and neck cancers
- *Verzenio®,* for use as a single agent and in combination with endocrine therapy for the treatment of a certain type of metastatic breast cancer (approved in the U.S. in 2017 and in Europe and Japan in 2018)

Other products, including:

- *Cialis®,* for the treatment of erectile dysfunction and benign prostatic hyperplasia

Marketing

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

U.S.

In the U.S., most of our products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. In 2019, 2018, and 2017, three wholesale distributors in the U.S. - McKesson Corporation, AmerisourceBergen Corporation, and Cardinal Health, Inc. - each accounted for between 14 percent and 21 percent of our consolidated total revenue. No other distributor accounted for more than 10 percent of our consolidated total revenue in any of those years.

We promote our major products in the U.S. through sales representatives who call upon physicians and other health care professionals. We also promote to healthcare providers in medical journals and on-line health care channels, 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 U.S., and we maintain websites with information about our major products. We supplement our employee sales force with contract sales organizations to leverage our own resources.

We maintain special business groups to service wholesalers, pharmacy benefit managers, managed care organizations, group purchasing organizations, government and long-term care institutions, hospitals, and certain retail pharmacies. We enter into arrangements with these organizations providing for discounts or rebates on our products.

Outside the U.S.

Outside the U.S., we promote our products to healthcare providers primarily through sales representatives and on-line health care channels. While the products marketed vary from country to country, diabetes and other endocrinology products constitute the largest single group in consolidated revenue. Distribution patterns vary from country to country. In most countries in which we operate, we maintain our own sales organizations, but in some smaller countries we market our products through independent distributors.

Marketing Collaborations

Certain of our products are marketed in arrangements with other pharmaceutical companies, including the following:

- We and Boehringer Ingelheim have a global agreement to develop and commercialize a portfolio of diabetes products, including Trajenta, Jentadueto®, Jardiance, Glyxambi®, Synjardy®, Trijardy® XR, and Basaglar.

For additional information, see "Financial Statements and Supplementary Data - Note 4, Collaborations and Other Arrangements."

Competition

Our products compete globally with products of many other companies in highly competitive markets.

Important competitive factors include effectiveness, safety, and ease of use; price and demonstrated cost-effectiveness; marketing effectiveness; and research and development of new products, processes, and uses. Most new products that we introduce must compete with other branded or generic products already on the market or products that are later developed by competitors. If competitors introduce new products or delivery systems with therapeutic or cost advantages, our products can be subject to decreased sales, progressive price reductions, or both.

We believe our long-term competitive success depends upon discovering and developing (either alone or in collaboration with others) or acquiring innovative, cost-effective products that provide improved outcomes and deliver value to payers, and continuously improving the productivity of our operations in a highly competitive environment. There can be no assurance that our efforts will result in commercially successful products, and it is possible that our products will be, or become, uncompetitive from time to time as a result of products developed by our competitors.

Generic Pharmaceuticals

One of the biggest competitive challenges we face is from generic pharmaceuticals. In the U.S. and Europe, the regulatory approval process for pharmaceuticals (other than biological products (biologics)) exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy of the innovator product. Therefore, generic manufacturers generally invest far less than we do in research and development and can price their products much lower than our branded products. Accordingly, when a branded non-biologic pharmaceutical loses its market exclusivity, it normally faces intense price competition from generic forms of the product. Public and private payers typically encourage the use of generics as alternatives to brand-name drugs in their healthcare programs. Laws in the U.S. generally allow, and in many cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be essentially equivalent to a brand-name drug. Where substitution is mandatory, it must be made unless the prescribing physician expressly forbids it. In many countries outside the U.S., intellectual property protection is weak, and we must compete with generic or counterfeit versions of our products.

Biosimilars

Several of our current products, including Cyramza, Emgality, Erbitux, Taltz, and Trulicity and many of the new molecular entities (NMEs) in our research pipeline are biologics. Competition for Lilly's biologics may be affected by the approval of follow-on biologics, also known as biosimilars. A biosimilar is a subsequent version of an approved innovator biologic that, due to its functional and structural similarity to the innovator biologic, is approved based on an abbreviated data package that relies in part on the full testing required of the innovator biologic. Globally, most governments have developed regulatory pathways to approve biosimilars as alternatives to innovator-developed biologics, but the patent and regulatory exclusivity for the existing innovator biologic must expire in a given market before biosimilars may enter that market. The extent to which a biosimilar, once approved, will be substituted for the innovator biologic in a way that is similar to traditional generic substitution for non-biologic products, is not yet entirely clear, and will depend on a number of regulatory and marketplace factors that are still developing.

Biosimilars may present both competitive challenges and opportunities. For example, a competitor company has developed a version of insulin lispro which competes with our product Humalog. On the other hand, with our partner Boehringer Ingelheim, we developed Basaglar, a new insulin glargine product, which has the same amino acid sequence as a product currently marketed by a competitor and has launched as a follow-on biologic in the U.S., and as a biosimilar in Europe and Japan. In March 2020, the U.S. regulatory status of all of our insulin products will transition to become regulated as "biologics" rather than "drugs." Based on recent U.S. Food and Drug Administration (FDA) draft guidance, this change may lower the requirements for competitor biosimilar products to

enter the market, some of which could be designated as interchangeable and therefore substituted for our insulin products at U.S. pharmacies.

U.S. Private Sector Dynamics

In the U.S. private sector, consolidation and integration among healthcare providers is also a major factor in the competitive marketplace for pharmaceuticals. Health plans and pharmacy benefit managers have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance. For example, in 2018 CVS Health, a large pharmacy benefit manager and pharmacy chain, acquired Aetna, a large national insurer, and Cigna Corporation acquired Express Scripts in a similar transaction. More recently, in December 2019, Express Scripts signed a three-year partnership agreement with another pharmacy benefit manager, Prime Therapeutics.

Payers typically maintain formularies which specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer). Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations which result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels, and higher deductibles. Consequently, pharmaceutical companies compete for formulary placement not only on the basis of product attributes such as efficacy, safety profile, or patient ease of use, but also by providing rebates. Value-based agreements, where pricing is based on achievement, or not, of specified outcomes, are another tool which may be utilized between payers and pharmaceutical companies as formulary placement and pricing are negotiated. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. These downward pricing pressures are expected to continue to negatively affect our future consolidated results of operations.

Patents, Trademarks, and Other Intellectual Property Rights

Overview

Intellectual property protection is critical to our ability to successfully commercialize our life sciences innovations and invest in the search for new medicines. We own, have applied for, or are licensed under, a large number of patents in the U.S. and many other countries relating to products, product uses, formulations, and manufacturing processes. In addition, as discussed below, for some products we have effective intellectual property protection in the form of data protection under pharmaceutical regulatory laws.

The patent protection anticipated to be of most relevance to pharmaceuticals is provided by national patents claiming the active ingredient (the compound patent), particularly those in major markets such as the U.S., various European countries, and Japan. These patents may be issued based upon the filing of international patent applications, usually filed under the Patent Cooperation Treaty (PCT). Patent applications covering compounds are generally filed during the Discovery Phase of the drug discovery process, which is described in the "Research and Development" section below. In general, national patents in each relevant country are available for a period of 20 years from the filing date of the PCT application, which is often years prior to the launch of a commercial product. Further patent term adjustments and restorations may extend the original patent term:

- Patent term adjustment is a statutory right available to all U.S. patent applicants to provide relief in the event that a patent grant is delayed during examination by the United States Patent and Trademark Office (USPTO).
- Patent term restoration is a statutory right provided to U.S. patent holders that claim inventions subject to review by the FDA. To make up for a portion of the time invested in clinical trials and the FDA review process, a single patent for a pharmaceutical product may be eligible for patent term restoration. Patent term restoration is limited by a formula and cannot be calculated until product approval due to uncertainty about the duration of clinical trials and the time it takes the FDA to review an application. There is a five-year cap on any restoration, and no patent's expiration date may be extended beyond 14 years from FDA approval. Some countries outside the U.S. also offer forms of patent term restoration. For example, Supplementary Protection Certificates are available to extend the life of a European patent up to an additional five years (subject to a 15-year cap from European Medicines Agency (EMA) approval). Similarly, in Japan, South Korea, and Australia, patent terms can be extended up to five years, depending on the length of regulatory review and other factors.

Loss of effective patent protection for pharmaceuticals, especially for non-biologic products, typically results in the loss of effective market exclusivity for the product, which often results in severe and rapid decline in revenues for the product. However, in some cases the innovator company may be protected from approval of generic, biosimilar, or other follow-on versions of a new medicine beyond the expiration of the compound patent through manufacturing

trade secrets, later-expiring patents on manufacturing processes, methods of use or formulations, or data protection that may be available under pharmaceutical regulatory laws. Changes to the laws and regulations governing these protections could result in earlier loss of effective market exclusivity. The primary forms of data protection are as follows:

- Regulatory authorities in major markets generally grant data package protection for a period of years following new drug approvals in recognition of the substantial investment required to complete clinical trials. Data package protection prohibits other manufacturers from submitting regulatory applications for marketing approval based on the innovator company's regulatory submission data for the drug. The base period of data package protection depends on the country. For example, the period is generally five years in the U.S. (12 years for new biologics as described below), effectively 10 years in Europe, and eight years in Japan. The period begins on the date of product approval and runs concurrently with the patent term for any relevant patent.
- Under the Biologics Price Competition and Innovation Act of 2009 (the BPCI Act), the FDA has the authority to approve biosimilars. A competitor seeking approval of a biosimilar must file an application to show its molecule is highly similar to an approved innovator biologic and include a certain amount of safety and efficacy data that the FDA will consider on a case-by-case basis. Under the data protection provisions of this law, the FDA cannot approve a biosimilar application until 12 years after initial marketing approval of the innovator biologic, subject to certain conditions. The BPCI Act is part of the Affordable Care Act, the constitutionality of which is currently being litigated.
- In the U.S., the FDA has the authority to grant additional data protection for approved drugs where the sponsor conducts specified testing in pediatric or adolescent populations within a specified time period. If granted, this "pediatric exclusivity" provides an additional six months of exclusivity, which is added to the term of data protection as well as to the term of any relevant patents, to the extent these protections have not already expired. While the term of the pediatric exclusivity attaches to the term of any relevant patent, pediatric exclusivity is a regulatory exclusivity, a bar to generic approval, not a patent right.
- Under the U.S. orphan drug law, a specific use of a drug or biologic can receive "orphan" designation if it is intended to treat a disease or condition affecting fewer than 200,000 people in the U.S., or affecting more than 200,000 people but not reasonably expected to recover its development and marketing costs through U.S. sales. Among other benefits, orphan designation entitles the particular use of the drug to seven years of market exclusivity, meaning that the FDA cannot (with limited exceptions) approve another marketing application for the same drug for the same indication until expiration of the seven-year period. Unlike pediatric exclusivity, the orphan exclusivity period is independent of and runs in parallel with any applicable patents.

Outside the major markets, the adequacy and effectiveness of intellectual property protection for pharmaceuticals varies widely, and in a number of these markets we are unable to patent our products or to enforce the patents we receive for our products. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization, more than 140 countries have agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to patent owners. Certain developing countries limit protection for biopharmaceutical products under their interpretation of "flexibilities" allowed under the agreement. Thus, some types of patents, such as those on new uses of compounds or new forms of molecules, are not available in certain developing countries. Further, many developing countries, and some developed countries, do not provide effective data package protection even though it is specified in TRIPs.

Our Intellectual Property Portfolio

We consider intellectual property protection for certain products, processes, uses, and formulations—particularly with respect to those products discussed below—to be important to our operations. In addition to the data protection and patents identified below, we may hold patents on manufacturing processes, formulations, devices, or uses that extend exclusivity beyond the dates shown below.

The most relevant U.S. patent protection or data protection and associated expiry dates for our top-selling or recently launched patent-protected marketed products are as follows:

- Alimta is protected by a vitamin regimen patent (2021) plus pediatric exclusivity (May 2022).
- Baqsimi is protected by data protection (July 2022).
- Cyramza is protected by a compound patent and biologics data protection (2026).
- Emgality is protected by a compound patent (2033).

- Jardiance, and the related combination products Glyxambi and Synjardy, are protected by a compound patent (2025, not including possible patent extension).
- Olumiant is protected by a compound patent (2030, not including possible patent extension).
- Reyvow is protected by a compound patent (2025, not including possible patent extension).
- Taltz is protected by a compound patent (2026, not including possible patent extension) and by biologics data protection (2028).
- Trajenta and Jentadueto are protected by a compound patent (2023, not including possible patent extension).
- Trulicity is protected by a compound patent (2027).
- Verzenio is protected by a compound patent (2029, not including possible patent extension).

Outside the U.S., important patent protection or data protection includes:

- Alimta is protected by a vitamin regimen patent in major European countries (June 2021) and by patents covering use to treat cancer concomitantly with vitamins in Japan (June 2021).
- Cyramza is protected by a compound patent in major European countries (2028) and Japan (2026).
- Emgality in is protected by a compound patent in major European countries (2033) and Japan (2031, not including possible patent extension).
- Olumiant is protected by a compound patent in major European countries (2029, not including possible patent extension) and Japan (2033).
- Taltz is protected by a compound patent in major European countries (2031) and Japan (2030).
- Trulicity is protected by a compound in major European countries and Japan (2029).
- Verzenio is protected by a compound in major European countries and Japan (2029).

Baqsimi has been submitted for regulatory review in Japan, where it is expected to be protected by data protection upon approval (6 years).

Flortaucipir has been submitted for regulatory review in the U.S. for use as a positron emission tomography (PET) imaging agent and is protected by a compound patent (2029, not including possible patent extension).

Selpercatinib has been submitted for regulatory review in the U.S. for the treatment of cancers in certain patients and is protected by a U.S. compound patent (2037, not including possible patent extension).

Tanezumab has been submitted for regulatory review in the U.S. for the treatment of osteoarthritis pain and is expected to be protected by data protection upon approval (12 years).

Worldwide, we sell all of our major products under trademarks for names and unique product appearance (e.g., the appearance of our Trulicity autoinjector) which 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. Trademark protection often extends beyond the patent and data protection for a product.

Patent Licenses

Most of our major products are not subject to significant license agreements. For information on our license and collaboration agreement with Incyte Corporation related to Olumiant, see "Financial Statements and Supplementary Data - Note 4, Collaborations and Other Arrangements."

Patent Challenges

In the U.S., the Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch-Waxman Act, authorizes the FDA to approve generic versions of innovative pharmaceuticals (other than biologics) when the generic manufacturer has not conducted safety and efficacy studies but files an Abbreviated New Drug Application (ANDA). In an ANDA, the generic manufacturer must demonstrate only “bioequivalence” between the generic version and the New Drug Application (NDA)-approved drug—not safety and efficacy. Establishing bioequivalence is generally straightforward and inexpensive for the generic company.

Absent a patent challenge, the FDA cannot approve an ANDA until after certain of the innovator’s patents expire. However, after the innovator has marketed its product for four years, a generic manufacturer may file an ANDA alleging that one or more or all of the patents listed in the innovator’s NDA are invalid or not infringed. This

allegation is commonly known as a "Paragraph IV certification." If the innovator responds by filing suit against the generic manufacturer, the FDA is then prohibited from approving the generic company's application for a 30-month period (which can be shortened or extended by the trial court judge hearing the patent challenge). If one or more of the NDA-listed patents are challenged, the first filer(s) of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers.

Generic manufacturers use Paragraph IV certifications extensively to challenge patents on innovative pharmaceuticals. In addition, generic companies have shown willingness to launch "at risk," i.e., after receiving ANDA approval but before final resolution of their patent challenge. We are currently in Hatch-Waxman litigation involving Alimta with five generic manufacturers. For more information on Hatch-Waxman litigation involving the company, see "Financial Statements and Supplementary Data - Note 16, Contingencies."

Under the BPCI Act, the FDA cannot approve a biosimilar application until data protection expires, 12 years after initial marketing approval of the innovator biologic. However, the BPCI Act does provide a mechanism for a competitor to challenge the validity of an innovator's patents as early as four years after initial marketing approval of the innovator biologic. The patent litigation scheme under the BPCI Act is complex and courts have held that biosimilar applicants are not required to engage in it. Patent holders still have the right to bring suit under normal patent law procedures if a biosimilar applicant attempts to commercialize a product prior to patent expiration.

In addition, there is a procedure in U.S. patent law known as inter partes review (IPR), which allows any member of the public to file a petition with the USPTO seeking the review of any issued U.S. patent for validity. IPRs are conducted before Administrative Patent Judges in the USPTO using a lower standard of proof than used in federal district court. In addition, the challenged patents are not accorded the presumption of validity as they are in federal district court. Generic drug companies and even some investment firms have engaged in the IPR process in attempts to invalidate our patents.

Outside the U.S., the legal doctrines and processes by which pharmaceutical patents can be challenged vary widely. In recent years, we have experienced an increase in patent challenges from generic manufacturers in many countries outside the U.S. For more information on administrative challenges and litigation involving our Alimta patents in Europe and Japan, see "Financial Statements and Supplementary Data - Note 16, Contingencies."

Government Regulation of Our Operations

Our operations are regulated extensively by numerous national, state, and local agencies. The lengthy process of laboratory and clinical testing, data analysis, manufacturing development, and regulatory review necessary for governmental approvals is extremely costly and can significantly delay product introductions. Promotion, marketing, manufacturing, and distribution of pharmaceutical products are extensively regulated in all major markets. We conduct extensive post-marketing surveillance of the safety of the products we sell. In addition, our operations are subject to complex federal, state, local, and foreign laws and regulations concerning the environment, occupational health and safety, and privacy. Compliance with the laws and regulations affecting the manufacture and sale of current products and the discovery, development, and introduction of new products will continue to require substantial effort, expense, and capital investment.

Of particular importance to our business is the FDA in the U.S. Pursuant to the Federal Food, Drug, and Cosmetic Act, the FDA has jurisdiction over all of our products and devices in the U.S. and administers requirements covering the testing, safety, effectiveness, manufacturing, quality control, distribution, labeling, marketing, advertising, dissemination of information, and post-marketing surveillance of those products.

The FDA extensively regulates all aspects of manufacturing quality for pharmaceuticals under its current Good Manufacturing Practices (cGMP) regulations. Outside the U.S., our products and operations are subject to similar regulatory requirements, notably by the EMA in Europe and the Ministry of Health, Labor and Welfare in Japan. Specific regulatory requirements vary from country to country. We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems in our manufacturing, product development, and process development operations in an effort to ensure sustained compliance with cGMP and similar regulations. However, in the event we fail to adhere to these requirements in the future, we could be subject to interruptions in production, fines and penalties, and delays in new product approvals. Certain of our products are manufactured by third parties, and their failure to comply with these regulations could adversely affect us through failure to supply product to us or delays in new product approvals.

The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to various other U.S. federal and state laws, including the federal anti-kickback statute and the False Claims Act and state laws governing kickbacks, false claims, unfair trade practices, and consumer protection. These laws are administered by, among others, the Department of Justice (DOJ), the Office of Inspector General of the Department of Health and Human Services, the Federal Trade Commission, the Office of Personnel Management, and state attorneys general. Over

the past several years, state and federal governments have increased their oversight, enforcement activities, and intra-agency coordination with respect to pharmaceutical companies. Several claims brought by these agencies against us and other companies under these and other laws have resulted in corporate criminal sanctions and very substantial civil settlements.

The U.S. Foreign Corrupt Practices Act of 1977 (FCPA) prohibits certain individuals and entities, including U.S. publicly traded companies, from promising, offering, or giving anything of value to foreign officials with the corrupt intent of influencing the foreign official for the purpose of helping the company obtain or retain business or gain any improper advantage. The FCPA also imposes specific recordkeeping and internal controls requirements on U.S. publicly traded companies. As noted above, outside the U.S., our business is heavily regulated and therefore involves significant interaction with foreign officials. Additionally, in many countries outside the U.S., the health care providers who prescribe pharmaceuticals are employed by the government and the purchasers of pharmaceuticals are government entities; therefore, our interactions with these prescribers and purchasers are subject to regulation under the FCPA.

In addition to the U.S. application and enforcement of the FCPA, the various jurisdictions in which we operate and supply our products have laws and regulations aimed at preventing and penalizing corrupt and anticompetitive behavior. In recent years, several jurisdictions, including China, Brazil, and the United Kingdom (U.K.), have enhanced their laws and regulations in this area, increased their enforcement activities, and/or increased the level of cross-border coordination and information sharing.

We are and could in the future become subject to administrative and legal proceedings and actions, which could include claims for civil penalties (including treble damages under the False Claims Act), criminal sanctions, and administrative remedies, including exclusion from U.S. federal and other health care programs. It is possible that an adverse outcome in future actions could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access

In the U.S., we are required to provide rebates to the federal government and respective state governments on their purchases of our pharmaceuticals under state Medicaid and Medicaid Managed Care programs (minimum of 23.1 percent plus adjustments for price increases over time) and rebates to private payers who cover patients in certain types of health care facilities that serve low-income and uninsured patients (known as 340B facilities). No rebates are required at this time in the Medicare Part B (physician and hospital outpatient) program where reimbursement is set on an "average selling price plus 4.3 percent" formula. Additionally, an annual fee is imposed on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs. Since 2019, the Bipartisan Budget Act has required manufacturers of brand-name drugs, biologics, and biosimilars to provide a discount of 70 percent of the cost of branded prescription drugs for Medicare Part D participants who are in the “doughnut hole” (the coverage gap in Medicare prescription drug coverage), up from the previous 50-percent discount.

Rebates are also negotiated in the private sector. We give rebates to private payers who provide prescription drug benefits to seniors covered by Medicare and to private payers who provide prescription drug benefits to their customers. These rebates are affected by the introduction of competitive products and generics in the same class.

In 2019, the White House signed into law targeted amendments to the Medicaid Drug Rebate Program statute, as well as the Fair and Accurate Medicaid Pricing Act, which was part of the Continuing Appropriations Act. We do not believe either will have a material impact to our business. Several states have passed importation legislation, including Colorado, Florida, Maine, and Vermont. Specifically, the state of Florida is working with the Administration to implement an importation program from Canada as early as 2020. We are currently reviewing the state legislation, as well as corresponding proposed federal rulemaking and guidance recently published by the Department of Health and Human Services and the FDA, the impact of which is uncertain at this time.

In most international markets, we operate in an environment of government-mandated cost-containment programs, which may include price controls, international reference pricing (to other countries’ prices), discounts and rebates, therapeutic reference pricing (to other, often generic, pharmaceutical choices), restrictions on physician prescription levels, and mandatory generic substitution.

Globally, public and private payers are increasingly restricting access to pharmaceuticals based on assessments of comparative effectiveness and value, including through the establishment of formal health technology assessment processes. In addition, third party organizations, including professional associations, academic institutions, and non-profit entities associated with payers, are conducting and publishing comparative effectiveness and cost/benefit analyses on medicines, the impact of which are uncertain at this time.

We cannot predict the extent to which our business may be affected by these or other potential future legislative, regulatory, or payer developments. However, in general we expect that state, federal, and international legislative and regulatory developments could have further negative effects on pricing and reimbursement for our products.

Research and Development

Our commitment to research and development dates back more than 140 years. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2019, we employed approximately 7,810 people in pharmaceutical research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel.

Our internal pharmaceutical research focuses primarily on the areas of oncology, diabetes, neurodegeneration, immunology, and pain. We believe that we have a strong biotechnology research program, with more than half of our clinical-stage pipeline currently consisting of biologics. In addition to discovering and developing NMEs, we seek to expand the value of existing products through new uses, formulations, and therapeutic approaches that provide additional value to patients.

To supplement our internal efforts, we collaborate with others, including academic institutions and research-based pharmaceutical and biotechnology companies. We use the services of physicians, hospitals, medical schools, and other research organizations worldwide to conduct clinical trials to establish the safety and effectiveness of our pharmaceutical products. We actively invest in external research and technologies that we believe complement and strengthen our own efforts. These investments can take many forms, including licensing arrangements, co-development and co-marketing agreements, co-promotion arrangements, joint ventures, and acquisitions.

Pharmaceutical development is time-consuming, expensive, and risky. On average, only one out of many thousands of molecules discovered by researchers ultimately becomes an approved medicine. The process from discovery to regulatory approval can take over a decade. Drug candidates can fail at any stage of the process, and even late-stage drug candidates sometimes fail to receive regulatory approval or achieve commercial success. The rate of innovation cycles leading to medical improvements over initial inventions is accelerating, which has increased the risk that we opt not to develop a late-stage asset or that new products fail to achieve commercial success due to technical obsolescence - displacement by follow-on competitor products - before the period of exclusivity has ended. After approval and launch of a product, we expend considerable resources on post-marketing surveillance and additional clinical studies to collect data and understand the benefits and potential risks of medicines as they are used as therapeutics. Consistent with their purpose, these studies have the potential to identify information about problems with product safety or efficacy that result in product withdrawal. The following describes in more detail the research and development process for pharmaceutical products:

Phases of New Drug Development

- **Discovery Phase**

  The earliest phase of new drug research and development, the discovery phase, can take many years. Scientists identify, design, and synthesize promising molecules, screening tens of thousands of molecules for their effect on biological targets that appear to play an important role in one or more diseases. Targets can be part of the body, such as a protein, receptor, or gene; or foreign, such as a virus or bacteria. Some targets have been proven to affect disease processes, but often the target is unproven and may later prove to be irrelevant to the disease or to yield insufficient clinical benefit. Molecules that have the desired effect on the target and meet other design criteria become candidate molecules and move to the next phase of development. The probability of any one candidate molecule becoming a commercial product is extremely low.

- **Early Development Phase**

  The early development phase involves refining candidate molecules, understanding how to manufacture them efficiently, and completing initial testing for safety and efficacy. Safety testing is done first in laboratory tests and animals, as necessary, to identify toxicity and other potential safety issues that would preclude use in humans. In general, the first human tests (often referred to as Phase I) are conducted in small groups of healthy volunteers or patients to assess safety and find the potential dosing range. After a safe dose range has been established, the drug is typically administered to small populations of patients (Phase II) to look for initial signs of efficacy in treating the targeted disease, or biomarkers of the disease, and to continue to assess safety. In parallel, scientists work to identify safe, effective, and economical manufacturing processes. Long-term animal studies continue to test for potential safety issues. Of the molecules that enter the early development phase, approximately 10 percent move on to the product phase. The early development phase can take several years to complete.

- **Product Phase**

  Product phase (Phase III) molecules have met initial safety requirements and, typically, shown initial evidence of efficacy. As a result, these molecules generally have a higher likelihood of success. The molecules are tested in much larger patient populations to demonstrate efficacy to a predetermined level of statistical significance and to continue to develop the safety profile. These trials are generally global in nature and are designed to generate the data necessary to submit the molecule to regulatory agencies for marketing approval. The potential new drug is generally compared with existing competitive therapies, placebo, or both. The resulting data is compiled and may be submitted to regulatory agencies around the world. Phase III testing varies by disease state, but can often last from three to four years.

- **Submission Phase**

  Once a molecule is submitted to regulatory agencies, the time to final marketing approval can vary from several months to several years, depending on variables such as the disease state, the strength and complexity of the data presented, the novelty of the target or compound, and the time required for the agency(ies) to evaluate the submission. There is no guarantee that a potential medicine will receive marketing approval, or that decisions on marketing approvals or indications will be consistent across geographic areas.

We believe our investments in research, both internally and in collaboration with others, have been rewarded by the large number of new molecules and new indications for existing molecules that we have in all stages of development. We currently have approximately 45 drug candidates across all stages of human testing and a larger number of projects in preclinical development. Among our new investigational molecules currently in the product phase of development or awaiting regulatory approval or launch are potential therapies for various cancers; Alzheimer's disease; pain; migraine; cluster headache; diabetes; obesity; and autoimmune diseases, including alopecia areata, systemic lupus erythematosus, psoriasis, atopic dermatitis, Crohn's disease, and ulcerative colitis. We are studying many other drug candidates in the earlier stages of development in our chosen priority areas. We are also developing new uses, formulations, or delivery methods for many of these molecules as well as several currently marketed products. See "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline," for more information on certain of our product candidates.

Raw Materials and Product Supply

Most of the principal materials we use in our manufacturing operations are available from more than one source. However, we obtain certain raw or intermediate materials primarily from only one source. We generally seek to maintain sufficient inventory to supply the market until an alternative source of supply could be implemented, in the event one of these suppliers was unable to provide the materials or product. However, in the event of an extended failure of a supplier, it is possible that we could experience an interruption in supply until we established new sources or, in some cases, implemented alternative processes.

The majority of our revenue comes from products produced in our own facilities. Our principal active ingredient manufacturing occurs at sites we own in the U.S., Ireland, and Puerto Rico. Finishing operations, including formulation, filling, assembling, delivery device manufacturing, and packaging, take place at a number of sites throughout the world. We utilize third parties for certain active ingredient manufacturing and finishing operations.

We manage our supply chain (including our own facilities, contracted arrangements, and inventory) in a way that is intended to allow us to meet all expected product demand while maintaining flexibility to reallocate manufacturing capacity to improve efficiency and respond to changes in supply and demand. To maintain a stable supply of our products, we use a variety of techniques including comprehensive quality systems, inventory management, and back-up sites.

However, pharmaceutical production processes are complex, highly regulated, and vary widely from product to product. Shifting or adding manufacturing capacity can be a very lengthy process requiring significant capital expenditures, process modifications, and regulatory approvals. Accordingly, if we were to experience unplanned plant shutdowns at one of our own facilities, significant failure of a contract supplier, or significant unanticipated increases in demand, we could experience an interruption in supply of certain products or product shortages until production could be resumed or expanded.

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. Product quality arises from a total commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, distribution, and dissemination of information about our medicines.

Quality of production processes involves strict control of ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. We perform tests at various stages of production processes and on the final product in an effort to assure that the product meets all regulatory requirements and Lilly internal standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination thereof. Additional assurance of quality is provided by corporate quality-assurance groups that audit and monitor all aspects of quality related to pharmaceutical manufacturing procedures and systems in company operations and at third-party suppliers.

Risk Factors

In addition to the other information contained in this Annual Report, the following risk factors should be considered carefully in evaluating our company. It is possible that our business, financial condition, liquidity, cash flows, or results of operations could be materially adversely affected by any of these risks. Certain of these risks could also adversely affect the company's reputation.

- **Pharmaceutical research and development is very costly and highly uncertain; we may not succeed in developing or acquiring commercially successful products sufficient in number or value to replace revenues of products that have lost or will soon lose intellectual property protection or are displaced by competing products or therapies.**

  There are many difficulties and uncertainties inherent in pharmaceutical research and development and the introduction of new products. There is a high rate of failure inherent in new drug discovery and development. To bring a drug from the discovery phase to market can take over a decade and often costs in excess of $2 billion. Failure can occur at any point in the process, including in later stages after substantial investment. As a result, most funds invested in research programs will not generate financial returns. 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 or maintain necessary regulatory approvals or payer reimbursement or coverage, limited scope of approved uses, changes in the relevant treatment standards or the availability of new or better competitive products, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies continue to establish increasingly high hurdles for the efficacy and safety of new products. Delays and uncertainties in drug approval processes can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict revenue growth rates of new products.

  We cannot state with certainty when or whether our products now under development will be approved or launched; whether, if initially granted, such approval will be maintained; whether we will be able to develop, license, or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful. We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products sufficient both to cover our substantial research and development costs and to replace revenues that are lost as profitable products lose intellectual property exclusivity or are displaced by competing products or therapies. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, and financial position. See "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline" for more details.

- **We depend on products with intellectual property protection for most of our revenues, cash flows, and earnings; we have lost or will lose effective intellectual property protection for many of those products in the next several years, which has resulted and is likely to continue to result in rapid and severe declines in revenues.**

  A number of our top-selling products have recently lost, or will lose in the next several years, significant patent protection and/or data protection in the U.S. as well as key countries outside the U.S., as illustrated in the tables below:

Product	U.S. Revenues (2019) ($ in millions)	Percent of Worldwide Revenues (2019)	Patent / Data Protection - U.S.
Alimta	$ 1,219.5	5%	Vitamin regimen patent plus pediatric exclusivity will expire in May 2022
Forteo	645.5	3%	Formulation and related process patents expired in December 2018 and use patents expired in August 2019

Product	Revenues Outside U.S. (2019) ($ in millions)	Percent of Worldwide Revenues (2019)	Patent / Data Protection - Major Europe / Japan
Alimta	$ 896.4	4%	Major European countries: vitamin regimen patent will expire in June 2021 Japan: use patents to treat cancer concomitantly with vitamins will expire in June 2021
Forteo	759.1	3%	Japan: data package protection expired in July 2018; formulation and use patents expired in August 2019
Cymbalta	675.8	3%	Japan: data package protection expired in January 2020

Certain other significant products no longer have effective exclusivity through patent protection or data protection. For non-biologic products, loss of exclusivity (whether by expiration of legal rights or by termination thereof as a consequence of litigation) typically results in the entry of one or more generic competitors, leading to a rapid and severe decline in revenues, especially in the U.S. Historically, outside the U.S. the market penetration of generics following loss of exclusivity has not been as rapid or pervasive as in the U.S.; however, generic market penetration is increasing in many markets outside the U.S., including Japan, Europe, and many countries in the emerging markets. For biologics (such as Humalog, Humulin, Erbitux, Cyramza, Trulicity, Taltz, and Emgality), loss of exclusivity may or may not result in the near-term entry of competitor versions (i.e., biosimilars) due to many factors including development timelines, manufacturing challenges, and/or uncertainties in the regulatory pathways for approval of the competitor versions.

There is no assurance that the patents we are seeking will be granted or that the patents we hold will be found valid and enforceable if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or marketing alternative products or formulations that compete with our patented products. In addition, competitors or other third parties may assert claims that our activities infringe patents or other intellectual property rights held by them, or allege a third-party right of ownership in our existing intellectual property. See "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Patent Matters" and "Business - Patents, Trademarks, and Other Intellectual Property Rights" for more details.

- **Our long-term success depends on intellectual property protection; if our intellectual property rights are invalidated, circumvented, or weakened, our business will be adversely affected.**

  Our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new pharmaceutical products. Without strong intellectual property protection, we would be unable to generate the returns necessary to support the enormous investments in research and development and capital as well as other expenditures required to bring new drugs to the market.

  Intellectual property protection varies throughout the world and is subject to change over time, depending on local laws and regulations. Changes to such laws and regulations could reduce protections for our innovative products. In the U.S., in addition to the process for challenging patents set forth in the BPCI Act, which applies to our biologic products, the Hatch-Waxman Act provides generic companies powerful incentives to seek to invalidate our other pharmaceutical patents. As a result, we expect that our U.S. patents on major pharmaceutical products will continue to be routinely challenged in litigation and may not be upheld. In addition, a separate IPR process allows competitors to request review of issued patents by the USPTO without the protections of the Hatch-Waxman Act. Our patents may be invalidated via this review process. Although such a decision can be appealed to the courts, in certain circumstances a loss in such a proceeding could result in a competitor entering the market, while a win provides no precedential value - the same patent can still be challenged by other competitors. We face many generic manufacturer challenges to our patents outside the U.S. as well. The entry of generic competitors typically results in rapid and severe declines in revenues. In addition, competitors or other third parties may claim that our activities infringe patents or other intellectual property rights held by them. If successful, such claims could result in our being unable to market a product in a particular territory or being required to pay significant damages for past infringement or royalties on future sales. See "Business - Patents, Trademarks, and Other Intellectual Property Rights" and "Financial Statements and Supplementary Data - Note 16, Contingencies" for more details.

- **Our business is subject to increasing government price controls and other public and private restrictions on pricing, reimbursement, and access for our drugs, which could have a material adverse effect on our reputation or business.**

  Public and private payers are taking increasingly aggressive steps to control their expenditures for pharmaceuticals by placing restrictions on pricing and reimbursement for, and patient access to, our medications. These pressures could continue to negatively affect our future revenues and net income.

  We expect pricing, reimbursement, and access pressures from both governments and private payers inside and outside the U.S. to become more severe. For more details, see "Business - Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access" and "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access."

- **We face intense competition from multinational pharmaceutical companies, biotechnology companies, and lower-cost generic and biosimilar manufacturers, and such competition could have a material adverse effect on our business.**

  We compete with a large number of multinational pharmaceutical companies, biotechnology companies, and generic pharmaceutical companies. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet important medical needs. Our product revenues can be adversely affected by the introduction by competitors of branded products that are perceived as superior by the marketplace, by generic or biosimilar versions of our branded products, and by generic or biosimilar versions of other products in the same therapeutic class as our branded products. Regulation of generic and biosimilar products varies around the world. Particularly for biosimilars, changes to such regulations could make it easier, less expensive, and less time consuming for competitor products to enter the market, some of which could be substituted for our products at the pharmacy. Our revenues can also be adversely affected by treatment innovations that eliminate or minimize the need for treatment with our drugs. See "Business - Competition" and "Business - Research and Development" for more details.

- **Changes in foreign currency rates or devaluation of a foreign currency can materially affect our revenue, cost of sales, and operating expenses.**

  As a global company with substantial operations outside the U.S., we face foreign currency risk exposure from fluctuating currency exchange rates. While we seek to manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a material impact, either positive or negative, on our revenue, cost of sales, and operating expenses. In the event of an extreme devaluation of local currency, the price of our products could become unsustainable in the relevant market. See "Management's Discussion and Analysis - Financial Condition" for more details.

- **Unanticipated changes in our tax rates or exposure to additional tax liabilities could increase our income taxes and decrease our net income.**

  We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and in the course of our business, we make judgments about the expected tax treatment of various transactions and events, including the separation of Elanco. Changes in the relevant tax laws, regulations, administrative practices, principles, and interpretations, as well as events that differ from our expectations, could adversely affect our future effective tax rates. The U.S. enacted tax reform legislation significantly revising the U.S. tax law, effective January 2018, and a number of other countries are actively considering or enacting tax changes. Modifications to key elements of the U.S. or international tax framework could have a material adverse effect on our consolidated operating results and cash flows. See "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Tax Matters" and "Financial Statements and Supplementary Data - Note 14, Income Taxes" for more details. Lilly has taken the position on the separation from Elanco, based on an opinion of tax counsel, that the divestiture of Elanco common stock qualifies as a transaction that is tax-free for U.S. federal income tax purposes. If any facts, assumptions, representations, and undertakings from Lilly and Elanco regarding the past and future conduct of their respective businesses and other matters are incorrect or not otherwise satisfied, the divestiture may not qualify for tax-free treatment, which could result in significant U.S. federal income tax liabilities for both Lilly and its shareholders who exchanged their stock for Elanco stock.

- **Failure, inadequacy, or breach of our information technology systems, infrastructure, and business information or violations of data protection laws could result in material harm to our business and reputation.**

  A great deal of confidential information owned by both us and our business partners is stored in our information systems, networks, and facilities or those of third parties. This includes valuable trade secrets and intellectual property, clinical trial information, corporate strategic plans, marketing plans, customer information, and personally identifiable information, such as employee and patient information (collectively, "confidential information"). We also rely to a large extent on the efficient and uninterrupted operation of complex information technology systems, infrastructure, and hardware (together "IT systems"), some of which are within the company's control and some of which are within the control of third parties, to accumulate, process, store, and transmit large amounts of confidential information and other data. We are subject to a variety of continuously evolving and developing laws and regulations around the world related to privacy, data protection, and data security. Maintaining the confidentiality, integrity and availability of our IT systems and confidential information is vital to our business.

IT systems are vulnerable to system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources. Cyber-attacks are growing in their frequency, sophistication, and intensity, and are becoming increasingly difficult to detect, mitigate, or prevent. Cyber-attacks come in many forms, including the deployment of harmful malware, exploitation of vulnerabilities, denial-of-service attacks, the use of social engineering, and other means to compromise the confidentiality, integrity and availability of our IT systems, confidential information, and other data. Breaches resulting in the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our products and services, can occur in a variety of ways, including but not limited to, negligent or wrongful conduct by employees or others with permitted access to our systems and information, or wrongful conduct by hackers, competitors, certain governments, or other current or former company personnel. Our third party partners face similar risks.

The failure or inadequacy of our IT systems, the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our products and services that rely on IT systems, could impair our ability to secure and maintain intellectual property rights; result in a product manufacturing interruption or failure, or in the interruption or failure of products or services that rely on IT systems; damage our operations, customer relationships, or reputation; and cause us to lose trade secrets or other competitive advantages. Unauthorized disclosure of personally identifiable information could expose us to significant sanctions for violations of data privacy laws and regulations around the world and could damage public trust in our company.

To date, system inadequacies, operating failures, unauthorized access, service interruptions or failures, security breaches, malicious intrusions, cyber-attacks, and the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information have not had a material impact on our consolidated results of operations. We maintain cyber liability insurance; however, this insurance may not be sufficient to cover the financial, legal, business, or reputational losses that may result from an interruption or breach of our IT systems. We continue to implement measures in an effort to protect, detect, respond to, and minimize or prevent these risks and to enhance the resiliency of our IT systems; however, these measures may not be successful. If they are not successful, any of these events could result in material financial, legal, business, or reputational harm to our business.

- **Significant economic downturns or international trade disruptions or disputes could adversely affect our business and operating results.**

  While pharmaceuticals have not generally been sensitive to overall economic cycles, prolonged economic slowdowns could lead to decreased utilization of our products, affecting our sales volume. Declining tax revenues attributable to economic downturns increase the pressure on governments to reduce health care spending, leading to increasing government efforts to control drug prices and utilization. Additionally, some customers, including governments or other entities reliant upon government funding, may be unable to pay in a timely manner for our products. Also, if our customers, suppliers, or collaboration partners experience financial difficulties, we could experience slower customer collections, greater bad debt expense, and performance defaults by suppliers or collaboration partners. Similarly, in the event of a significant economic downturn, we could have difficulty accessing credit markets.

  Significant portions of our business are conducted in Europe, including the U.K.; Asia; and other international geographies. Trade disputes and interruptions in international relationships, including pandemic diseases, such as the coronavirus, could result in changes to regulations governing our products and our intellectual property, or otherwise affect our ability to do business. While we do not expect either circumstance to materially affect our business in a direct manner, these and similar events could adversely affect us, or our business partners or customers.

- **Pharmaceutical products can develop unexpected safety or efficacy concerns, which could have a material adverse effect on revenues, income, and reputation.**

  Pharmaceutical products receive regulatory approval based on data obtained in controlled clinical trials of limited duration. After approval, the products are used for longer periods of time by much larger numbers of patients; we and others (including regulatory agencies and private payers) collect extensive information on the efficacy and safety of our marketed products by continuously monitoring the use of our products in the marketplace. In addition, we or others may conduct post-marketing clinical studies on efficacy and safety of our marketed products. New safety or efficacy data from both market surveillance and post-marketing clinical studies may result in product label changes or other measures that could reduce the product's market acceptance and result in declining sales. Serious safety or efficacy issues that arise after product approval could result in voluntary or mandatory product recalls or withdrawals from the market. Safety issues could also result in costly product liability claims.

- **We face litigation and investigations related to our products and our pricing practices and are self-insured; we could face large numbers of claims in the future, which could adversely affect our business.**

  We are subject to a substantial number of product liability claims involving Actos®, Axiron®, Byetta®, Cialis, and Cymbalta among other products, as well as litigation and investigations related to the pricing of our products. See "Financial Statements and Supplementary Data - Note 16, Contingencies" for more information on our current product liability litigation, as well as pricing litigation, investigations, and inquiries. Because of the nature of pharmaceutical products, we are and could in the future become subject to large numbers of product liability claims for these or other products, or to further litigation or investigations into pricing or other commercial practices. Such matters require substantial expenditures to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for liability insurance, we are self-insured for product liability losses for all our currently marketed products, as well as for litigation or investigations related to our pricing practices or other similar matters.

- **Regulatory compliance problems could be damaging to the company.**

  The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to extensive regulation. Many companies, including us, have been subject to claims related to these practices asserted by federal, state, and foreign governmental authorities, private payers, and consumers. These claims have resulted in substantial expense and other significant consequences to us. We are and could in the future become subject to such investigations, the outcomes of which could include criminal charges and fines, penalties, or other monetary or non-monetary remedies, including exclusion from U.S. federal and other health care programs. In addition, regulatory issues concerning compliance with cGMP regulations (and comparable foreign regulations) for our products can lead to product recalls and seizures, fines and penalties, interruption of production leading to product shortages, and delays in the approvals of new products pending resolution of the issues. See "Business - Government Regulation of Our Operations" for more details.

- **Manufacturing difficulties or disruptions could lead to product supply problems.**

  Pharmaceutical manufacturing is complex and highly regulated. Manufacturing difficulties at our facilities or contracted facilities, or the failure or refusal of a contract manufacturer to supply contracted quantities, could result in product shortages, leading to lost revenue. Such difficulties or disruptions could result from quality or regulatory compliance problems; natural disasters or pandemic disease; mechanical or information technology system vulnerabilities, such as system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources; or inability to obtain sole-source raw or intermediate materials. In addition, given the difficulties in predicting sales of new products and the very long lead times necessary for the expansion and regulatory qualification of pharmaceutical manufacturing capacity, it is possible that we could have difficulty meeting unanticipated demand for new products. See "Business - Raw Materials and Product Supply" for more details.

- **Reliance on third-party relationships and outsourcing arrangements could adversely affect our business.**

  We rely on third parties, including suppliers, distributors, alliances with other pharmaceutical and biotechnology companies, and third-party service providers, for selected aspects of product development, manufacture, commercialization, support for information technology systems, product distribution, and certain financial transactional processes. For example, we outsource the day-to-day management and oversight of our clinical trials to contract research organizations. Outsourcing these functions involves the risk that the third parties may not perform to our standards or legal requirements; may not produce reliable results; may not perform in a timely manner; may not maintain the confidentiality, integrity, and availability of our confidential and proprietary information; may experience disruption or fail to perform due to information technology system vulnerabilities, breaches, or cyber-attacks; or may fail to perform at all. Failure of these third parties to meet their contractual, regulatory, confidentiality, privacy, security, or other obligations to us could have a material adverse effect on our business.

Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS
(Tables present dollars in millions, except per-share data)

General

Management's discussion and analysis of results of operations and financial condition is intended to assist the reader in understanding and assessing significant changes and trends related to the results of operations and financial position of our consolidated company. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying footnotes in this Annual Report. Certain statements in this section of the Annual Report constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and "Risk Factors" may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

Executive Overview

This section provides an overview of our financial results, recent product and late-stage pipeline developments, and other matters affecting our company and the pharmaceutical industry. Earnings per share (EPS) data are presented on a diluted basis.

On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco Animal Health Incorporated (Elanco) common stock through a tax-free exchange offer. As a result, we recognized a gain on the disposition of approximately $3.7 billion in the first quarter of 2019 and now operate as a single segment. See Note 19 to the consolidated financial statements for further discussion.

Financial Results

The following table summarizes our key operating results:

	Year Ended December 31,		Percent Change
	2019	2018	
Revenue	**$ 22,319.5**	$ 21,493.3	4
Gross margin	**17,598.3**	16,811.6	5
Gross margin as a percent of revenue	**78.8%**	78.2%	
Operating expense	**$ 11,808.8**	$ 11,026.3	7
Acquired in-process research and development	**239.6**	1,983.9	(88)
Asset impairment, restructuring, and other special charges	**575.6**	266.9	NM
Income before income taxes	**5,265.9**	3,680.1	43
Income taxes	**628.0**	529.5	19
Net income from continuing operations	**4,637.9**	3,150.6	47
Net income	**8,318.4**	3,232.0	NM
EPS from continuing operations	**4.96**	3.05	63
EPS	**8.89**	3.13	NM

NM - not meaningful

Revenue increased in 2019 driven by increased volume, partially offset by lower realized prices and the unfavorable impact of foreign exchange rates. Operating expenses increased in 2019, reflecting higher late-stage development expenses and increased marketing expenses for recently launched products, partially offset by lower marketing expenses for late life-cycle products. The increases in net income and EPS in 2019 were driven primarily by the gain recognized on the disposition of Elanco and, to a lesser extent, lower acquired in-process research and development (IPR&D) charges. In addition to the increase in net income, EPS in 2019 significantly benefited from lower weighted-average shares outstanding as a result of the Elanco exchange offer and share repurchases.

The following highlighted items affect comparisons of our 2019 and 2018 financial results:

2019

Acquired IPR&D (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $239.6 million primarily related to collaborations with AC Immune SA (AC Immune), Centrexion Therapeutics Corporation (Centrexion), ImmuNext, Inc. (ImmuNext), and Avidity Biosciences, Inc. (Avidity).

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $575.6 million primarily associated with the accelerated vesting of Loxo Oncology, Inc. (Loxo) employee equity awards as a result of the closing of the acquisition of Loxo, and, to a lesser extent, charges associated with the decision to close and sell a research and development facility located in the United Kingdom (U.K).

Other–Net, (Income) Expense (Note 18 to the consolidated financial statements)

- We recognized a gain of $309.8 million on the sale of the company's antibiotics business in China.
- We recognized a debt extinguishment loss of $252.5 million related to the repurchase of debt.

Net Income from Discontinued Operations (Note 19 to the consolidated financial statements)

- We recognized a gain related to the disposition of Elanco of approximately $3.7 billion.

2018

Acquired IPR&D (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $1.98 billion primarily related to the acquisition of ARMO BioSciences, Inc. (ARMO) and the collaboration with Dicerna Pharmaceuticals, Inc. (Dicerna).

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $266.9 million primarily associated with asset impairments related to the sale of the Posilac® (rbST) brand and the related sale of the Augusta, Georgia manufacturing site and with expenses related to our efforts to reduce our cost structure.

Income Taxes (Note 14 to the consolidated financial statements)

- We recognized $313.3 million of income tax benefit primarily due to measurement period adjustments to the one-time repatriation transition tax (also known as the 'Toll Tax') and the global intangible low-taxed income (GILTI).

Late-Stage Pipeline

Our long-term success depends to a great extent on our ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on molecules currently in development by other biotechnology or pharmaceutical companies. We have approximately 45 potential new drugs in human testing or under regulatory review and a larger number of projects in preclinical research.

The following new molecular entities (NMEs) have been approved by regulatory authorities in at least one of the major geographies for use in the conditions described. The first quarter in which the NMEs initially were approved in any major geography for any indication is shown in parentheses:

Galcanezumab* (Emgality®) (Q3 2018)—a once-monthly subcutaneously injected calcitonin gene-related peptide (CGRP) antibody for migraine prevention and for the treatment of episodic cluster headache. See Note 16 to the consolidated financial statements for discussion of the legal proceedings involving Teva Pharmaceuticals International GMBH and Teva Pharmaceuticals USA, Inc.

Lasmiditan (Reyvow™) (Q4 2019)—an oral 5-HT1F agonist for the acute treatment of migraine.

Nasal glucagon* (Baqsimi®) (Q3 2019)—a glucagon nasal powder formulation for the treatment of severe hypoglycemia in patients with diabetes ages four years and above.

The following NMEs and diagnostic agent have been submitted for regulatory review in at least one of the major geographies for potential use in the conditions described. The first quarter in which each NME and the diagnostic agent initially were submitted in any major geography for any indication is shown in parentheses:

Flortaucipir (Q3 2019)**—a positron emission tomography (PET) tracer intended to image tau (or neurofibrillary) tangles in the brain, which are an indicator of Alzheimer's disease.

Selpercatinib (Q4 2019)—an oral drug for the treatment of patients with cancers that harbor abnormalities in the rearranged during transfection (RET) kinase, specifically thyroid cancer and lung cancer.

Tanezumab* (Q4 2019)—an anti-nerve growth factor monoclonal antibody for the treatment of osteoarthritis pain (in collaboration with Pfizer Inc. (Pfizer)).

Ultra-rapid Lispro* (Q1 2019)—an ultra-rapid insulin for the treatment of type 1 and type 2 diabetes.

The following NMEs are currently in Phase III clinical trial testing for potential use in the conditions described below but have not yet been submitted for regulatory approval for any indication. The first quarter in which each NME initially entered Phase III for any indication is shown in parentheses:

Mirikizumab* (Q2 2018)—a monoclonal antibody designed for the treatment of autoimmune diseases.

Solanezumab* (Q2 2009)—an anti-amyloid beta monoclonal antibody for the treatment of preclinical Alzheimer's disease.

Tirzepatide* (Q4 2018)—a long-acting, combination therapy of glucose-dependent insulinotropic polypeptide (GIP) and glucagon-like peptide 1 for the treatment of type 2 diabetes and obesity.

* Biologic molecule subject to the United States (U.S.) Biologics Price Competition and Innovation Act

** Diagnostic agent

The following table reflects the status of the recently approved products, NMEs, and diagnostic agent set forth above, as well as certain other developments to our late-stage pipeline since January 1, 2019:

Compound	Indication	U.S.	Europe	Japan	Developments
Endocrinology					
Baqsimi	Severe hypoglycemia	Launched	Approved	Submitted	Launched in the U.S. in third quarter of 2019. Approved in Europe in the fourth quarter of 2019. Submitted to the Japan regulatory authorities in 2019.
Tirzepatide	Type 2 diabetes	Phase III			Phase III trials are ongoing.
	Obesity	Phase III			Phase III trials were initiated in the fourth quarter of 2019.
Ultra-rapid Lispro	Type 1 and 2 diabetes	Submitted			Submitted to regulatory authorities in Europe and Japan in the first quarter of 2019. Submitted to the U.S. Food and Drug Administration (FDA) in the third quarter of 2019. In January 2020, the European regulatory authorities issued a positive opinion recommending approval.
Immunology					
Mirikizumab	Crohn's Disease	Phase III			Phase III trials were initiated during the third quarter of 2019.
	Psoriasis	Phase III			Phase III trials are ongoing.
	Ulcerative colitis	Phase III			Phase III trials are ongoing.

Compound	Indication	U.S.	Europe	Japan	Developments
Neuroscience					
Emgality	Cluster headache	Launched	Submitted	Phase III	Submitted to European regulatory authorities in the first quarter of 2019. Approved and launched in the U.S. in the second quarter of 2019.
	Migraine prevention	Launched		Submitted	Launched in Europe in the first quarter of 2019. Submitted to Japanese regulatory authorities in January 2020.
Flortaucipir	Alzheimer's disease diagnostic	Submitted	Phase III		Submitted to the FDA in the third quarter of 2019.
Reyvow	Acute treatment of migraine	Launched	Phase III		Approved by the FDA in the fourth quarter of 2019. Received Schedule V classification from the Drug Enforcement Agency and launched in the U.S. in January 2020.
Solanezumab	Preclinical Alzheimer's disease	Phase III			Announced in February 2020 that a Phase III trial for people with dominantly inherited Alzheimer's disease (DIAD) did not meet the primary endpoint. We do not plan to pursue submission for DIAD. Phase III trial is ongoing for Anti-Amyloid Treatment in Asymptomatic Alzheimer's.
Tanezumab	Osteoarthritis pain	Submitted	Phase III		In the third quarter of 2018 and the first quarter of 2019, announced multiple Phase III trials met several primary endpoints. In the second quarter of 2019, announced the results of the long-term Phase III study in which the 5mg dose met two of the three co-primary endpoints and the 2.5mg dose did not meet any of the three co-primary endpoints. In partnership with Pfizer, we submitted to the FDA in the fourth quarter of 2019 and are pursuing submission in Europe and Japan in 2020.
	Chronic low back pain	Phase III			In the first quarter of 2019, announced Phase III trial met primary endpoint for the 10mg dose and did not meet primary endpoint on the 5mg dose. In the third quarter of 2019, announced results from a Phase III study evaluating long-term safety and efficacy in Japan. In partnership with Pfizer, announced in the third quarter of 2019 that we are not planning regulatory submissions. We plan to maintain an open dialogue with regulatory authorities on potential future regulatory pathways.
	Cancer pain	Phase III			Phase III trial is ongoing.
Oncology					
Lartruvo®	Soft tissue sarcoma	Withdrawn	Withdrawing	Not Submitting	In the first quarter of 2019, announced confirmatory phase III trial did not meet primary endpoint. As this trial did not confirm clinical benefit, we suspended promotion globally and withdrew the product in the U.S. in the third quarter of 2019. For countries in Europe, we have withdrawn or are in the process of withdrawing the product.
Pegilodecakin	Pancreatic cancer	Not Submitting			In the fourth quarter of 2019, announced phase III trial did not meet primary endpoint of overall survival. Phase II trials for other indications also did not meet primary endpoint. We do not plan to initiate any new trials.
Selpercatinib (LOXO-292)	Thyroid Cancer	Submitted		Phase III	In the fourth quarter of 2019, submitted to the FDA and European regulatory authorities based on Phase II data. Granted Breakthrough Therapy Designation[1]. Granted Priority Review[2] from the FDA in first quarter of 2020. Phase III trials were initiated in the fourth quarter of 2019 in all major geographies.
	Lung Cancer	Submitted		Phase III	

[1] The Breakthrough Therapy Designation is designed to expedite the development and review of potential medicines that are intended to treat a serious condition where preliminary clinical evidence indicates that the treatment may demonstrate substantial improvement over available therapy on a clinically significant endpoint.

[2] Priority Review is designed to expedite the review of potential medicines that, if approved, would be significant improvements in the safety or effectiveness of the treatment, diagnosis, or prevention of serious conditions when compared to standard applications.

There are many difficulties and uncertainties inherent in pharmaceutical research and development and the introduction of new products. There is a high rate of failure inherent in new drug discovery and development. To bring a drug from the discovery phase to market can take over a decade and often costs in excess of $2 billion. Failure can occur at any point in the process, including in later stages after substantial investment. As a result, most funds invested in research programs will not generate financial returns. 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 or maintain necessary regulatory approvals or payer reimbursement or coverage, limited scope of approved uses, changes in the relevant treatment standards or the availability of new or better competitive products, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies continue to establish increasingly high hurdles for the efficacy and safety of new products. Delays and uncertainties in drug approval processes can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict revenue growth rates of new products.

We manage research and development spending across our portfolio of molecules, and a delay in, or termination of, any one project will not necessarily cause a significant change in our total research and development spending. Due to the risks and uncertainties involved in the research and development process, we cannot reliably estimate the nature, timing, and costs of the efforts necessary to complete the development of our research and development projects, nor can we reliably estimate the future potential revenue that will be generated from a successful research and development project. Each project represents only a portion of the overall pipeline, and none is individually material to our consolidated research and development expense. While we do accumulate certain research and development costs on a project level for internal reporting purposes, we must make significant cost estimations and allocations, some of which rely on data that are neither reproducible nor validated through accepted control mechanisms. Therefore, we do not have sufficiently reliable data to report on total research and development costs by project, by preclinical versus clinical spend, or by therapeutic category.

Other Matters

Patent Matters

We depend on patents or other forms of intellectual-property protection for most of our revenue, cash flows, and earnings.

We lost our patent exclusivity for Strattera® in the U.S. in May 2017, and generic versions of Strattera were approved in the same month. Following a settlement related to the compound patent challenge for Effient®, generic products launched in the U.S. in the third quarter of 2017. The entry of generic competition for these products has caused a rapid and severe decline in revenue, which, in the aggregate, has had a material adverse effect on our consolidated results of operations and cash flows.

Our compound patent protection for Cialis® (tadalafil) and Adcirca® (tadalafil) expired in major European markets and the U.S. in November 2017; however, in the U.S., we were granted pediatric exclusivity through May 2018. Another later expiring patent (October 2020) was the subject of U.S. patent litigation and pursuant to a settlement agreement related thereto, generic tadalafil entered the U.S. market in September 2018. We have faced and remain exposed to generic competition following the loss of exclusivity, which has rapidly and severely eroded revenue and is likely to continue to erode revenue.

Our formulation patents for Forteo® expired in December 2018, and our use patents expired in August 2019 in major European markets and the U.S. Both the formulation patent and the use patent expired in August 2019 in Japan. We expect further volume decline as a result of the entry of generic and biosimilar competition following the loss of patent exclusivity in these markets. In the aggregate, we expect that the decline in revenue will have a material adverse effect on our consolidated results of operations and cash flows.

The Alimta® vitamin regimen patents, which we expect to provide us with patent protection for Alimta through June 2021 in Japan and major European countries, and through May 2022 in the U.S., have been challenged in each of these jurisdictions. In the U.S., we and Eagle Pharmaceuticals, Inc. (Eagle) reached an agreement in December 2019 to settle all pending litigation, allowing Eagle a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022. Our vitamin regimen patents have also been challenged in other smaller European jurisdictions. Our compound patent for Alimta expired in the U.S. in January 2017, and expired in major European countries and Japan in December 2015. We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets (including Germany, France, and the Netherlands) and that additional generic competitors may choose to launch at risk. Although we will continue to seek to remove any such products, generic product entry is resulting in some loss in revenue in these jurisdictions. We expect that further entry of generic competition for Alimta following the loss of effective patent protection will cause a rapid and severe decline in revenue for the product, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows. See Note 16 to the consolidated financial statements for a more detailed account of the legal proceedings currently pending in the U.S., Europe, and Japan regarding our Alimta patents.

The compound patent for Humalog® (insulin lispro) has expired in major markets. Global regulators have different legal pathways to approve similar versions of insulin lispro. A competitor launched a similar version of insulin lispro in certain European markets in 2017 and in the U.S. in the second quarter of 2018. While it is difficult to estimate the

severity of the impact of insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue; however, we expect additional pricing pressure and some loss of market share that would continue over time.

Foreign Currency Exchange Rates

As a global company with substantial operations outside the U.S., we face foreign currency risk exposure from fluctuating currency exchange rates, primarily the U.S. dollar against the euro and Japanese yen. While we manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a substantial impact, either positive or negative, on our revenue, cost of sales, and operating expense. While there is uncertainty in the future movements in foreign exchange rates, fluctuations in these rates could negatively impact our future consolidated results of operations and cash flows.

Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

U.S.

In the U.S., public concern over access to and affordability of pharmaceuticals continues to drive the regulatory and legislative debate. These policy and political issues increase the risk that taxes, fees, rebates, or other cost control measures may be enacted to manage federal and state budgets. Key health policy initiatives affecting biopharmaceuticals include:

- foreign reference pricing in Medicare and private insurance,
- modifications to Medicare Parts B and D,
- provisions that would allow the Department of Health and Human Services to negotiate prices for biologics and drugs in Medicare,
- a reduction in biologic data exclusivity,
- proposals related to Medicaid prescription drug coverage and manufacturer drug rebates,
- proposals that would require biopharmaceutical manufacturers to disclose proprietary drug pricing information; and
- state-level proposals related to prescription drug prices and reducing the cost of pharmaceuticals purchased by government health care programs.

California and several other states have enacted legislation related to prescription drug pricing transparency and it is unclear the effect this legislation will have on our business. The Bipartisan Budget Act, enacted in February 2018, requires manufacturers of brand-name drugs, biologics, and biosimilars to pay a 70 percent discount in the Medicare Part D Coverage Gap, up from the previous 50 percent discount. This increase in coverage gap discounts became effective at the beginning of 2019. In 2019, the White House signed into law targeted amendments to the Medicaid Drug Rebate Program statute, as well as the Fair and Accurate Medicaid Pricing Act, which was part of the Continuing Appropriations Act. We do not believe these will have a material impact to our business. Several states passed importation legislation, including Colorado, Florida, Maine, and Vermont. Specifically, the state of Florida is working with the Administration to implement an importation program from Canada as early as 2020. We are currently reviewing the state legislation, as well as corresponding proposed federal rulemaking and guidance recently published by the Department of Health and Human Services and the FDA, the impact of which is uncertain at this time.

In the private sector, consolidation and integration among healthcare providers is also a major factor in the competitive marketplace for pharmaceuticals. Health plans, pharmacy benefit managers, wholesalers, and other supply chain stakeholders have been consolidating into fewer, larger entities, increasingly through vertical integration, thus enhancing their purchasing strength and importance. Payers typically maintain formularies which specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer). Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations that result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels and higher deductibles. Consequently, pharmaceutical companies compete for formulary placement not only on the basis of product attributes such as greater efficacy, fewer side effects, or greater patient ease of use, but also by providing rebates. Value-based agreements are another tool which may be utilized between payers and pharmaceutical companies as formulary placement and pricing are negotiated. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. These downward pricing pressures could continue to negatively affect future consolidated results of operations. In addition to formulary placement, changes in insurance designs continue to drive greater consumer cost sharing through high deductible plans and

higher co-insurance or co-pays (including co-pay accumulator and maximizer programs). We continue to invest in patient affordability solutions (resulting in lower revenue) in an effort to assist patients in affording their medicines.

The main coverage expansion provisions of the Affordable Care Act (ACA) are currently in effect through both state-based exchanges and the expansion of Medicaid. A trend has been the prevalence of benefit designs containing high out-of-pocket costs for patients, particularly for pharmaceuticals. In addition to the coverage expansions, many employers in the commercial market continue to evaluate strategies such as private exchanges and wider use of consumer-driven health plans to reduce their healthcare liabilities over time. Federal legislation, litigation, or administrative actions to repeal or modify some or all of the provisions of the ACA could have a material adverse effect on our consolidated results of operations and cash flows. At the same time, the broader paradigm shift towards performance-based reimbursement and the launch of several value-based purchasing initiatives have placed demands on the pharmaceutical industry to offer products with proven real-world outcomes data and a favorable economic profile.

International

International operations also are generally subject to extensive price and market regulations. Cost-containment measures exist in a number of countries, including additional price controls and mechanisms to limit reimbursement for our products. Such policies are expected to increase in impact and reach, given the pressures on national and regional health care budgets that come from a growing aging population and ongoing economic challenges. As additional reforms are finalized, we will assess their impact on future revenues. In addition, governments in many emerging markets are becoming increasingly active in expanding health care system offerings. Given the budget challenges of increasing health care coverage for citizens, policies may be proposed that promote generics and biosimilars only and reduce current and future access to branded human pharmaceutical products.

Tax Matters

We are subject to income taxes and various other taxes in the U.S. and in many foreign jurisdictions; therefore, changes in both domestic and international tax laws or regulations could adversely affect our effective tax rate, results of operations, and cash flows. Countries around the world, including the U.S., actively consider and enact tax law changes. Further, actions taken with respect to tax-related matters by associations such as the Organisation for Economic Co-operation and Development and the European Commission could influence tax policy in countries in which we operate. Modifications to U.S. and foreign tax laws or regulations are frequently enacted and could result in material impacts to our results of operations and financial position.

Acquisitions

We strategically invest in external research and technologies that we believe to complement and strengthen our own efforts. These investments can take many forms, including licensing arrangements, collaborations, and acquisitions. We view our business development activity as an important way to achieve our strategies, as we seek to bolster our pipeline and enhance shareholder value. We continue to evaluate business development transactions that have the potential to strengthen our business.

In February 2019, we acquired all shares of Loxo for a purchase price of $6.92 billion, net of cash acquired. Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib (LOXO-292), an oral RET inhibitor that has been granted Breakthrough Therapy designation by the FDA, and LOXO-305, an oral BTK inhibitor.

On January 10, 2020, we announced an agreement to acquire Dermira, Inc. for a purchase price of $18.75 per share, or approximately $1.1 billion.The acquisition will expand our immunology pipeline with the addition of lebrikizumab, a novel, investigational, monoclonal antibody designed to bind IL-13 with high affinity that is being evaluated in a Phase III clinical development program for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the FDA. The FDA's fast track designation is designed to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.The acquisition will also expand our portfolio of marketed dermatology medicines with the addition of Qbrexza® (glycopyrronium) cloth, a medicated cloth approved by the FDA for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating). The transaction is not subject to any financing condition and is expected to close by the end of the first quarter of 2020, subject to customary closing conditions, including receipt of required regulatory approvals and the tender of a majority of the outstanding shares of Dermira's common stock.

See Note 3 to the consolidated financial statements for further discussion regarding our recent acquisitions.

Operating Results—2019

Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		
	2019	2018	Percent Change
U.S.[1]	**$ 12,722.6**	$ 12,391.9	3
Outside U.S.	**9,596.8**	9,101.4	5
Revenue	**$ 22,319.5**	$ 21,493.3	4

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

The following are components of the change in revenue compared with the prior year:

	2019 vs. 2018		
	U.S.	Outside U.S.	Consolidated
Volume	6 %	10 %	8 %
Price	(3)%	(1)%	(3)%
Foreign exchange rates	— %	(3)%	(1)%
Percent change	3 %	5 %	4 %

Numbers may not add due to rounding.

In the U.S., the revenue increase in 2019 was driven by increased volume for Trulicity®, Taltz®, Verzenio®, Jardiance®, Emgality, and Basaglar®. The increase in revenue was partially offset by decreased volume for products that have lost exclusivity, primarily Cialis, lower volume for Forteo, and the impact from the product withdrawal of Lartruvo®. Additionally, the increase in revenue was partially offset by lower realized prices for several products, primarily Trulicity.

Outside the U.S., the revenue increase in 2019 was primarily driven by increased volume for Trulicity, Olumiant®, Taltz, and Jardiance. The increase in revenue was partially offset by the unfavorable impact of foreign exchange rates and, to a lesser extent, lower realized prices.

The following table summarizes our revenue activity in 2019 compared with 2018:

	Year Ended December 31,				
	2019			2018	
Product	U.S.[1]	Outside U.S.	Total	Total	Percent Change
Trulicity	**$ 3,155.2**	**$ 972.7**	**$ 4,127.8**	$ 3,199.1	29
Humalog[2]	**1,669.7**	**1,151.0**	**2,820.7**	2,996.5	(6)
Alimta	**1,219.5**	**896.4**	**2,115.8**	2,132.9	(1)
Forteo	**645.5**	**759.1**	**1,404.7**	1,575.6	(11)
Taltz	**1,016.8**	**349.6**	**1,366.4**	937.5	46
Humulin®	**879.7**	**410.4**	**1,290.1**	1,331.4	(3)
Basaglar	**876.2**	**236.3**	**1,112.6**	801.2	39
Jardiance[3]	**565.9**	**378.3**	**944.2**	658.3	43
Cyramza®	**335.3**	**589.9**	**925.1**	821.4	13
Cialis	**231.7**	**658.8**	**890.5**	1,851.8	(52)
Cymbalta®	**49.6**	**675.8**	**725.4**	708.0	2
Trajenta®[4]	**224.8**	**365.8**	**590.6**	574.7	3
Verzenio	**454.8**	**124.9**	**579.7**	255.0	NM
Erbitux®	**487.9**	**55.4**	**543.4**	635.3	(14)
Olumiant	**42.2**	**384.7**	**426.9**	202.5	NM
Zyprexa®	**41.0**	**377.6**	**418.7**	471.3	(11)
Strattera	**30.8**	**211.7**	**242.5**	450.8	(46)
Emgality	**154.9**	**7.7**	**162.5**	4.9	NM
Other products	**641.1**	**990.7**	**1,631.9**	1,885.1	(13)
Revenue	**$ 12,722.6**	**$ 9,596.8**	**$ 22,319.5**	$ 21,493.3	4

Numbers may not add due to rounding.

NM - Not meaningful

[1] U.S. revenue includes revenue in Puerto Rico.

[2] Humalog revenue includes insulin lispro.

[3] Jardiance revenue includes Glyxambi® and Synjardy®.

[4] Trajenta revenue includes Jentadueto®.

Revenue of Trulicity, a treatment for type 2 diabetes, increased 25 percent in the U.S., driven by higher demand, partially offset by lower realized prices. Revenue outside the U.S. increased 42 percent primarily driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates and, to a lesser extent, lower realized prices.

Revenue of Humalog, an injectable human insulin analog for the treatment of diabetes, decreased 7 percent in the U.S., primarily driven by lower realized prices and decreased demand. Revenue outside the U.S. decreased 5 percent, primarily driven by the unfavorable impact of foreign exchange rates. Included in the revenue of Humalog in the U.S. is our own insulin lispro authorized generic, which was launched in the second quarter of 2019 in order to lower out-of-pocket costs for patients. A competitor launched a similar version of insulin lispro in certain European markets in 2017 and in the U.S. in the second quarter of 2018. While it is difficult to estimate the severity of the impact of similar insulin lispro products entering the market, we do not expect and have not experienced a rapid severe decline in revenue. However, due to the impact of competition and due to pricing pressure in the U.S. and some international markets, we expect some price decline and loss of market share to continue over time.

Revenue of Alimta, a treatment for various cancers, increased 8 percent in the U.S., driven by increased demand, partially offset by lower realized prices. Revenue outside the U.S. decreased 11 percent, driven by lower realized prices, and to a lesser extent, the unfavorable impact of foreign exchange rates and lower volume resulting from the entry of generic pemetrexed in Germany. We have faced and remain exposed to generic entry in multiple countries, which has eroded revenue and is likely to continue to erode revenue in those countries from current levels.

Revenue of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women, decreased 15 percent in the U.S., primarily driven by decreased demand. Revenue outside the U.S. decreased 7 percent, driven by decreased volume and, to a lesser extent, the unfavorable impact of foreign exchange rates and lower realized prices. We expect further volume decline as a result of competitive dynamics in the U.S. and the entry of generic and biosimilar

competition following the loss of patent exclusivity in the third quarter of 2019 in the U.S., Japan, and major European markets. See "Executive Overview - Other Matters - Patent Matters" for more information.

Revenue of Taltz, a treatment for moderate-to-severe plaque psoriasis, active psoriatic arthritis, and ankylosing spondylitis, increased 38 percent in the U.S., primarily driven by increased demand, partially offset by lower realized prices. Revenue outside the U.S. increased 76 percent, driven by increased volume from recent launches, partially offset by the unfavorable impact of foreign exchange rates.

Revenue of Humulin, an injectable human insulin for the treatment of diabetes, decreased 3 percent in the U.S., driven by lower realized prices, partially offset by increased volume. Revenue outside the U.S. decreased 3 percent, primarily driven by the unfavorable impact of foreign exchange rates, partially offset by increased volume and, to a lesser extent, higher realized prices.

Revenue of Basaglar, a long-acting human insulin analog for the treatment of diabetes, increased 41 percent in the U.S., driven by higher realized prices and increased demand. Revenue outside the U.S. increased 32 percent driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates and, to a lesser extent, lower realized prices.

Revenue of Jardiance, a treatment for type 2 diabetes and to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease, increased 41 percent in the U.S., driven by increased demand. Revenue outside the U.S. increased 47 percent, primarily driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates.

Revenue of Cyramza, a treatment for various cancers, increased 15 percent in the U.S., driven by increased demand and, to a lesser extent, higher realized prices. Revenue outside the U.S. increased 11 percent, primarily due to increased volume, partially offset by the unfavorable impact of foreign exchange rates and lower realized prices.

Revenue of Cialis, a treatment for erectile dysfunction and benign prostatic hyperplasia, decreased 79 percent in the U.S., driven by decreased demand due to generic competition. Revenue outside the U.S. decreased 9 percent, driven by the unfavorable impact of foreign exchange rates, lower volume due to the loss of exclusivity in Europe and, to a lesser extent, lower realized prices. We lost our compound patent protection for Cialis in major European markets in November 2017 and U.S. exclusivity ended in late September 2018. We have faced and remain exposed to generic competition following the loss of exclusivity, which has eroded revenue and is likely to continue to rapidly and severely erode revenue from current levels. See "Results of Operations - Executive Overview - Other Matters - Patent Matters" for more information.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue was 78.8 percent in 2019, an increase of 0.6 percentage points compared with 2018, primarily due to the favorable impact of foreign exchange rates on international inventories sold and lower intangibles amortization expense, partially offset by unfavorable product mix, the impact of lower realized prices on revenue, and charges resulting from the product withdrawal of Lartruvo.

Research and development expenses increased 11 percent to $5.60 billion in 2019 driven by higher late-stage development expenses.

Marketing, selling, and administrative expenses increased 4 percent to $6.21 billion in 2019 primarily due to increased marketing expenses for recently launched products, partially offset by lower expenses for late life-cycle products.

We recognized acquired IPR&D charges of $239.6 million in 2019 resulting from business development transactions with AC Immune, Centrexion, ImmuNext, and Avidity. In 2018, we recognized acquired IPR&D charges of $1.98 billion primarily related to the acquisition of ARMO and the collaboration with Dicerna.

We recognized asset impairment, restructuring, and other special charges of $575.6 million in 2019. The charges were primarily associated with the accelerated vesting of Loxo employee equity awards as part of the closing of the acquisition of Loxo, and, to a lesser extent, the charges associated with the decision to close and sell a research and development facility located in the U.K. In 2018, we recognized $266.9 million of asset impairment, restructuring, and other special charges primarily associated with asset impairments related to the sale of the Posilac (rbST) brand and the related sale of the Augusta, Georgia manufacturing site and with expenses associated with efforts to reduce our cost structure.

Other—net, (income) expense was income of $291.6 million in 2019 compared to income of $145.6 million in 2018 primarily driven by higher net gains on investment securities and the gain on the sale of the company's antibiotics business in China, partially offset by the charge related to the repurchase of debt and higher net interest expense.

Our effective tax rate was 11.9 percent in 2019, compared with 14.4 percent in 2018. The higher effective tax rate in 2018 was primarily due to non-deductible acquired IPR&D charges.

Operating Results—2018

Financial Results

The following table summarizes our key operating results:

	Year Ended December 31,		Percent Change
	2018	2017	
Revenue	$ 21,493.3	$ 19,973.8	8
Gross margin	16,811.6	15,526.1	8
Gross margin as a percent of revenue	78.2%	77.7%	
Operating expense	$ 11,026.3	$ 11,078.6	—
Acquired in-process research and development	1,983.9	1,112.6	78
Asset impairment, restructuring, and other special charges	266.9	1,331.6	(80)
Income before income taxes	3,680.1	2,304.8	60
Income taxes	529.5	2,391.2	(78)
Net income (loss) from continuing operations	3,150.6	(86.4)	NM
Net income (loss)	3,232.0	(204.1)	NM
Earnings (loss) per share from continuing operations	3.05	(0.08)	NM
Earnings (loss) per share	3.13	(0.19)	NM

NM - not meaningful

Revenue increased in 2018 driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices. The increases in net income and EPS in 2018 were driven by lower income taxes, higher gross margin, and lower asset impairment, restructuring, and other special charges, partially offset by higher acquired IPR&D charges.

Certain items affect the comparisons of our 2018 and 2017 results. The 2018 highlighted items are summarized in the "Results of Operations - Executive Overview" section. The 2017 highlighted items are summarized as follows:

Acquired IPR&D (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $1.11 billion primarily related to the acquisition of CoLucid Pharmaceuticals, Inc. (CoLucid).

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $1.33 billion primarily associated with efforts to reduce our cost structure, including the U.S. voluntary early retirement program.

Income Taxes (Note 14 to the consolidated financial statements)

- We recognized a provisional tax expense of $1.91 billion due to the Tax Cuts and Jobs Act (2017 Tax Act).

Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		Percent Change
	2018	2017	
U.S. [1]	$ 12,391.9	$ 11,414.4	9
Outside U.S.	9,101.4	8,559.4	6
Revenue	$ 21,493.3	$ 19,973.8	8

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

The following are components of the change in revenue in 2018 compared with 2017:

	2018 vs. 2017		
	U.S.	Outside U.S.	Consolidated
Volume	9 %	8 %	9 %
Price	(1)%	(4)%	(2)%
Foreign exchange rates	— %	2 %	1 %
Percent change	9 %	6 %	8 %

Numbers may not add due to rounding.

In the U.S., the revenue increase in 2018 was driven by increased volume for newer products, including Trulicity, Basaglar, Taltz, Verzenio, and Jardiance. The increase in revenue was partially offset by decreased volume for products that have lost exclusivity, including Cialis, Effient, and Strattera, as well as lower realized prices for several products, including Trulicity, Basaglar, Forteo, and Taltz.

Outside the U.S., the revenue increase in 2018 was due to increased volume for several newer products, primarily driven by Trulicity, Olumiant, and Taltz and, to a lesser extent, the favorable impact of foreign exchange rates. The increase in revenue was partially offset by lower realized prices for several products.

The following table summarizes our revenue activity in 2018 compared with 2017:

	Year Ended December 31,				
	2018			2017	
Product	U.S.[1]	Outside U.S.	Total	Total	Percent Change
Trulicity	$ 2,515.8	$ 683.3	$ 3,199.1	$ 2,029.8	58
Humalog	1,787.8	1,208.7	2,996.5	2,865.2	5
Alimta	1,131.0	1,001.9	2,132.9	2,062.5	3
Cialis	1,129.2	722.7	1,851.8	2,323.1	(20)
Forteo	757.9	817.7	1,575.6	1,749.0	(10)
Humulin	910.2	421.2	1,331.4	1,335.4	—
Taltz	738.7	198.7	937.5	559.2	68
Cyramza	291.5	529.9	821.4	758.3	8
Basaglar	622.8	178.5	801.2	432.1	85
Cymbalta	54.3	653.7	708.0	757.2	(6)
Jardiance[2]	400.2	258.1	658.3	447.5	47
Erbitux	531.6	103.8	635.3	645.9	(2)
Trajenta[3]	224.2	350.5	574.7	537.9	7
Zyprexa	36.2	435.1	471.3	581.2	(19)
Strattera	89.7	361.1	450.8	618.2	(27)
Other products	1,170.8	1,176.5	2,347.5	2,271.3	3
Revenue	$ 12,391.9	$ 9,101.4	$ 21,493.3	$ 19,973.8	8

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

[2] Jardiance revenue includes Glyxambi and Synjardy.

[3] Trajenta revenue includes Jentadueto.

Revenue of Trulicity increased 56 percent in the U.S., driven by higher demand. Revenue outside the U.S. increased 63 percent primarily driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Humalog increased 4 percent in the U.S., primarily driven by increased demand and, to a lesser extent, higher realized prices due to changes in estimates to rebates and discounts. Revenue outside the U.S. increased 5 percent, driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Alimta increased 9 percent in the U.S., driven by increased demand and higher realized prices. Revenue outside the U.S. decreased 3 percent, driven by lower volume due to competitive pressure and the loss of exclusivity in certain European countries, including Germany, and lower realized prices, partially offset by the favorable impact of foreign exchange rates.

Revenue of Cialis decreased 17 percent in the U.S., driven by decreased demand primarily due to the entry of generic tadalafil, partially offset by higher realized prices. Revenue outside the U.S. decreased 25 percent, driven by the loss of exclusivity in Europe.

Revenue of Forteo decreased 21 percent in the U.S., driven by decreased demand, and, to a lesser extent, lower realized prices. Revenue outside the U.S. increased 4 percent, driven by increased volume and the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Humulin increased 3 percent in the U.S., driven by increased volume, partially offset by lower realized prices primarily due to changes in segment mix and, to a lesser extent, the impact of patient affordability programs. Revenue outside the U.S. decreased 7 percent, primarily driven by decreased volume and, to a lesser extent, lower realized prices.

Revenue of Taltz increased 52 percent in the U.S., primarily driven by increased demand, partially offset by lower realized prices. Revenue outside the U.S. increased $125.6 million, driven by increased volume from recent launches, partially offset by lower realized prices.

Revenue of Cyramza increased 5 percent in the U.S., driven by increased demand and, to a lesser extent, higher realized prices. Revenue outside the U.S. increased 10 percent, primarily due to increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Basaglar increased $311.7 million in the U.S., driven by increased demand, partially offset by lower realized prices due to increased volume in Medicare Part D. Revenue outside the U.S. increased $57.5 million primarily driven by increased volume.

Revenue of Cymbalta, a treatment for major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, chronic musculoskeletal pain, and the management of fibromyalgia, decreased 53 percent in the U.S. driven by decreased volume, partially offset by higher realized prices. Revenue outside the U.S. increased 2 percent, driven by increased volume in Japan.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue was 78.2 percent in 2018, an increase of 0.5 percentage points compared with 2017, primarily due to manufacturing efficiencies and lower amortization expenses, offset by the impact of foreign exchange rates on international inventories sold, the timing of manufacturing production, and the negative impact of price on revenue.

Research and development expenses decreased 1 percent to $5.05 billion in 2018 driven by lower development expenses for lanabecestat, partially offset by higher expenses for other late-stage assets.

Marketing, selling, and administrative expenses remained flat in 2018 compared to 2017.

Both research and development expenses and marketing, selling, and administrative expenses benefited during 2018 from actions taken to reduce our cost structure.

We recognized acquired IPR&D charges of $1.98 billion in 2018 primarily related to the acquisition of ARMO and the collaboration with Dicerna. In 2017, we recognized acquired IPR&D charges of $1.11 billion primarily related to the acquisition of CoLucid.

We recognized asset impairment, restructuring, and other special charges of $266.9 million in 2018. The charges are primarily associated with asset impairments related to the sale of the Posilac (rbST) brand and the related sale of the Augusta, Georgia manufacturing site and with expenses associated with efforts to reduce our cost structure. In 2017, we recognized $1.33 billion of asset impairment, restructuring, and other special charges primarily associated with efforts to reduce our cost structure, including the U.S. voluntary early retirement program, and asset impairments related to lower projected revenue for Posilac (rbST).

Other—net, (income) expense was income of $145.6 million in 2018 compared to income of $301.5 million in 2017 driven by lower net gains on sales of investments.

During 2018, we recorded income tax expense of $529.5 million while earning $3.68 billion of income before income taxes. We recognized $313.3 million of income tax benefit primarily due to measurement period adjustments to the Toll Tax and GILTI. During 2017, we recorded income tax expense of $2.40 billion, which included a provisional tax charge of $1.91 billion, despite earning $2.30 billion of income before income taxes. The provisional tax charge was a result of the 2017 Tax Act, including the Toll Tax.

FINANCIAL CONDITION

Cash and cash equivalents decreased to $2.34 billion as of December 31, 2019, compared with $7.32 billion at December 31, 2018. Net cash provided by operating activities was $4.84 billion in 2019, compared with $5.52 billion in 2018. Net cash provided by operating activities in 2019 included approximately $360 million of cash paid to settle the accelerated vesting of Loxo employee equity awards (see Note 5 to the consolidated financial statements). Net cash provided by operating activities in 2018 included approximately $500 million of net cash provided by operating activities related to our discontinued operations (See Note 19 to the consolidated financial statements). Refer to the consolidated statements of cash flows for additional details on the significant sources and uses of cash for the years ended December 31, 2019 and 2018.

In addition to our cash and cash equivalents, we held total investments of $2.06 billion and $2.09 billion as of December 31, 2019 and 2018, respectively. See Note 7 to the consolidated financial statements for additional details.

In February 2019, we completed our acquisition of Loxo for $235 per share or approximately $6.9 billion, which was funded through a mixture of cash and debt. See Note 3 to the consolidated financial statements for additional information.

As of December 31, 2019, total debt was $15.32 billion, an increase of $5.02 billion compared with $10.30 billion at December 31, 2018. The increase primarily related to the net proceeds of $4.45 billion from the issuance of senior notes in February 2019. The proceeds from these notes were used to repay commercial paper that was issued in connection with the acquisition of Loxo and for general corporate purposes. See Note 11 to the consolidated financial statements for additional details.

As of December 31, 2019, we had a total of $5.21 billion of unused committed bank credit facilities, $5.00 billion of which is available to support our commercial paper program. See Note 11 to the consolidated financial statements for additional details. We believe that amounts accessible through existing commercial paper markets should be adequate to fund any short-term borrowing needs.

For the 134th consecutive year, we distributed dividends to our shareholders. Dividends of $2.58 per share and $2.25 per share were paid in 2019 and 2018, respectively. In the fourth quarter of 2019, effective for the dividend to be paid in the first quarter of 2020, the quarterly dividend was increased to $0.74 per share, resulting in an indicated annual rate for 2020 of $2.96 per share.

Capital expenditures of $1.03 billion during 2019, compared to $1.21 billion in 2018.

In 2019, we repurchased $4.40 billion of shares under our $8.00 billion share repurchase program authorized in June 2018. As of December 31, 2019, we had $1.50 billion remaining under this program. See Note 13 to the consolidated financial statements for additional details.

On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco common stock through a tax-free exchange offer, which resulted in a reduction in shares of our common stock outstanding by approximately 65 million as of that date.

In January 2020, we announced an agreement to acquire Dermira, Inc. for $18.75 per share, or approximately $1.1 billion. The acquisition will be funded through cash on hand and the issuance of commercial paper. See Note 3 to the consolidated financial statements for additional information.

See "Results of Operations - Executive Overview - Other Matters - Patent Matters" for information regarding recent and upcoming losses of patent protection.

We believe cash provided by operating activities, along with available cash and cash equivalents, should be sufficient to fund our normal operating needs, including installment payments of the Toll Tax, dividends paid to shareholders, share repurchases, and capital expenditures.

Both domestically and abroad, we continue to monitor the potential impacts of the economic environment; the creditworthiness of our wholesalers and other customers, including foreign government-backed agencies and suppliers; the uncertain impact of health care legislation; and various international government funding levels.

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

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt

positions and may enter into interest rate derivatives to help maintain that balance. Based on our overall interest rate exposure at December 31, 2019 and 2018, 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, 2019 and 2018, respectively, would not have a material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

Our foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the euro and Japanese yen. We face foreign currency exchange exposures when we enter into transactions arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. We also face currency exposure that arises from translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We may enter into foreign currency forward or option derivative contracts to reduce the effect of fluctuating currency exchange rates (principally the euro and the Japanese yen). Our corporate risk-management policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative contracts offset, in part, the impact of currency fluctuations on the existing assets and liabilities. We periodically analyze the fair values of the outstanding foreign currency derivative contracts to determine their sensitivity to changes in foreign exchange rates. A hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) applied to the fair values of our outstanding foreign currency derivative contracts as of December 31, 2019 and 2018, would not have a material impact on earnings, cash flows, or financial position over a one-year period. This sensitivity analysis does not consider the impact that hypothetical changes in exchange rates would have on the underlying foreign currency denominated transactions.

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. We acquire and collaborate on potential products still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval for marketing by the appropriate regulatory agency or upon the achievement of certain sales levels). If required by the arrangement, we may make royalty payments based upon a percentage of the sales of the product in the event that regulatory approval for marketing is obtained. Because of the contingent nature of these payments, they are not included in the table of contractual obligations below.

Individually, these arrangements are generally not material in any one annual reporting period. However, if milestones for multiple products covered by these arrangements were reached in the same reporting period, the aggregate charge to expense or aggregate milestone payments made could be material to our results of operations or cash flows, respectively, in that period. See Note 4 to the consolidated financial statements for additional details. These arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the compound successfully achieves milestone objectives. We also note that, from a business perspective, we view these payments as positive because they signify that the product is successfully moving through development and is now generating or is more likely to generate cash flows from sales of products.

Our current noncancelable contractual obligations that will require future cash payments were as follows as of December 31, 2019:

	Payments Due by Period				
(Dollars in millions)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including interest payments[1]	$ 20,934.9	$ 382.2	$ 2,173.8	$ 1,381.3	$ 16,997.6
Finance lease obligations	19.0	7.0	8.8	3.2	—
Operating lease liabilities	720.4	138.1	193.3	116.3	272.7
Purchase obligations[2]	15,897.1	15,452.8	239.6	204.7	—
2017 Tax Act Toll Tax[3]	2,630.0	225.3	507.4	1,109.9	787.4
Other long-term liabilities reflected on our balance sheet[4]	1,800.1	—	421.2	193.8	1,185.1
Total	$ 42,001.5	$ 16,205.4	$ 3,544.1	$ 3,009.2	$ 19,242.8

[1] Our long-term debt obligations include both our expected principal and interest obligations and our interest rate swaps. We used the interest rate forward curve at December 31, 2019, to compute the amount of the contractual obligation for interest on the variable rate debt instruments and swaps.

[2] We have included the following:

- Purchase obligations consisting primarily of all open purchase orders as of December 31, 2019. Some of these purchase orders may be cancelable; however, for purposes of this disclosure, we have not distinguished between cancelable and noncancelable purchase obligations.
- Contractual payment obligations with each of our significant vendors, which are noncancelable and are not contingent.

[3] The 2017 Tax Act provided an election to taxpayers subject to the Toll Tax to make payments over an eight-year period. We made this election; therefore, we have included future Toll Tax payments accordingly.

[4] We have included long-term liabilities consisting primarily of our nonqualified supplemental pension funding requirements and other post-employment benefit liabilities. We excluded long-term income taxes payable of $1.20 billion, because we cannot reasonably estimate the timing of future cash outflows associated with those liabilities.

The contractual obligations table is as of December 31, 2019. We expect the amount of these obligations to change materially over time as new contracts are initiated and existing contracts are completed, terminated, or modified.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

In preparing our financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP), we must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. Some of those judgments can be subjective and complex, and consequently actual results could differ from those estimates. For any given individual estimate or assumption we make, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. We believe that, given current facts and circumstances, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on our consolidated results of operations, financial position, or liquidity for the periods presented in this report. Our most critical accounting estimates have been discussed with our audit committee and are described below.

Revenue Recognition and Sales Return, Rebate, and Discount Accruals

Background and Uncertainties

We recognize revenue primarily from two different types of contracts, product sales to customers (net product revenue) and collaborations and other arrangements. For product sales to customers, provisions for returns, rebate and discounts are established in the same period the related product sales are recognized. To determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates. The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, and chargeback contracts in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing.

Refer to Note 2 to the consolidated financial statements for further information on revenue recognition and sales return, rebate, and discount accruals.

Revenue recognized from collaborations and other arrangements will include our share of profits from the collaboration, as well as royalties, upfront and milestone payments we receive under these types of contracts.

Financial Statement Impact

We believe that our accruals for sales returns, rebates, and discounts are reasonable and appropriate based on current facts and circumstances. Our global rebate and discount liabilities are included in sales rebates and discounts on our consolidated balance sheet. Our global sales return liability is included in other current liabilities and other noncurrent liabilities on our consolidated balance sheet. As of December 31, 2019, a 5 percent change in our global sales return, rebate, and discount liability would have led to an approximate $270 million effect on our income before income taxes.

The portion of our global sales return, rebate, and discount liability resulting from sales of our products in the U.S. was approximately 90 percent as of December 31, 2019 and 2018.

The following represents a roll-forward of our most significant U.S. sales return, rebate, and discount liability balances, including managed care, Medicare, and Medicaid:

(Dollars in millions)	2019	2018
Sales return, rebate, and discount liabilities, beginning of year	**$ 4,670.9**	$ 4,134.0
Reduction of net sales[1]	**15,490.2**	13,424.9
Cash payments	**(15,525.6)**	(12,888.0)
Sales return, rebate, and discount liabilities, end of year	**$ 4,635.5**	$ 4,670.9

[1] Adjustments of the estimates for these returns, rebates, and discounts to actual results were approximately 1 percent of consolidated net sales for each of the years presented.

Product Litigation Liabilities and Other Contingencies

Background and Uncertainties

Product litigation liabilities and other contingencies are, by their nature, uncertain and based upon complex judgments and probabilities. The factors we consider in developing our product litigation liability reserves and other contingent liability amounts include the merits and jurisdiction of the litigation, the nature and the number of other similar current and past matters, the nature of the product and the current assessment of the science subject to the litigation, and the likelihood of settlement and current state of settlement discussions, if any. In addition, we accrue for certain product liability claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs based primarily on historical claims experience and data regarding product usage. We accrue legal defense costs expected to be incurred in connection with significant product liability contingencies when both probable and reasonably estimable.

We also consider the insurance coverage we have to diminish the exposure for periods covered by insurance. In assessing our insurance coverage, we consider the policy coverage limits and exclusions, the potential for denial of coverage by the insurance company, the financial condition of the insurers, and the possibility of and length of time for collection. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products. In addition to insurance coverage, we consider any third-party indemnification to which we are entitled or under which we are obligated. With respect to our third-party indemnification rights, these considerations include the nature of the indemnification, the financial condition of the indemnifying party, and the possibility of and length of time for collection.

The litigation accruals and environmental liabilities and the related estimated insurance recoverables have been reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets.

Acquisitions

Background and Uncertainties

To determine whether acquisitions or licensing transactions should be accounted for as a business combination or as an asset acquisition, we make certain judgments, which include assessing whether the acquired set of activities and assets would meet the definition of a business under the relevant accounting rules.

If the acquired set of activities and assets meets the definition of a business, assets acquired and liabilities assumed are required to be recorded at their respective fair values as of the acquisition date. The excess of the

purchase price over the fair value of the acquired net assets, where applicable, is recorded as goodwill. If the acquired set of activities and assets does not meet the definition of a business, the transaction is recorded as an acquisition of assets and, therefore, any acquired IPR&D that does not have an alternative future use is charged to expense at the acquisition date, and goodwill is not recorded. Refer to Note 3 to the consolidated financial statements for additional information.

The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed in a business combination, as well as estimated asset lives, can materially affect our consolidated results of operations. The fair values of intangible assets, including acquired IPR&D, are determined using information available near the acquisition date based on estimates and assumptions that are deemed reasonable by management. Significant estimates and assumptions include, but are not limited to, probability of technical success, revenue growth and discount rate. Depending on the facts and circumstances, we may deem it necessary to engage an independent valuation expert to assist in valuing significant assets and liabilities.

The fair values of identifiable intangible assets are primarily determined using an "income method," as described in Note 8 to the consolidated financial statements.

Impairment of Indefinite-Lived and Long-Lived Assets

Background and Uncertainties

We review the carrying value of long-lived assets (both intangible and tangible) for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset (or asset group) may not be recoverable. We identify impairment by comparing the projected undiscounted cash flows to be generated by the asset (or asset group) to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the intangible asset to its carrying value is performed to determine the amount of any impairment.

Several methods may be used to determine the estimated fair value of acquired IPR&D, all of which require multiple assumptions. We utilize the "income method," as described in Note 8 to the consolidated financial statements.

For acquired IPR&D assets, the risk of failure has been factored into the fair value measure and there can be no certainty that these assets ultimately will yield a successful product, as discussed previously in "Results of Operations - Executive Overview - Late-Stage Pipeline." The nature of the pharmaceutical business is high-risk and requires that we invest in a large number of projects to maintain a successful portfolio of approved products. As such, it is likely that some acquired IPR&D assets will become impaired in the future.

Estimates of future cash flows, based on what we believe to be reasonable and supportable assumptions and projections, require management's judgment. Actual results could vary materially from these estimates.

Retirement Benefits Assumptions

Background and Uncertainties

Defined benefit pension plan and retiree health benefit plan costs include assumptions for the discount rate, expected return on plan assets, and retirement age. These assumptions have a significant effect on the amounts reported. In addition to the analysis below, see Note 15 to the consolidated financial statements for additional information regarding our retirement benefits.

Annually, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. We use an actuarially determined, plan-specific yield curve of high quality, fixed income debt instruments to determine the discount rates. In evaluating the expected return on plan assets, we consider many factors, with a primary analysis of current and projected market conditions, asset returns and asset allocations (approximately 70 percent of which are growth investments); and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the discount rates and expected return on plan assets of other companies, where applicable. In evaluating our expected retirement age assumption, we consider the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages.

Annually, we determine the fair value of the plan assets in our defined benefit pension and retiree health benefit plans. Approximately 40 percent of our plan assets are in hedge funds and private equity-like investment funds (collectively, alternative assets). We value these alternative investments using significant unobservable inputs or using the net asset value reported by the counterparty, adjusted as necessary. Inputs include underlying net asset values, discounted cash flows valuations, comparable market valuations, and adjustments for currency, credit, liquidity and other risks.

Financial Statement Impact

If the 2019 discount rate for the U.S. defined benefit pension and retiree health benefit plans (U.S. plans) were to change by a quarter percentage point, income before income taxes would change by $29.6 million. If the 2019 expected return on plan assets for U.S. plans were to change by a quarter percentage point, income before income taxes would change by $26.5 million. If our assumption regarding the 2019 expected age of future retirees for U.S. plans were adjusted by one year, our income before income taxes would be affected by $45.9 million. The U.S. plans, including Puerto Rico, represent approximately 75 percent and 80 percent of the total projected benefit obligation and total plan assets, respectively, at December 31, 2019.

Adjustments to the fair value of plan assets are not recognized in pension and retiree health benefit expense in the year that the adjustments occur. Such changes are deferred, along with other actuarial gains and losses, and are amortized into expense over the expected remaining service life of employees.

Income Taxes

Background and Uncertainties

We prepare and file tax returns based upon our interpretation of tax laws and regulations and record estimates based upon these interpretations. In the normal course of business, our tax returns are subject to examination by various taxing authorities, which may result in future tax, interest, and penalty assessments. Inherent uncertainties exist in estimates of many tax positions due to changes in tax law resulting from legislation and regulation as concluded through the various jurisdictions' tax court systems. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits is adjusted for changes in facts and circumstances. For example, adjustments could result from changes to existing tax law, the issuance of regulations by the taxing authorities, new information obtained during a tax examination, or resolution of a tax examination. We believe our estimates for uncertain tax positions are appropriate and sufficient to pay assessments that may result from examinations of our tax returns. We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense.

We have recorded valuation allowances against certain of our deferred tax assets, primarily those that have been generated from net operating losses and tax credit carryforwards in certain taxing jurisdictions. In evaluating whether we would more likely than not recover these deferred tax assets, we have not assumed any future taxable income or tax planning strategies in the jurisdictions associated with these carryforwards where history does not support such an assumption. Implementation of tax planning strategies to recover these deferred tax assets or future income generation in these jurisdictions could lead to the reversal of these valuation allowances and a reduction of income tax expense.

Financial Statement Impact

As of December 31, 2019, a 5 percent change in the amount of uncertain tax positions and the valuation allowance would result in a change in net income of $76.5 million and $30.8 million, respectively.

LEGAL AND REGULATORY MATTERS

Information relating to certain legal proceedings can be found in Note 16 to the consolidated financial statements and is incorporated here by reference.

FINANCIAL EXPECTATIONS FOR 2020

For the full year of 2020, we expect EPS to be in the range of $6.18 to $6.28, which includes the anticipated impact of the Dermira acquisition. We anticipate that total revenue will be between $23.7 billion and $24.2 billion. Revenue growth is expected to be driven by volume from Trulicity, Taltz, Basaglar, Jardiance, Verzenio, Cyramza, Olumiant, Emgality, Baqsimi, and the launch of Reyvow. Revenue growth is expected to be partially offset by lower revenue for products that have lost patent exclusivity, including the expected entry of generic competition for Forteo in the U.S. Revenue growth is also expected to be partially offset by a low-single digit net price decline in the U.S. driven primarily by rebates and legislated increases to Medicare Part D cost sharing, patient affordability programs, and net price declines in China, Japan and Europe.

We anticipate that gross margin as a percent of revenue will be approximately 79 percent in 2020. Research and development expenses are expected to be in the range of $5.6 billion to $5.9 billion. Marketing, selling, and administrative expenses are expected to be in the range of $6.2 billion to $6.4 billion. Other—net, (income) expense is expected to be expense in the range of $100 million to $250 million.

The 2020 effective tax rate is expected to be approximately 15 percent.

Financial Statements and Supplementary Data

Consolidated Statements of Operations

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions and shares in thousands, except per-share data) Year Ended December 31	2019	2018	2017
Revenue	**$ 22,319.5**	$ 21,493.3	$ 19,973.8
Costs, expenses, and other:			
Cost of sales	**4,721.2**	4,681.7	4,447.7
Research and development	**5,595.0**	5,051.2	5,096.2
Marketing, selling, and administrative	**6,213.8**	5,975.1	5,982.4
Acquired in-process research and development (Note 3)	**239.6**	1,983.9	1,112.6
Asset impairment, restructuring, and other special charges (Note 5)	**575.6**	266.9	1,331.6
Other—net, (income) expense (Note 18)	**(291.6)**	(145.6)	(301.5)
	17,053.6	17,813.2	17,669.0
Income before income taxes	**5,265.9**	3,680.1	2,304.8
Income taxes (Note 14)	**628.0**	529.5	2,391.2
Net income (loss) from continuing operations	**4,637.9**	3,150.6	(86.4)
Net income (loss) from discontinued operations (Note 19)	**3,680.5**	81.4	(117.7)
Net income (loss)	**$ 8,318.4**	$ 3,232.0	$ (204.1)
Earnings (loss) per share:			
Earnings (loss) from continuing operations - basic	**4.98**	3.07	(0.08)
Earnings (loss) from discontinued operations - basic	**3.95**	0.07	(0.11)
Earnings (loss) per share - basic	**$ 8.93**	$ 3.14	$ (0.19)
Earnings (loss) from continuing operations - diluted	**4.96**	3.05	(0.08)
Earnings (loss) from discontinued operations - diluted	**3.93**	0.08	(0.11)
Earnings (loss) per share - diluted	**$ 8.89**	$ 3.13	$ (0.19)
Shares used in calculation of earnings (loss) per share:			
Basic	**931,059**	1,027,721	1,052,023
Diluted	**935,684**	1,033,667	1,052,023

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2019	2018	2017
Net income (loss)	**$ 8,318.4**	$ 3,232.0	$ (204.1)
Other comprehensive income (loss) from continuing operations:			
Change in foreign currency translation gains (losses)	**(89.9)**	(429.6)	362.9
Change in net unrealized gains (losses) on securities	**34.4**	(8.8)	(181.3)
Change in defined benefit pension and retiree health benefit plans (Note 15)	**(970.0)**	544.0	(566.8)
Change in effective portion of cash flow hedges	**34.3**	(6.0)	27.8
Other comprehensive income (loss) from continuing operations before income taxes	**(991.2)**	99.6	(357.4)
Benefit (provision) for income taxes related to other comprehensive income (loss) from continuing operations	**151.0**	(30.3)	402.7
Other comprehensive income (loss) from continuing operations, net of tax (Note 17)	**(840.2)**	69.3	45.3
Other comprehensive income (loss) from discontinued operations, net of tax (Note 17)	**56.8**	14.3	129.2
Other comprehensive income (loss), net of tax (Note 17)	**(783.4)**	83.6	174.5
Comprehensive income (loss)	**$ 7,535.0**	$ 3,315.6	$ (29.6)

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	December 31	2019	2018
Assets			
Current Assets			
Cash and cash equivalents (Note 7)		**$ 2,337.5**	$ 7,320.7
Short-term investments (Note 7)		**101.0**	88.2
Accounts receivable, net of allowances of **$22.4 (2019)** and $24.1 (2018)		**4,547.3**	4,593.9
Other receivables		**994.2**	1,182.9
Inventories (Note 6)		**3,190.7**	3,098.1
Prepaid expenses and other		**2,538.9**	2,036.7
Current assets of discontinued operations (Note 19)		**—**	2,229.1
Total current assets		**13,709.6**	20,549.6
Investments (Note 7)		**1,962.4**	2,005.4
Goodwill (Note 8)		**3,679.4**	1,366.6
Other intangibles, net (Note 8)		**6,618.0**	1,068.0
Deferred tax assets (Note 14)		**2,572.6**	2,613.7
Property and equipment, net (Note 9)		**7,872.9**	7,996.1
Operating lease assets (Note 10)		**532.1**	—
Other noncurrent assets		**2,339.1**	1,824.9
Noncurrent assets of discontinued operations (Note 19)		**—**	6,484.1
Total assets		**$ 39,286.1**	$ 43,908.4
Liabilities and Equity			
Current Liabilities			
Short-term borrowings and current maturities of long-term debt (Note 11)		**$ 1,499.3**	$ 1,102.2
Accounts payable		**1,405.3**	1,207.1
Employee compensation		**915.5**	955.6
Sales rebates and discounts		**4,933.6**	4,849.5
Dividends payable		**671.5**	650.8
Income taxes payable (Note 14)		**160.6**	393.4
Other current liabilities		**2,189.4**	2,036.7
Current liabilities of discontinued operations (Note 19)		**—**	692.8
Total current liabilities		**11,775.2**	11,888.1
Other Liabilities			
Long-term debt (Note 11)		**13,817.9**	9,196.4
Noncurrent operating lease liabilities (Note 10)		**486.7**	—
Accrued retirement benefits (Note 15)		**3,698.2**	2,802.2
Long-term income taxes payable (Note 14)		**3,607.2**	3,700.0
Other noncurrent liabilities		**1,014.3**	1,357.6
Deferred tax liabilities (Note 14)		**2,187.5**	1,312.7
Noncurrent liabilities of discontinued operations (Note 19)		**—**	2,742.3
Total other liabilities		**24,811.8**	21,111.2
Commitments and Contingencies (Note 16)			
Eli Lilly and Company Shareholders' Equity (Notes 12 and 13)			
Common stock—no par value Authorized shares: 3,200,000 Issued shares: **958,056 (2019)** and 1,057,639 (2018)		**598.8**	661.0
Additional paid-in capital		**6,685.3**	6,583.6
Retained earnings		**4,920.4**	11,395.9
Employee benefit trust		**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 17)		**(6,523.6)**	(5,729.2)
Cost of common stock in treasury		**(60.8)**	(69.4)
Total Eli Lilly and Company shareholders' equity		**2,606.9**	9,828.7
Noncontrolling interests		**92.2**	1,080.4
Total equity		**2,699.1**	10,909.1
Total liabilities and equity		**$ 39,286.1**	$ 43,908.4

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	Equity of Eli Lilly and Company Shareholders								
	Common Stock		Additional Paid-in Capital	Retained Earnings	Employee Benefit Trust	Accumulated Other Comprehensive Loss	Common Stock in Treasury		Noncontrolling Interest
	Shares	Amount					Shares	Amount	
Balance at January 1, 2017	1,101,586	$ 688.5	$ 5,640.6	$ 16,046.3	$ (3,013.2)	$ (5,274.0)	711	$ (80.5)	$ 72.8
Net income (loss)				(204.1)					30.5
Other comprehensive income (loss), net of tax						199.0			(24.5)
Cash dividends declared per share: $2.12				(2,234.6)					
Retirement of treasury shares	(4,390)	(2.7)		(357.1)			(4,390)	359.8	
Purchase of treasury shares			60.0				4,390	(359.8)	
Issuance of stock under employee stock plans, net	3,476	2.1	(164.1)				(47)	4.7	
Stock-based compensation			281.3						
Reclassification of stranded tax effects (Note 1)				643.6		(643.6)			
Other									(3.1)
Balance at December 31, 2017	1,100,672	687.9	5,817.8	13,894.1	(3,013.2)	(5,718.6)	664	(75.8)	75.7
Net income				3,232.0					3.7
Other comprehensive income (loss), net of tax						85.6			(2.0)
Cash dividends declared per share: $2.33				(2,372.0)					
Retirement of treasury shares	(45,882)	(28.7)		(4,122.0)			(45,882)	4,150.7	
Purchase of treasury shares							45,882	(4,150.7)	
Issuance of stock under employee stock plans, net	2,849	1.8	(139.0)				(60)	6.4	
Stock-based compensation			279.5						
Adoption of new accounting standards (Note 1)				763.8		(105.2)			
Sale of Elanco Stock (Note 19)			629.2			9.0			1,017.2
Other			(3.9)						(14.2)
Balance at December 31, 2018	1,057,639	661.0	6,583.6	11,395.9	(3,013.2)	(5,729.2)	604	(69.4)	1,080.4
Net income				**8,318.4**					**37.7**
Other comprehensive income (loss), net of tax						**(794.4)**			**11.0**
Cash dividends declared per share: $2.68				**(2,430.5)**					
Retirement of treasury shares	**(102,640)**	**(64.1)**		**(12,363.4)**			**(102,640)**	**12,427.5**	
Purchase of treasury shares							**37,639**	**(4,400.0)**	
Issuance of stock under employee stock plans, net	**3,057**	**1.9**	**(210.7)**				**(74)**	**8.6**	
Stock-based compensation			**312.4**						
Acquisition of common stock in exchange offer							**65,001**	**(8,027.5)**	
Deconsolidation of Elanco									**(1,028.9)**
Other									**(8.0)**
Balance at December 31, 2019	**958,056**	**$ 598.8**	**$ 6,685.3**	**$ 4,920.4**	**$(3,013.2)**	**$ (6,523.6)**	**530**	**$ (60.8)**	**$ 92.2**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2019	2018	2017
Cash Flows from Operating Activities			
Net income (loss)	**$ 8,318.4**	$ 3,232.0	$ (204.1)
Adjustments to Reconcile Net Income (Loss) to Cash Flows from Operating Activities:			
Gain related to disposition of Elanco (Note 19)	**(3,680.5)**	—	—
Gain on sale of antibiotic business in China (Note 3)	**(309.8)**	—	—
Depreciation and amortization	**1,232.6**	1,609.0	1,567.3
Change in deferred income taxes	**62.4**	326.8	(787.9)
Stock-based compensation expense	**312.4**	279.5	281.3
Acquired in-process research and development (Note 3)	**239.6**	1,983.9	1,112.6
Other non-cash operating activities, net	**348.7**	472.0	441.5
Other changes in operating assets and liabilities, net of acquisitions and divestitures:			
Receivables—(increase) decrease	**(127.2)**	(996.7)	(357.0)
Inventories—(increase) decrease	**(258.7)**	7.8	(253.9)
Other assets—(increase) decrease	**(602.3)**	(980.0)	(590.1)
Income taxes payable—increase (decrease)	**(221.3)**	(125.3)	3,489.6
Accounts payable and other liabilities—increase (decrease)	**(477.7)**	(284.5)	916.3
Net Cash Provided by Operating Activities	**4,836.6**	5,524.5	5,615.6
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,033.9)**	(1,210.6)	(1,076.8)
Proceeds from sales and maturities of short-term investments	**136.6**	2,552.5	4,852.5
Purchases of short-term investments	**(42.7)**	(112.2)	(3,389.7)
Proceeds from sales of noncurrent investments	**609.8**	3,509.5	2,586.0
Purchases of noncurrent investments	**(247.5)**	(837.9)	(4,611.6)
Purchases of in-process research and development	**(319.6)**	(1,807.6)	(1,086.8)
Cash paid for acquisitions, net of cash acquired (Note 3 and 19)	**(6,917.7)**	—	(882.1)
Cash distributed to Elanco upon disposition	**(374.0)**	—	—
Cash received for sale of antibiotic business in China	**354.8**	—	—
Other investing activities, net	**(248.7)**	(187.7)	(175.1)
Net Cash Provided by (Used for) Investing Activities	**(8,082.9)**	1,906.0	(3,783.6)
Cash Flows from Financing Activities			
Dividends paid	**(2,409.8)**	(2,311.8)	(2,192.1)
Net change in short-term borrowings	**995.4**	(2,197.9)	1,397.5
Proceeds from issuance of long-term debt	**6,556.4**	2,477.7	2,232.0
Repayments of long-term debt	**(2,866.4)**	(1,009.1)	(630.6)
Purchases of common stock	**(4,400.0)**	(4,150.7)	(299.8)
Net proceeds from Elanco initial public offering (Note 19)	**—**	1,659.7	—
Other financing activities, net	**(200.1)**	(372.8)	(364.4)
Net Cash Provided by (Used for) Financing Activities	**(2,324.5)**	(5,904.9)	142.6
Effect of exchange rate changes on cash and cash equivalents	**(89.9)**	(63.6)	(20.5)
Net increase (decrease) in cash and cash equivalents	**(5,660.7)**	1,462.0	1,954.1
Cash and cash equivalents at beginning of year (includes $677.5 (2019), $324.4 (2018), and $258.8 (2017) of discontinued operations)	**7,998.2**	6,536.2	4,582.1
Cash and Cash Equivalents at End of Year (includes $677.5 (2018) and $324.4 (2017) of discontinued operations)	**$ 2,337.5**	$ 7,998.2	$ 6,536.2

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Tables present dollars in millions, except per-share data)

Note 1: Summary of Significant Accounting Policies and Implementation of New Financial Accounting Standards

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The accounts of all wholly-owned and majority-owned subsidiaries are included in the consolidated financial statements. Where our ownership of consolidated subsidiaries is less than 100 percent, the noncontrolling shareholders' interests are reflected as a separate component of equity. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP 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. We issued our financial statements by filing with the Securities and Exchange Commission (SEC) and have evaluated subsequent events up to the time of the filing of our Form 10-K.

Certain reclassifications have been made to prior periods in the consolidated financial statements and accompanying notes to conform with the current presentation.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis.

On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco Animal Health Incorporated (Elanco) common stock through a tax-free exchange offer. As a result, Elanco has been presented as discontinued operations in our consolidated financial statements for all periods presented.

Following the completion of the disposition of Elanco, we now operate as a single operating segment engaged in the discovery, development, manufacturing, marketing, and sales of pharmaceutical products worldwide. A global research and development organization and a supply chain organization are responsible for the discovery, development, manufacturing, and supply of our products. Regional commercial organizations market, distribute, and sell the products. The business is also supported by global corporate staff functions. Our determination that we operate as a single segment is consistent with the financial information regularly reviewed by the chief operating decision maker for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting for future periods.

Research and Development Expenses and Acquired In-Process Research and Development (IPR&D)

Research and development expenses include the following:

- Research and development costs, which are expensed as incurred.
- Milestone payment obligations incurred prior to regulatory approval of the product, which are accrued when the event requiring payment of the milestone occurs.

Acquired IPR&D expense includes the initial costs of externally developed IPR&D projects, acquired directly in a transaction other than a business combination, that do not have an alternative future use.

Earnings Per Share (EPS)

We calculate basic EPS based on the weighted-average number of common shares outstanding and incremental shares from potential participating securities. We calculate diluted EPS based on the weighted-average number of common shares outstanding, including incremental shares from our stock-based compensation programs.

Foreign Currency Translation

Operations in our subsidiaries outside the United States (U.S.) are recorded in the functional currency of each subsidiary which is determined by a review of the environment where each subsidiary primarily generates and expends cash. The results of operations for our subsidiaries outside the U.S. are translated from functional currencies into U.S. dollars using the weighted average currency rate for the period. Assets and liabilities are

translated using the period end exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries are recorded in other comprehensive income (loss).

Advertising Expenses

Costs associated with advertising are expensed as incurred and are included in marketing, selling, and administrative expenses. Advertising expenses, comprised primarily of television, radio, print media, and Internet advertising, totaled approximately $1.1 billion, $900 million, and $700 million in 2019, 2018, and 2017, respectively, which was less than 5 percent of revenue each year.

Other Significant Accounting Policies

Our other significant accounting policies are described in the remaining appropriate notes to the consolidated financial statements.

Implementation of New Financial Accounting Standards

Effective January 1, 2019 we adopted Accounting Standards Update 2016-02, *Leases*, using the modified retrospective approach, applied at the beginning of the period of adoption, and we elected the package of transitional practical expedients. The adoption of this standard resulted in recording of operating lease assets of approximately $530 million, which included reclassifying approximately $65 million of deferred rent and lease incentives, net of prepaid rent, as a component of the operating lease assets as of January 1, 2019. The adoption also resulted in recording operating lease liabilities of approximately $595 million as of January 1, 2019. Our accounting for finance leases remained substantially unchanged. The standard did not have an impact on our consolidated statements of operations.

Effective January 1, 2018, we adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers,* and other related updates. This standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We applied this standard to contracts for which performance was not substantially complete as of the date of adoption. For those contracts that were modified prior to the date of adoption, we reflected the aggregate effect of those modifications when determining the appropriate accounting under the new standard. We don't believe the effect of applying this practical expedient resulted in material differences. We applied this standard through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. Upon adoption, the cumulative effect of applying this standard resulted in an increase of approximately $5 million to retained earnings as of January 1, 2018. Revenue presented for periods prior to 2018 was accounted for under previous standards and has not been adjusted. Revenue and net income for 2018 did not differ materially from amounts that would have resulted from application of the previous standards.

Effective January 1, 2018, we adopted Accounting Standards Update 2016-01 (ASU 2016-01), *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* This standard requires entities to recognize changes in the fair value of equity investments with readily determinable fair values in net income (except for investments accounted for under the equity method of accounting or those that result in consolidation of the investee). We applied the new standard through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. Upon adoption, we reclassified from accumulated other comprehensive loss the after-tax amount of net unrealized gains resulting in an increase to retained earnings of approximately $105 million. Adoption of this standard did not result in a material change in net income in the year of adoption.

Effective January 1, 2018, we adopted Accounting Standards Update 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory.* This standard requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time of transfer. We adopted this standard using a modified retrospective approach. Upon adoption, the cumulative effect of applying this standard resulted in an increase of approximately $700 million to retained earnings, $2.5 billion to deferred tax assets, and $1.8 billion to deferred tax liabilities as of January 1, 2018. Adoption of this standard did not result in a material change in net income in the year of adoption.

We elected to early adopt Accounting Standards Update 2018-02, *Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* as of December 31, 2017, which allowed a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (2017 Tax Act - see Note 14). This standard allowed us to reclassify the effect of remeasuring deferred tax liabilities and assets related to items within accumulated other comprehensive loss using the then newly enacted 21 percent federal corporate income tax rate. The provisional effect of this early adoption was a reclassification from accumulated other comprehensive loss, which resulted in an increase to retained earnings of $643.6 million as of December 31, 2017.

Note 2: Revenue

The following table summarizes our revenue recognized in our consolidated statements of operations:

	2019	2018	2017
Net product revenue	**$ 20,377.3**	$ 19,866.4	$ 18,776.5
Collaboration and other revenue[1]	**1,942.2**	1,626.9	1,197.3
Revenue	**$ 22,319.5**	$ 21,493.3	$ 19,973.8

[1] Collaboration and other revenue associated with prior period transfers of intellectual property was $301.5 million, $303.2 million, and $144.9 million during the years ended 2019, 2018, and 2017, respectively.

We recognize revenue primarily from two different types of contracts, product sales to customers (net product revenue) and collaborations and other arrangements. Revenue recognized from collaborations and other arrangements will include our share of profits from the collaboration, as well as royalties, upfront and milestone payments we receive under these types of contracts. See Note 4 for additional information related to our collaborations and other arrangements. Collaboration and other revenue disclosed above includes the revenue from the Trajenta® and Jardiance® families of products resulting from our collaboration with Boehringer Ingelheim discussed in Note 4. Substantially all of the remainder of collaboration and other revenue is related to contracts accounted for as contracts with customers.

Net Product Revenue

Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation, which generally is at the time we ship the product to the customer. Payment terms differ by jurisdiction and customer, but payment terms in most of our major jurisdictions typically range from 30 to 70 days from date of shipment. Revenue for our product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when we transfer control of the product and when we receive payment will be one year or less. Any exceptions are either not material or we collect interest for payments made after the due date. Provisions for rebates, discounts, and returns are established in the same period the related sales are recognized. We generally ship product shortly after orders are received; therefore, we generally only have a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on our sales of product and collected from a customer.

Most of our products are sold to wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. For the years ended December 31, 2019, 2018, and 2017, our three largest wholesalers each accounted for between 14 percent and 21 percent of consolidated total revenue. Further, they each accounted for between 19 percent and 25 percent of accounts receivable as of December 31, 2019 and 2018.

Significant judgments must be made in determining the transaction price for our sales of products related to anticipated rebates, discounts and returns. The following describe the most significant of these judgments:

Sales Rebates and Discounts - Background and Uncertainties

- We initially invoice our customers at contractual list prices. Contracts with direct and indirect customers may provide for various rebates and discounts that may differ in each contract. As a consequence, to determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we must estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates.
- The rebate and discount amounts are recorded as a deduction to arrive at our net product revenue. Sales rebates and discounts that require the use of judgment in the establishment of the accrual include managed care, Medicare, Medicaid, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We estimate these accruals using an expected value approach.
- The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, chargeback, and patient assistance programs in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing. Although we accrue a liability for rebates related to these programs at the time we record the sale, the

rebate related to that sale is typically paid up to six months later. Because of this time lag, in any particular period our rebate adjustments may incorporate revisions of accruals for several periods.

- Most of our rebates outside the U.S. are contractual or legislatively mandated and are estimated and recognized in the same period as the related sales. In some large European countries, government rebates are based on the anticipated budget for pharmaceutical payments in the country. An estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale.

Sales Returns - Background and Uncertainties

- When product sales occur, to determine the appropriate transaction price for our sales, we estimate a reserve for future product returns related to those sales using an expected value approach. This estimate is based on several factors, including: historical return rates, expiration date by product (on average, approximately 24 months after the initial sale of a product to our customer), and estimated levels of inventory in the wholesale and retail channels, as well as any other specifically-identified anticipated returns due to known factors such as the loss of patent exclusivity, product recalls and discontinuances, or a changing competitive environment. We maintain a returns policy that allows U.S. customers to return product for dating issues within a specified period prior to and subsequent to the product's expiration date. Following the loss of exclusivity for a patent-dependent product, we expect to experience an elevated level of product returns as product inventory remaining in the wholesale and retail channels expires. Adjustments to the returns reserve have been and may in the future be required based on revised estimates to our assumptions. We record the return amounts as a deduction to arrive at our net product revenue. Once the product is returned, it is destroyed; we do not record a right of return asset. Our returns policies outside the U.S. are generally more restrictive than in the U.S. as returns are not allowed for reasons other than failure to meet product specifications in many countries. Our reserve for future product returns for product sales outside the U.S. is not material.
- As a part of our process to estimate a reserve for product returns, we regularly review the supply levels of our significant products sold to major wholesalers in the U.S. and in major markets outside the U.S., primarily by reviewing periodic inventory reports supplied by our major wholesalers and available prescription volume information for our products, or alternative approaches. We attempt to maintain U.S. wholesaler inventory levels at an average of approximately one month or less on a consistent basis across our product portfolio. Causes of unusual wholesaler buying patterns include actual or anticipated product-supply issues, weather patterns, anticipated changes in the transportation network, redundant holiday stocking, and changes in wholesaler business operations. In the U.S., the current structure of our arrangements provides us with data on inventory levels at our wholesalers; however, our data on inventory levels in the retail channel is more limited. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.
- Actual product returns have been less than 2 percent of our net revenue over each of the past three years and have not fluctuated significantly as a percentage of revenue, although fluctuations are more likely in periods following loss of patent exclusivity for major products in the U.S. market.

Adjustments to Revenue

Adjustments to revenue recognized as a result of changes in estimates for the judgments described above for our most significant U.S. sales returns, rebates, and discounts liability balances for products shipped in previous periods were approximately 2 percent and 1 percent of U.S revenue during 2019 and 2018, respectively.

Collaboration and Other Arrangements

We recognize several types of revenue from our collaborations and other arrangements, which we discuss in general terms immediately below and more specifically in Note 4 for each of our material collaborations and other arrangements. Our collaborations and other arrangements are not contracts with customers but are evaluated to determine whether any aspects of the arrangements are contracts with customers.

- Revenue related to products we sell pursuant to these arrangements is included in net product revenue, while other sources of revenue (e.g., royalties and profit sharing from our partner) are included in collaboration and other revenue.
- Initial fees and developmental milestones we receive in collaborative and other similar arrangements from the partnering of our compounds under development are generally deferred and amortized into income through the expected product approval date.

- Profit-sharing due from our collaboration partners, which is based upon gross margins reported to us by our partners, is recognized as collaboration and other revenue as earned.
- Royalty revenue from licensees, which is based on sales to third-parties of licensed products and technology, is recorded when the third-party sale occurs and the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). This royalty revenue is included in collaboration and other revenue.
- For arrangements involving multiple goods or services (e.g., research and development, marketing and selling, manufacturing, and distribution), each required good or service is evaluated to determine whether it is distinct. If a good or service does not qualify as distinct, it is combined with the other non-distinct goods or services within the arrangement and these combined goods or services are treated as a single performance obligation for accounting purposes. The arrangement's transaction price is then allocated to each performance obligation based on the relative standalone selling price of each performance obligation. For arrangements that involve variable consideration where we have sold intellectual property, we recognize revenue based on estimates of the amount of consideration we believe we will be entitled to receive from the other party, subject to a constraint. These estimates are adjusted to reflect the actual amounts to be collected when those facts and circumstances become known.
- Significant judgments must be made in determining the transaction price for our sales of intellectual property. Because of the risk that products in development will not receive regulatory approval, we generally do not recognize any contingent payments that would be due to us upon or after regulatory approval.
- We have entered into arrangements whereby we transferred rights to products and committed to supply for a period of time. For those arrangements for which we concluded that the obligations were not distinct, any amounts received upfront are being amortized to revenue as net product revenue over the period of the supply arrangement as the performance obligation is satisfied.

Contract Liabilities

Our contract liabilities result from arrangements where we have received payment in advance of performance under the contract and do not include sales returns, rebates, and discounts. Changes in contract liabilities are generally due to either receipt of additional advance payments or our performance under the contract.

The following table summarizes contract liability balances:

	2019	2018
Contract liabilities	**$ 264.6**	$ 294.9

The contract liabilities balances disclosed above as of December 31, 2019 and 2018 were primarily related to the remaining license period of symbolic intellectual property and obligations to supply product for a defined period of time.

During the years ended December 31, 2019 and 2018, revenue recognized from contract liabilities as of the beginning of the year was not material. Revenue expected to be recognized in the future from contract liabilities as the related performance obligations are satisfied is not expected to be material in any one year.

Disaggregation of Revenue

The following table summarizes revenue by product:

	U.S.[1]			Outside U.S.		
	2019	2018	2017	2019	2018	2017
Revenue—to unaffiliated customers:						
Endocrinology:						
Trulicity®	**$ 3,155.2**	$ 2,515.8	$ 1,609.8	**$ 972.7**	$ 683.3	$ 419.9
Humalog® [2]	**1,669.7**	1,787.8	1,717.8	**1,151.0**	1,208.7	1,147.4
Forteo®	**645.5**	757.9	965.2	**759.1**	817.7	783.8
Humulin®	**879.7**	910.2	884.6	**410.4**	421.2	450.7
Basaglar®	**876.2**	622.8	311.1	**236.3**	178.5	121.0
Jardiance [3]	**565.9**	400.2	290.4	**378.3**	258.1	157.0
Trajenta [4]	**224.8**	224.2	213.2	**365.8**	350.5	324.7
Other Endocrinology	**293.7**	292.7	380.9	**230.1**	272.5	307.7
Total Endocrinology	**8,310.7**	7,511.6	6,373.0	**4,503.7**	4,190.5	3,712.2
Oncology:						
Alimta®	**1,219.5**	1,131.0	1,034.3	**896.4**	1,001.9	1,028.2
Cyramza®	**335.3**	291.5	278.8	**589.9**	529.9	479.6
Verzenio®	**454.8**	248.5	21.0	**124.9**	6.6	—
Erbitux®	**487.9**	531.6	541.7	**55.4**	103.8	104.2
Other Oncology	**111.0**	200.6	174.6	**339.3**	215.1	149.6
Total Oncology	**2,608.5**	2,403.2	2,050.4	**2,005.9**	1,857.3	1,761.6
Immunology:						
Taltz®	**1,016.8**	738.7	486.0	**349.6**	198.7	73.2
Olumiant®	**42.2**	6.7	—	**384.7**	195.9	45.8
Total Immunology	**1,059.0**	745.4	486.0	**734.3**	394.6	119.0
Neuroscience:						
Cymbalta®	**49.6**	54.3	114.9	**675.8**	653.7	642.2
Zyprexa®	**41.0**	36.2	75.5	**377.6**	435.1	505.7
Strattera®	**30.8**	89.7	284.9	**211.7**	361.1	333.3
Emgality®	**154.9**	4.9	—	**7.7**	—	—
Other Neuroscience	**80.2**	92.3	115.7	**93.6**	93.4	98.9
Total Neuroscience	**356.5**	277.4	591.0	**1,366.4**	1,543.3	1,580.1
Other:						
Cialis ®	**231.7**	1,129.2	1,358.6	**658.8**	722.7	964.5
Other	**156.2**	325.1	555.4	**327.7**	393.0	422.0
Total Other	**387.9**	1,454.3	1,914.0	**986.5**	1,115.7	1,386.5
Revenue	**$ 12,722.6**	$ 12,391.9	$ 11,414.4	**$ 9,596.8**	$ 9,101.4	$ 8,559.4

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

[2] Humalog revenue includes insulin lispro.

[3] Jardiance revenue includes Glyxambi® and Synjardy®.

[4] Trajenta revenue includes Jentadueto®.

The following table summarizes revenue by geographical area:

	2019	2018	2017
Revenue—to unaffiliated customers[1]:			
U.S.	**$ 12,722.6**	$ 12,391.9	$ 11,414.4
Europe	**3,765.0**	3,663.1	3,390.6
Japan	**2,547.6**	2,407.4	2,339.5
Other foreign countries	**3,284.3**	3,030.9	2,829.3
Revenue	**$ 22,319.5**	$ 21,493.3	$ 19,973.8

Numbers may not add due to rounding.

[1] Revenue is attributed to the countries based on the location of the customer.

Note 3: Acquisitions and Divestiture

In February 2019, we completed the acquisition of Loxo Oncology, Inc. (Loxo). This transaction, as further discussed in this note below in Acquisition of a Business, was accounted for as a business combination under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of Loxo have been included in our consolidated financial statements from the date of acquisition.

We acquired assets in development in 2019, 2018, and 2017, which are further discussed in this note below in Asset Acquisitions. Upon acquisition, the acquired IPR&D charges related to these products were immediately expensed because the products had no alternative future use. For the years ended December 31, 2019, 2018, and 2017, we recorded acquired IPR&D charges of $239.6 million, $1.98 billion, and $1.11 billion, respectively.

Acquisition of a Business

Loxo Acquisition

Overview of Transaction

In February 2019, we acquired all shares of Loxo for a purchase price of $6.92 billion, net of cash acquired. The accelerated vesting of Loxo employee equity awards was recognized as transaction expense included in asset impairment, restructuring, and other special charges during the year ended December 31, 2019 (see Note 5).

Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib (LOXO-292), an oral RET inhibitor granted Breakthrough Therapy designation by the U.S. Food and Drug Administration, and LOXO-305, an oral BTK inhibitor.

Assets Acquired and Liabilities Assumed

The following table summarizes the amounts recognized for assets acquired and liabilities assumed as of the acquisition date:

Estimated Fair Value at February 15, 2019		
Acquired IPR&D[1]	$	4,670.0
Finite-lived intangibles[2]		980.0
Deferred income taxes		(1,032.8)
Other assets and liabilities - net		(26.4)
Total identifiable net assets		4,590.8
Goodwill[3]		2,326.9
Total consideration transferred - net of cash acquired	$	6,917.7

[1] $4.60 billion of the acquired IPR&D relates to selpercatinib (LOXO-292).

[2] Contract-based intangibles (primarily related to Vitrakvi) which are being amortized to cost of sales on a straight-line basis over their estimated useful lives, were expected to have a weighted average useful life of approximately 12 years from the acquisition date.

[3] The goodwill recognized from this acquisition is attributable primarily to future unidentified projects and products and the assembled workforce for Loxo and is not deductible for tax purposes.

Our consolidated statement of operations for the year ended December 31, 2019 includes Loxo revenues of $136.7 million, primarily due to regulatory approval and sales milestones received. We are unable to provide the results of operations for the year ended December 31, 2019 attributable to Loxo as those operations were substantially integrated into our legacy business.

Pro forma information has not been included because this acquisition did not have a material impact on our results of operations for the years ended December 31, 2019 and 2018.

Asset Acquisitions

The following table and narrative summarize our asset acquisitions during 2019, 2018, and 2017.

Counterparty	Compound(s),Therapy, or Asset	Acquisition Month	Phase of Development[1]	Acquired IPR&D Expense
AC Immune SA	Tau aggregation inhibitor small molecules for the potential treatment of Alzheimer's disease and other neurodegenerative diseases	January 2019 & September 2019[2]	Pre-clinical	$ 127.1
ImmuNext, Inc.	Novel immunometabolism target	March 2019	Pre-clinical	40.0
Avidity Biosciences, Inc.	Potential new medicines in immunology and other select indications	April 2019	Pre-clinical	25.0
Centrexion Therapeutics Corporation	CNTX-0290, a novel, small molecule somatostatin receptor type 4 agonist	July 2019	Phase I	47.5
Sigilon Therapeutics	Encapsulated cell therapies for the potential treatment of type 1 diabetes	April 2018	Pre-clinical	66.9
AurKa Pharma, Inc.	AK-01, an Aurora kinase A inhibitor	June 2018	Phase I	81.8
ARMO BioSciences, Inc. (ARMO)	Cancer therapy - pegilodecakin	June 2018	Phase III	1,475.8
Anima Biotech	Translation inhibitors for selected neuroscience targets	July 2018	Pre-clinical	30.0
SIGA Technologies, Inc.	Priority Review Voucher	October 2018	Not applicable	80.0
Chugai Pharmaceutical Company	OWL833, an oral non-peptidic GLP-1 receptor agonist	October 2018	Pre-clinical	50.0
NextCure, Inc.	Immuno-oncology cancer therapies	November 2018	Pre-clinical[3]	28.1
Dicerna Pharmaceuticals, Inc.	Cardio-metabolic disease, neurodegeneration, and pain	December 2018	Pre-clinical	148.7
Hydra Biosciences	TRPA1 antagonists program for the potential treatment of chronic pain syndromes	December 2018	Pre-clinical	22.6
CoLucid Pharmaceuticals, Inc. (CoLucid)	Oral therapy for the acute treatment of migraine - lasmiditan	March 2017	Phase III	857.6
KeyBioscience AG	Multiple molecules for treatment of metabolic disorders	July 2017	Phase II	55.0
Nektar Therapeutics	Immunological therapy - NKTR-358	August 2017	Phase I	150.0
CureVac AG	Cancer vaccines	November 2017	Pre-clinical	50.0

[1] The phase of development presented is as of the date of the arrangement and represents the phase of development of the most advanced asset acquired, where applicable.

[2] We recognized acquired IPR&D expenses of $96.9 million in January 2019 upon entering into a license agreement and $30.2 million in September 2019 upon entering into an amendment to the license agreement.

[3] This research and development collaboration agreement has been terminated, to be effective March 2020.

In connection with these arrangements, our partners may be entitled to future royalties and/or commercial milestones based on sales should products be approved for commercialization and/or milestones based on the successful progress of compounds through the development process.

Divestiture

In October 2019, we completed a transaction in which we sold the rights in China for two legacy antibiotic medicines, as well as a manufacturing facility in Suzhou, China to Eddingpharm, a China-based specialty pharmaceutical company. In connection with the sale, we received net cash proceeds of $354.8 million from Eddingpharm in 2019, with an additional payment of $40.3 million due to us in 2020. We accounted for the transaction as the sale of a business. We recorded a gain of $309.8 million in Other—net, (income) expense upon closing the transaction in 2019.

Subsequent Event - Dermira, Inc. (Dermira) Acquisition

On January 10, 2020, we announced an agreement to acquire Dermira for a purchase price of $18.75 per share, or approximately $1.1 billion. The acquisition will expand our immunology pipeline with the addition of lebrikizumab, a novel, investigational, monoclonal antibody designed to bind IL-13 with high affinity that is being evaluated in a Phase III clinical development program for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the U.S. Food and Drug Administration (FDA). The FDA's fast track

designation is designed to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs. The acquisition will also expand our portfolio of marketed dermatology medicines with the addition of Qbrexza® (glycopyrronium) cloth, a medicated cloth approved by the FDA for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating). The transaction is not subject to any financing condition and is expected to close by the end of the first quarter of 2020, subject to customary closing conditions, including receipt of required regulatory approvals and the tender of a majority of the outstanding shares of Dermira's common stock.

Note 4: Collaborations and Other Arrangements

We often enter into collaborative and other similar arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These arrangements often require milestone and royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements from or payments to the collaboration partner. See Note 2 for amounts of collaboration and other revenue recognized from these types of arrangements.

Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments due to or reimbursements due from our collaboration partners, with such reimbursements being recognized at the time the party becomes obligated to pay. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

Boehringer Ingelheim Diabetes Collaboration

We and Boehringer Ingelheim have a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Currently, included in the collaboration are Boehringer Ingelheim's oral diabetes products: Trajenta, Jentadueto, Jardiance, Glyxambi, Synjardy, and Trijardy® XR as well as our basal insulin, Basaglar. Jentadueto is included in the Trajenta product family. Glyxambi, Synjardy, and Trijardy XR are included in the Jardiance product family.

The table below summarizes significant milestones (deferred) capitalized for the compounds included in this collaboration:

Product Family	Milestones (Deferred) Capitalized[1]
Trajenta[2]	$ 446.4
Jardiance[3]	289.0
Basaglar	(250.0)

[1] In connection with the regulatory approvals of Basaglar in the U.S., Europe, and Japan, milestone payments received were recorded as contract liabilities and are being amortized through the term of the collaboration (2029) to collaboration and other revenue. In connection with the regulatory approvals of Trajenta and Jardiance, milestone payments made were capitalized as intangible assets and are being amortized to cost of sales through the term of the collaboration. This represents the cumulative amounts that have been (deferred) or capitalized from the start of this collaboration through the end of the reporting period.

[2] The collaboration agreement with Boehringer Ingelheim for Trajenta ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

[3] The collaboration agreement with Boehringer Ingelheim for Jardiance ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

Through December 31, 2019, in the most significant markets, we and Boehringer Ingelheim shared equally the ongoing development costs, commercialization costs, and agreed upon gross margin for any product resulting from the collaboration. We recorded our portion of the gross margin associated with Boehringer Ingelheim's products as collaboration and other revenue. We recorded our sales of Basaglar to third parties as net product revenue with the payments made to Boehringer Ingelheim for their portion of the gross margin recorded as cost of sales. For all compounds under this collaboration, we recorded our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. Each company was entitled to potential performance payments depending on the sales of the molecules it contributes to the collaboration. These performance payments may have resulted in the owner of the molecule retaining a greater share of the agreed upon gross margin of that product. Subject to achieving these thresholds, in a given period, our reported revenue for Trajenta and Jardiance may have been reduced by any performance payments we make related to these products. Similarly, performance payments we may have received related to Basaglar effectively reduced Boehringer Ingelheim's share of the gross margin, which reduced our cost of sales.

Effective January 1, 2020, we and Boehringer Ingelheim modernized the alliance. In the most significant markets, we and Boehringer Ingelheim share equally the ongoing development costs and commercialization costs for the Jardiance product family. We receive a royalty on net sales of Boehringer Ingelheim's products in the most significant markets and recognize the royalty as collaboration and other revenue. We pay to Boehringer Ingelheim a royalty on net sales for Basaglar in the U.S. We record our sales of Basaglar to third parties as net product revenue with the royalty payments made to Boehringer Ingelheim recorded as cost of sales. For the Jardiance product family, we record our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. Boehringer Ingelheim is entitled to potential performance payments depending on the net sales of the Jardiance product family; therefore, our reported revenue for Jardiance may be reduced by any potential performance payments we make related to this product. Beginning January 1, 2021, the royalty received by us related to the Jardiance product family may also be increased or decreased depending on whether net sales for this product family exceed or fall below certain thresholds.

The following table summarizes our net product revenue recognized with respect to Basaglar and collaboration and other revenue recognized with respect to the Trajenta and Jardiance families of products:

	2019	2018	2017
Basaglar	**$ 1,112.6**	$ 801.2	$ 432.1
Jardiance	**944.2**	658.3	447.5
Trajenta	**590.6**	574.7	537.9

Olumiant

We have a worldwide license and collaboration agreement with Incyte Corporation (Incyte), which provides us the development and commercialization rights to its Janus tyrosine kinase (JAK) inhibitor compound, now known as Olumiant, and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double-digit royalty payments on future global sales with rates ranging up to 20 percent. The agreement calls for payments by us to Incyte associated with certain development, success-based regulatory, and sales-based milestones.

The following table summarizes our significant milestones achieved:

Year	Event	Classification	Amount
2018	Regulatory approval in the U.S.	Intangible asset	$ 100.0
	Began Phase III testing for systemic lupus erythematosus (SLE)	R&D Expense	20.0
2017	Regulatory approval in Europe	Intangible asset	65.0
	Regulatory approval in Japan	Intangible asset	15.0
	Began Phase III testing for atopic dermatitis	R&D expense	30.0

As of December 31, 2019, Incyte is eligible to receive up to $130.0 million of additional payments from us contingent upon certain development and success-based regulatory milestones. Incyte is also eligible to receive up to $150.0 million of potential sales-based milestones.

The agreement provided Incyte with options to co-develop the compound subject to the collaboration on an indication-by-indication basis by funding 30 percent of the associated development costs from the initiation of a Phase IIb trial through regulatory approval in exchange for increased tiered royalties ranging up to percentages in the high twenties. Incyte previously exercised its option to co-develop Olumiant in rheumatoid arthritis, atopic dermatitis, alopecia areata, and SLE; however, it opted-out of co-development of all indications as of January 1, 2019. As a result, we will solely fund all further development and pay a lower royalty rate to Incyte on sales.

We record our sales of Olumiant to third parties as net product revenue with the royalty payments made to Incyte recorded as cost of sales. The following table summarizes our net product revenue recognized with respect to Olumiant:

	2019	2018	2017
Olumiant	**$ 426.9**	$ 202.5	$ 45.8

Tanezumab

We have a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the treatment of osteoarthritis pain, chronic low back pain and cancer pain. Under the agreement, the companies share equally the ongoing development costs and, if successful, in gross margins and certain commercialization expenses. As of December 31, 2019, Pfizer is eligible to receive up to $350.0 million in success-based regulatory milestones and up to $1.23 billion in a series of sales-based milestones, contingent upon the commercial success of tanezumab.

Note 5: Asset Impairment, Restructuring, and Other Special Charges

The components of the charges included in asset impairment, restructuring, and other special charges in our consolidated statements of operations are described below:

	2019	2018	2017
Severance	**$ 77.8**	$ 127.8	$ 601.0
Pension and post-retirement medical charges associated with U.S. voluntary early retirement program (see Note 15)	**—**	—	446.7
Asset impairment and other special charges	**497.8**	139.1	283.9
Total asset impairment, restructuring, and other special charges	**$ 575.6**	$ 266.9	$ 1,331.6

Severance costs recognized during the years ended December 31, 2019, 2018 and 2017 were incurred as a result of actions taken to reduce our cost structure. Severance costs recognized in 2017 were primarily associated with the U.S. voluntary early retirement program. During 2017, severance costs recognized in the U.S. and outside the U.S. were $368.3 million and $232.7 million, respectively. Substantially all of the severance costs incurred in 2017 and 2018 have been paid. Substantially all of the severance costs incurred during the year ended December 31, 2019 are expected to be paid in the next 12 months.

Asset impairment and other special charges recognized during the year ended December 31, 2019 consisted of $400.7 million related to the acquisition of Loxo, substantially all of which is associated with the accelerated vesting of Loxo employee equity awards. In addition, we incurred an asset impairment charge related to our decision to close and sell a research and development facility located in the United Kingdom (U.K). The facility was written down to its estimated fair value, which was based primarily on recent sales of similar assets.

Asset impairment and other special charges recognized during the year ended December 31, 2018 resulted primarily from asset impairment and other special charges related to the sale of the Posilac® (rbST) brand and the associated Augusta, Georgia manufacturing site.

Asset impairment and other special charges recognized during the year ended December 31, 2017 resulted primarily from asset impairments related to lower projected revenue for Posilac (rbST). The assets associated with Posilac (rbST) were written down to their fair values, which were determined based upon a discounted cash flow valuation. Impairment charges were recorded for the associated fixed assets and intangible asset of $151.5 million and $50.0 million, respectively. In addition, we incurred approximately $43.4 million of costs associated with the temporary shut down of our Puerto Rico facility following Hurricane Maria.

Note 6: Inventories

We use the last-in, first-out (LIFO) method for the majority of our inventories located in the continental U.S. Other inventories are valued by the first-in, first-out (FIFO) method. FIFO cost approximates current replacement cost. Inventories measured using LIFO must be valued at the lower of cost or market. Inventories measured using FIFO must be valued at the lower of cost or net realizable value.

Inventories at December 31 consisted of the following:

	2019	2018
Finished products	**$ 647.3**	$ 577.8
Work in process	**2,067.6**	2,057.8
Raw materials and supplies	**424.6**	426.1
Total (approximates replacement cost)	**3,139.5**	3,061.7
Increase to LIFO cost	**51.2**	36.4
Inventories	**$ 3,190.7**	$ 3,098.1

Inventories valued under the LIFO method comprised $1.20 billion and $1.37 billion of total inventories at December 31, 2019 and 2018, respectively.

Note 7: Financial Instruments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-science products account for a substantial portion of our trade receivables; collateral is generally not required. We seek to mitigate the risk associated with this concentration through our ongoing credit-review procedures and insurance. A large portion of our cash is held by a few major financial institutions. We monitor our exposures with these institutions and do not expect any of these institutions to fail to meet their obligations. Major financial institutions represent the largest component of our investments in corporate debt securities. In accordance with documented corporate risk-management policies, we monitor the amount of credit exposure to any one financial institution or corporate issuer. We are exposed to credit-related losses in the event of nonperformance by counterparties to risk-management instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

We consider all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. The cost of these investments approximates fair value.

Our equity investments are accounted for using three different methods depending on the type of equity investment:

- Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method, with our share of earnings or losses reported in other-net, (income) expense.
- For equity investments that do not have readily determinable fair values, we measure these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Any change in recorded value is recorded in other-net, (income) expense.
- Our public equity investments are measured and carried at fair value. Any change in fair value is recognized in other-net, (income) expense.

We review equity investments other than public equity investments for indications of impairment and observable price changes on a regular basis.

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and are intended to offset losses and gains on the assets, liabilities, and transactions being hedged. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative instruments that are designated and qualify as fair value hedges, the derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative instruments that are designated and qualify as cash flow hedges, gains and losses are reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings. For derivative and non-derivative instruments that are designated and qualify as net investment hedges, the foreign currency translation gains or losses due to spot rate fluctuations are reported as a component of accumulated other comprehensive loss. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in earnings during the period of change.

We may enter into foreign currency forward or option contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, British pound, and the Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward and option contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other–net, (income) expense. We may enter into foreign currency forward and option contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months. At December 31, 2019, we had outstanding foreign currency forward commitments to purchase 447.9 million U.S. dollars and sell 402.9 million euro; commitments to purchase 1.81 billion euro and sell 2.02 billion U.S. dollars; commitments to purchase 308.3 million U.S. dollars and sell 33.49 billion Japanese yen, commitments to purchase 101.4 million Swiss francs and sell 103.5 million U.S. dollars, and commitments to purchase 236.2 million British pounds and sell 310.9 million U.S. dollars which all settled within 30 days.

Foreign currency exchange risk is also managed through the use of foreign currency debt and cross-currency interest rate swaps. Our foreign currency-denominated notes had carrying amounts of $5.49 billion and $3.40 billion as of December 31, 2019 and 2018, respectively, of which $4.10 billion and $2.65 billion have been designated as, and are effective as, economic hedges of net investments in certain of our euro-denominated foreign operations as of December 31, 2019 and 2018, respectively. At December 31, 2019, we had outstanding cross currency swaps with notional amounts of $1.45 billion swapping U.S. dollars to euro, $1.00 billion swapping swiss francs to U.S. dollars, and $396.0 million swapping U.S. dollars to British pounds, which have settlement dates ranging through 2028. Our cross-currency interest rate swaps, for which a majority convert a portion of our U.S. dollar-denominated floating rate debt to foreign-denominated floating rate debt, have also been designated as, and are effective as, economic hedges of net investments.

In the normal course of business, our operations are exposed to fluctuations in interest rates which can vary the costs of financing, investing, and operating. We seek to address 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 of fluctuations in interest rates on earnings. Our primary interest-rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest-rate exposures, we strive to achieve an acceptable balance between fixed- and floating-rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance.

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements. Cash proceeds from or payments to counterparties resulting from the termination of interest rate swaps are classified as operating activities in our consolidated statements of cash flows. At December 31, 2019, substantially all of our total long-term debt is at a fixed rate. We have converted approximately 11 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps.

We also may enter into forward-starting interest rate swaps, which we designate as cash flow hedges, as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. The change in fair value of these instruments is recorded as part of other comprehensive income (loss), and upon completion of a debt issuance and termination of the swap, is amortized to interest expense over the life of the underlying debt. As of December 31, 2019, the total notional amounts of forward-starting interest rate contracts in designated cash flow hedging instruments were $1.00 billion, which have settlement dates ranging between 2023 and 2025.

The Effect of Risk Management Instruments on the Consolidated Statements of Operations

The following effects of risk-management instruments were recognized in other–net, (income) expense:

	2019	2018	2017
Fair value hedges:			
Effect from hedged fixed-rate debt	**$ 112.1**	$ (40.9)	$ (14.1)
Effect from interest rate contracts	**(112.1)**	40.9	14.1
Cash flow hedges:			
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**15.9**	14.8	14.8
Cross-currency interest rate swaps	**(17.1)**	—	—
Net losses on foreign currency exchange contracts not designated as hedging instruments	**61.9**	100.0	97.9
Total	**$ 60.7**	$ 114.8	$ 112.7

During the years ended December 31, 2019 and 2018, the amortization of losses related to the portion of our risk management hedging instruments, fair value hedges, and cash flow hedges that was excluded from the assessment of effectiveness was not material.

During the year ended December 31, 2017, net losses related to ineffectiveness, as well as net losses related to the portion of our risk-management hedging instruments, fair value hedges, and cash flow hedges that were excluded from the assessment of effectiveness, were not material.

The Effect of Risk-Management Instruments on Other Comprehensive Income (Loss)

The effective portion of risk-management instruments that was recognized in other comprehensive income (loss) is as follows:

	2019	2018	2017
Net investment hedges:			
Foreign currency-denominated notes	**$ 40.1**	$ 110.4	$ (361.5)
Cross-currency interest rate swaps	**47.4**	96.8	(126.6)
Foreign currency exchange contracts	**—**	5.7	—
Cash flow hedges:			
Forward-starting interest rate swaps	**31.6**	—	13.0
Cross-currency interest rate swaps	**(8.3)**	—	—

In 2020, we expect to reclassify $16.3 million of net losses on cash flow hedges from accumulated other comprehensive loss to other–net, (income) expense. During the year ended December 31, 2019 and 2018, the amounts excluded from the assessment of hedge effectiveness recognized in other comprehensive income (loss) were not material.

Fair Value of Financial Instruments

The following tables summarize certain fair value information at December 31 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount and amortized cost of certain other investments:

Description	Carrying Amount	Cost [1]	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2019						
Cash equivalents	**$ 1,025.4**	**$ 1,025.4**	**$ 1,025.4**	**$ —**	**$ —**	**$ 1,025.4**
Short-term investments:						
U.S. government and agency securities	**$ 7.2**	**$ 7.2**	**$ 7.2**	**$ —**	**$ —**	**$ 7.2**
Corporate debt securities	**81.4**	**81.1**	**—**	**81.4**	**—**	**81.4**
Asset-backed securities	**2.6**	**2.6**	**—**	**2.6**	**—**	**2.6**
Other securities	**9.8**	**9.8**	**—**	**—**	**9.8**	**9.8**
Short-term investments	**$ 101.0**					
Noncurrent investments:						
U.S. government and agency securities	**$ 77.2**	**$ 76.3**	**$ 77.2**	**$ —**	**$ —**	**$ 77.2**
Corporate debt securities	**271.1**	**267.8**	**—**	**271.1**	**—**	**271.1**
Mortgage-backed securities	**101.1**	**99.6**	**—**	**101.1**	**—**	**101.1**
Asset-backed securities	**30.0**	**29.6**	**—**	**30.0**	**—**	**30.0**
Other securities	**60.0**	**27.4**	**—**	**—**	**60.0**	**60.0**
Marketable equity securities	**718.6**	**254.4**	**718.6**	**—**	**—**	**718.6**
Equity investments without readily determinable fair values [2]	**405.0**					
Equity method investments [2]	**299.4**					
Noncurrent investments	**$ 1,962.4**					
December 31, 2018						
Cash equivalents	$ 5,727.1	$ 5,727.1	$ 5,727.1	$ —	$ —	$ 5,727.1
Short-term investments:						
U.S. government and agency securities	$ 16.9	$ 17.1	$ 16.9	$ —	$ —	$ 16.9
Corporate debt securities	62.2	62.6	—	62.2	—	62.2
Asset-backed securities	7.6	7.7	—	7.6	—	7.6
Other securities	1.5	1.5	—	1.5	—	1.5
Short-term investments	$ 88.2					
Noncurrent investments:						
U.S. government and agency securities	$ 149.1	$ 153.6	$ 149.1	$ —	$ —	$ 149.1
Corporate debt securities	568.0	587.8	—	568.0	—	568.0
Mortgage-backed securities	111.4	114.5	—	111.4	—	111.4
Asset-backed securities	27.7	27.9	—	27.7	—	27.7
Other securities	87.8	29.7	—	—	87.8	87.8
Marketable equity securities	357.5	238.3	357.5	—	—	357.5
Equity investments without readily determinable fair values [2]	414.7					
Equity method investments [2]	289.2					
Noncurrent investments	$ 2,005.4					

[1] For available-for-sale debt securities, amounts disclosed represent the securities' amortized cost.

[2] Fair value disclosures are not applicable for equity method investments and investments accounted for under the measurement alternative for equity investments.

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)	Fair Value Measurements Using: Significant Unobservable Inputs (Level 3)	Fair Value
Short-term commercial paper borrowings					
December 31, 2019	**$ (1,494.2)**	**$ —**	**$ (1,491.6)**	**$ —**	**$ (1,491.6)**
December 31, 2018	(498.9)	—	(497.6)	—	(497.6)
Long-term debt, including current portion					
December 31, 2019	**$ (13,823.0)**	**$ —**	**$ (15,150.0)**	**$ —**	**$ (15,150.0)**
December 31, 2018	(9,799.7)	—	(9,989.4)	—	(9,989.4)

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2019					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other noncurrent assets	**$ 72.0**	**$ —**	**$ 72.0**	**$ —**	**$ 72.0**
Interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**43.3**	**—**	**43.3**	**—**	**43.3**
Cross-currency interest rate contracts designated as net investment hedges:					
Other noncurrent assets	**45.1**	**—**	**45.1**	**—**	**45.1**
Other current liabilities	**(21.4)**	**—**	**(21.4)**	**—**	**(21.4)**
Other noncurrent liabilities	**(5.7)**	**—**	**(5.7)**	**—**	**(5.7)**
Cross-currency interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**3.0**		**3.0**		**3.0**
Other noncurrent liabilities	**(20.1)**	**—**	**(20.1)**	**—**	**(20.1)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**18.4**	**—**	**18.4**	**—**	**18.4**
Other current liabilities	**(11.9)**	**—**	**(11.9)**	**—**	**(11.9)**
December 31, 2018					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other noncurrent assets	4.5	—	4.5	—	4.5
Other current liabilities	(22.3)	—	(22.3)	—	(22.3)
Other noncurrent liabilities	(19.0)	—	(19.0)	—	(19.0)
Cross-currency interest rate contracts designated as net investment hedges:					
Other receivables	69.2	—	69.2	—	69.2
Other noncurrent assets	8.2	—	8.2	—	8.2
Other current liabilities	(9.2)	—	(9.2)	—	(9.2)
Cross-currency interest rate contracts not designated as hedging instruments:					
Other noncurrent liabilities	(25.8)	—	(25.8)	—	(25.8)
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	11.3	—	11.3	—	11.3
Other current liabilities	(16.3)	—	(16.3)	—	(16.3)

Risk-management instruments above are disclosed on a gross basis. There are various rights of setoff associated with certain of the risk-management instruments above that are subject to enforceable master netting arrangements or similar agreements. Although various rights of setoff and master netting arrangements or similar agreements may exist with the individual counterparties to the risk-management instruments above, individually, these financial rights are not material.

We determine our Level 1 and Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. Level 3 fair value measurements for other investment securities are determined using unobservable inputs, including the investments' cost adjusted for impairments and price changes from orderly transactions. The fair values of equity method investments and investments measured under the measurement alternative for equity investments that do not have readily determinable fair values are not readily available.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of December 31, 2019:

	Maturities by Period			
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 570.6	$ 91.2	$ 276.5	$ 80.4	$ 122.5

The net unrealized gains (losses) recognized in our consolidated statements of operations for equity securities were $395.3 million and $(20.1) million for the years ended December 31, 2019 and 2018, respectively.

We adjust our equity investments without readily determinable fair values based upon changes in the equity instruments' values resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Downward adjustments resulting from an impairment are recorded based upon impairment considerations, including the financial condition and near term prospects of the issuer, general market conditions, and industry specific factors. Adjustments recorded for the years ended December 31, 2019 and 2018 were not material.

A summary of the fair value of available-for-sale securities in an unrealized gain or loss position and the amount of unrealized gains and losses in accumulated other comprehensive loss follows:

	2019	2018
Unrealized gross gains	**$ 10.3**	$ 0.8
Unrealized gross losses	**4.0**	29.0
Fair value of securities in an unrealized gain position	**429.5**	84.3
Fair value of securities in an unrealized loss position	**141.1**	858.6

We periodically assess our investment in available-for-sale securities for other-than-temporary impairment losses. Other-than-temporary impairment losses were not material in 2019, and there were no other-than-temporary impairment losses in 2018 or 2017.

For debt securities, the amount of credit losses are determined by comparing the difference between the present value of future cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing credit losses include the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration.

As of December 31, 2019, the available-for-sale securities in an unrealized loss position include primarily fixed-rate debt securities of varying maturities, which are sensitive to changes in the yield curve and other market conditions. Approximately 56 percent of the fixed-rate debt securities in a loss position are investment-grade debt securities. As of December 31, 2019, we do not intend to sell, and it is not more likely than not that we will be required to sell, the securities in a loss position before the market values recover or the underlying cash flows have been received, and there is no indication of default on interest or principal payments for any of our debt securities.

Activity related to our investment portfolio, substantially all of which related to equity and available-for-sale securities, was as follows:

	2019	2018	2017
Proceeds from sales	**$ 655.5**	$ 5,668.0	$ 5,769.3
Realized gross gains on sales	**40.0**	11.8	176.0
Realized gross losses on sales	**7.9**	51.3	5.8

Realized gains and losses on sales of available-for-sale investments are computed based upon specific identification of the initial cost adjusted for any other-than-temporary declines in fair value that were recorded in earnings.

Accounts Receivable Factoring Arrangements

We have entered into accounts receivable factoring agreements with financial institutions to sell certain of our non-U.S. accounts receivable. These transactions are accounted for as sales and result in a reduction in accounts receivable because the agreements transfer effective control over and risk related to the receivables to the buyers. Our factoring agreements do not allow for recourse in the event of uncollectibility, and we do not retain any interest in the underlying accounts receivable once sold. We derecognized $678.8 million and $696.2 million of accounts receivable as of December 31, 2019 and 2018, respectively, under these factoring arrangements. The costs of factoring such accounts receivable on our consolidated results of operations for the years ended December 31, 2019, 2018, and 2017 were not material.

Note 8: Goodwill and Other Intangibles

Goodwill

Goodwill results from excess consideration in a business combination over the fair value of identifiable net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value to its carrying value is performed to determine the amount of any impairment. The change in goodwill during 2019 was primarily related to our acquisition of Loxo. See Note 3 for further discussion.

No impairments occurred with respect to the carrying value of goodwill for the years ended December 31, 2019, 2018, and 2017.

Other Intangibles

The components of intangible assets other than goodwill at December 31 were as follows:

	2019			2018		
Description	Carrying Amount, Gross	Accumulated Amortization	Carrying Amount, Net	Carrying Amount, Gross	Accumulated Amortization	Carrying Amount, Net
Finite-lived intangible assets:						
Marketed products	**$ 3,150.2**	**$ (1,244.6)**	**$ 1,905.6**	$ 2,077.2	$ (1,069.0)	$ 1,008.2
Other	**94.2**	**(51.8)**	**42.4**	89.5	(29.7)	59.8
Total finite-lived intangible assets	**3,244.4**	**(1,296.4)**	**1,948.0**	2,166.7	(1,098.7)	1,068.0
Indefinite-lived intangible assets:						
Acquired IPR&D	**4,670.0**	**—**	**4,670.0**	—	—	—
Other intangibles	**$ 7,914.4**	**$ (1,296.4)**	**$ 6,618.0**	$ 2,166.7	$ (1,098.7)	$ 1,068.0

Marketed products consist of the amortized cost of the rights to assets acquired in business combinations and approved for marketing in a significant global jurisdiction (U.S., Europe, and Japan) and capitalized milestone payments. For transactions other than a business combination, we capitalize milestone payments incurred at or after the product has obtained regulatory approval for marketing.

Other finite-lived intangibles consist primarily of the amortized cost of licensed platform technologies that have alternative future uses in research and development, manufacturing technologies, and customer relationships from business combinations.

Acquired IPR&D consists of the related costs capitalized, adjusted for subsequent impairments, if any. The costs of acquired IPR&D projects acquired directly in a transaction other than a business combination are capitalized if the projects have an alternative future use; otherwise, they are expensed immediately. The fair values of acquired IPR&D projects acquired in business combinations, if any, are capitalized as other intangible assets.

Several methods may be used to determine the estimated fair value of other intangibles acquired in a business combination. We utilize the "income method," which is a Level 3 fair value measurement and applies a probability weighting that considers the risk of development and commercialization to the estimated future net cash flows that are derived from projected revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, analyst expectations, and expected industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. This analysis is performed for each asset independently. The acquired IPR&D assets are treated as indefinite-lived intangible assets until completion or abandonment of the projects, at which time the assets are tested for impairment and amortized over the remaining useful life or written off, as appropriate.

See Note 3 for further discussion of intangible assets acquired in recent business combinations and Note 4 for additional discussion of recent capitalized milestone payments. The increases in marketed products and acquired IPR&D intangible assets in 2019 were primarily related to our acquisition of Loxo.

Other indefinite-lived intangible assets are reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the intangible asset to its carrying value is performed to determine the amount of any impairment. Finite-lived intangible assets are reviewed for impairment when an indicator of impairment is present. When required, a comparison of fair value to

the carrying amount of assets is performed to determine the amount of any impairment. When determining the fair value of indefinite-lived acquired IPR&D as well as the fair value of finite-lived intangible assets for impairment testing purposes, we utilize the "income method" discussed above.

Intangible assets with finite lives are capitalized and are amortized over their estimated useful lives, ranging from three to 20 years. As of December 31, 2019, the remaining weighted-average amortization period for finite-lived intangible assets was approximately 10 years.

Amortization expense related to finite-lived intangible assets was as follows:

	2019	2018	2017
Amortization expense	**$ 225.8**	$ 361.3	$ 462.2

The estimated amortization expense for each of the next five years associated with our finite-lived intangible assets as of December 31, 2019 is as follows:

	2020	2021	2022	2023	2024
Estimated amortization expense	$ 234.3	$ 235.2	$ 227.3	$ 215.6	$ 165.7

Amortization expense is included in either cost of sales, marketing, selling, and administrative or research and development depending on the nature of the intangible asset being amortized.

Note 9: 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 (12 to 50 years for buildings and three to 25 years for equipment). We review the carrying value of long-lived assets for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Impairment is determined by comparing projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

At December 31, property and equipment consisted of the following:

	2019	2018
Land	**$ 169.5**	$ 165.5
Buildings	**7,067.3**	7,116.6
Equipment	**7,913.3**	7,792.3
Construction in progress	**1,884.4**	1,588.6
	17,034.5	16,663.0
Less accumulated depreciation	**(9,161.6)**	(8,666.9)
Property and equipment, net	**$ 7,872.9**	$ 7,996.1

Depreciation expense related to property and equipment was as follows:

	2019	2018	2017
Depreciation expense	**$ 814.7**	$ 797.1	$ 681.7

Capitalized interest costs were not material for the years ended December 31, 2019, 2018, and 2017.

The following table summarizes long-lived assets by geographical area:

	2019	2018
Long-lived assets[1]:		
U.S. and Puerto Rico	**$ 5,595.4**	$ 5,425.0
Ireland	**1,454.8**	1,351.3
Other foreign countries	**1,758.3**	1,769.9
Long-lived assets	**$ 8,808.5**	$ 8,546.2

[1] Long-lived assets consist of property and equipment, net, operating lease assets, and certain other noncurrent assets.

Note 10: Leases

We determine if an arrangement is a lease at inception. We have leases with terms up to 13 years for corporate offices, research and development facilities, vehicles, and equipment, including some of which have options to extend and/or early-terminate the leases. We determine the lease term by assuming the exercise of any renewal and/or early-termination options that are reasonably assured.

Beginning January 1, 2019, operating lease right-of-use assets have been presented in operating lease assets in our consolidated balance sheet, and the current and long-term portions of operating lease liabilities are included in other current liabilities and noncurrent operating lease liabilities, respectively, in our consolidated balance sheet. Short-term leases, which are deemed at inception to have a lease term of 12 months or less, are not recorded on the consolidated balance sheet.

Operating lease assets represent our right to use an underlying asset for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Lease expense for operating lease assets, which is recognized on a straight-line basis over the lease term, was $172.8 million during the year ended December 31, 2019. Variable lease payments, which represent non-lease components such as maintenance, insurance and taxes, and which vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the payment obligation is incurred and were not material during the year ended December 31, 2019. Short-term lease expense was not material during the year ended December 31, 2019.

Supplemental balance sheet information related to operating leases as of December 31, 2019 was as follows:

Weighted-average remaining lease term	8 years
Weighted-average discount rate	3.6%

Supplemental cash flow information related to operating leases during the year ended December 31, 2019 was as follows:

Operating cash flows from operating leases	$	153.6
Right-of-use assets obtained in exchange for new operating lease liabilities		81.2

The annual minimum lease payments of our operating lease liabilities as of December 31, 2019 were as follows:

Year 1	$	138.1
Year 2		111.0
Year 3		82.3
Year 4		60.6
Year 5		55.7
After Year 5		272.7
Total lease payments		720.4
Less imputed interest		112.0
Total	$	608.4

Rental expense for all leases, including contingent rentals (not material), was $175.7 million and $177.4 million for the years ended December 31, 2018 and 2017, respectively.

Finance leases are included in property and equipment, short-term borrowings and current maturities of long-term debt, and long-term debt in our consolidated balance sheets. Finance leases are not material to our consolidated financial statements.

Note 11: Borrowings

Debt at December 31 consisted of the following:

	2019	2018
Short-term commercial paper borrowings	**$ 1,494.2**	$ 498.9
0.15 to 7.13 percent long-term notes (due 2022-2059)	**13,638.5**	9,640.8
Other long-term debt	**12.9**	10.1
Unamortized debt issuance costs	**(73.6)**	(28.4)
Fair value adjustment on hedged long-term notes	**245.2**	177.2
Total debt	**15,317.2**	10,298.6
Less current portion	**(1,499.3)**	(1,102.2)
Long-term debt	**$ 13,817.9**	$ 9,196.4

The weighted-average effective borrowing rate on outstanding commercial paper at December 31, 2019 was 1.65 percent.

At December 31, 2019, we had a total of $5.21 billion of unused committed bank credit facilities, which consisted primarily of a $3.00 billion credit facility that expires in December 2024 and a $2.00 billion 364-day facility that expires in December 2020, both of which are available to support our commercial paper program. We have not drawn against the $3.00 billion and $2.00 billion facilities. Of the remaining committed bank credit facilities, the outstanding balances as of as December 31, 2019 and December 31, 2018 were not material. 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.

In February 2019, we issued $1.15 billion of 3.38 percent fixed-rate notes due in March 2029, $850.0 million of 3.88 percent fixed-rate notes due in March 2039, $1.50 billion of 3.95 percent fixed-rate notes due in March 2049, and $1.00 billion of 4.15 percent fixed-rate notes due in March 2059, with interest to be paid semi-annually. We used the net proceeds of $4.45 billion from the offering to repay commercial paper that was issued in connection with the acquisition of Loxo and for general corporate purposes.

In November 2019, we issued euro-denominated notes consisting of €600.0 million of 0.625 percent fixed-notes due November 2031 and €1.00 billion of 1.70 percent fixed-rate notes due in November 2049 with interest to be paid annually. We paid $2.27 billion, comprised of $1.75 billion of net cash proceeds from the offering and proceeds from commercial paper, to purchase and redeem certain higher interest rate U.S. dollar denominated notes with an aggregate principal amount of $2.00 billion and a net carrying value of $2.01 billion, resulting in a debt extinguishment loss of $252.5 million. This loss was included in other-net, (income) expense in our consolidated statement of operations during the year ended December 31, 2019.

In November 2019, we issued Japanese Yen-denominated notes consisting of ¥22.92 billion of 0.42 percent fixed-rate notes due in November 2029, ¥9.28 billion of 0.56 percent fixed-rate notes due in November 2034, and ¥7.64 billion of 0.97 percent fixed-rate notes due in November 2049, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $356.6 million for general corporate purposes, including to repay outstanding commercial paper.

The aggregate amounts of maturities on long-term debt for the next five years are as follows:

	2020	2021	2022	2023	2024
Maturities on long-term debt	$ 7.0	$ 5.9	$ 1,424.7	$ 1.9	$ 619.6

We have converted approximately 11 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rates based on long-term debt obligations and interest rates at December 31, 2019 and 2018, including the effects of interest rate swaps for hedged debt obligations, were 2.88 percent and 3.13 percent, respectively.

The aggregate amount of cash payments for interest on borrowings, net of capitalized interest, are as follows:

	2019	2018	2017
Cash payments for interest on borrowings	**$ 305.5**	$ 223.8	$ 192.7

In accordance with the requirements of derivatives and hedging guidance, the portion of our fixed-rate debt obligations that is hedged as a fair value hedge is reflected in the consolidated balance sheets as an amount equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

Note 12: Stock-Based Compensation

Our stock-based compensation expense consists of performance awards (PAs), shareholder value awards (SVAs), and restricted stock units (RSUs). We recognize the fair value of stock-based compensation as expense over the requisite service period of the individual grantees, which generally equals the vesting period. We provide newly issued shares of our common stock and treasury stock to satisfy the issuance of PA, SVA, and RSU shares.

Stock-based compensation expense and the related tax benefits were as follows:

	2019	2018	2017
Stock-based compensation expense	**$ 306.8**	$ 253.5	$ 256.3
Tax benefit	**64.4**	53.2	64.1

At December 31, 2019, stock-based compensation awards may be granted under the 2002 Lilly Stock Plan for not more than 54.6 million additional shares.

Performance Award Program

PAs are granted to officers and management and are payable in shares of our common stock. The number of PA shares actually issued, if any, varies depending on the achievement of certain pre-established earnings-per-share targets over a two-year period. PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the measurement period. The fair values of PAs granted for the years ended December 31, 2019, 2018, and 2017 were $112.09, $71.63, and $73.54, respectively. The number of shares ultimately issued for the PA program is dependent upon the EPS achieved during the vesting period. Pursuant to this program, approximately 1.2 million shares, 0.9 million shares, and 1.3 million shares were issued during the years ended December 31, 2019, 2018, and 2017, respectively. Approximately 1.1 million shares are expected to be issued in 2020. As of December 31, 2019, the total remaining unrecognized compensation cost related to nonvested PAs was $63.2 million, which will be amortized over the weighted-average remaining requisite service period of 12 months.

Shareholder Value Award Program

SVAs are granted to officers and management and are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on our stock price at the end of the three-year vesting period compared to pre-established target stock prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the SVA units granted during the years ended December 31, 2019, 2018, and 2017 were $95.01, $48.51, and $66.25, respectively, determined using the following assumptions:

(Percents)	2019	2018	2017
Expected dividend yield	**2.50%**	2.50%	2.50%
Risk-free interest rate	**2.46**	2.31	1.38
Volatility	**21.00**	22.26	22.91

Pursuant to this program, approximately 1.0 million shares, 0.7 million shares, and 1.1 million shares were issued during the years ended December 31, 2019, 2018, and 2017, respectively. Approximately 0.8 million shares are expected to be issued in 2020. As of December 31, 2019, the total remaining unrecognized compensation cost related to nonvested SVAs was $56.1 million, which will be amortized over the weighted-average remaining requisite service period of 20 months.

Restricted Stock Units

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically three years. The fair values of RSU awards granted during the years ended December 31, 2019, 2018, and 2017 were $108.43, $70.95, and $72.47, respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures. Pursuant to this program, 1.5 million, 1.3 million, and 1.4 million shares were granted and approximately 0.8 million, 1.0 million, and 0.9 million shares were issued during the years ended December 31, 2019, 2018, and 2017, respectively. Approximately 0.7 million shares are expected to be issued in 2020. As of December 31, 2019, the total remaining unrecognized compensation cost related to nonvested RSUs was $134.9 million, which will be amortized over the weighted-average remaining requisite service period of 27 months.

Note 13: Shareholders' Equity

During 2019, 2018, and 2017, we repurchased $4.40 billion, $4.15 billion and $359.8 million, respectively, of shares associated with our share repurchase programs. As of December 31, 2019, we had $1.50 billion remaining under our $8.00 billion share repurchase program that our board authorized in June 2018.

We have 5.0 million authorized shares of preferred stock. As of December 31, 2019 and 2018, no preferred stock was issued.

We have an employee benefit trust that held 50.0 million shares of our common stock at both December 31, 2019 and 2018, to provide a source of funds to assist us in meeting our obligations under various employee benefit plans. The cost basis of the shares held in the trust was $3.01 billion at both December 31, 2019 and 2018, and is shown as a reduction of shareholders' equity. Any dividend transactions between us and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of EPS. The assets of the trust were not used to fund any of our obligations under these employee benefit plans during the years ended December 31, 2019, 2018, and 2017.

Note 14: Income Taxes

In December 2017, the President of the U.S. signed into law the 2017 Tax Act. The 2017 Tax Act included significant changes to the U.S. corporate income tax system, such as the reduction in the corporate income tax rate from 35 percent to 21 percent, transition to a territorial tax system, changes to business related exclusions, deductions and credits, and modifications to international tax provisions, including a one-time repatriation transition tax (also known as the 'Toll Tax') on unremitted foreign earnings and a global intangible low-taxed income (GILTI) provision, the new U.S. minimum tax on the earnings of our foreign subsidiaries. In 2017, we recognized a provisional amount of $1.91 billion, which was included as a component of income tax expense from continuing operations. This amount represented approximately $3.6 billion attributable to the Toll Tax, partially offset by the changes in deferred taxes resulting from the transition to a U.S. territorial system, including the re-measurement of deferred taxes. In 2018, we recorded $313.3 million of income tax benefit, mainly attributable to measurement period adjustments to the Toll Tax and GILTI.

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. Deferred taxes related to GILTI are also recognized for the future tax effects of temporary differences.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position, based on its technical merits, will be sustained upon examination by the taxing authority. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Following is the composition of income tax expense:

	2019	2018	2017
Current:			
Federal[1]	**$ 280.2**	$ 169.6	$ 3,181.0
Foreign	**299.8**	106.8	47.5
State	**(14.4)**	4.7	(5.4)
Total current tax expense	**565.6**	281.1	3,223.1
Deferred:			
Federal[2]	**141.3**	(3.7)	(601.2)
Foreign	**(24.1)**	248.7	(230.9)
State	**(54.8)**	3.4	0.2
Total deferred tax (benefit) expense	**62.4**	248.4	(831.9)
Income taxes	**$ 628.0**	$ 529.5	$ 2,391.2

[1] The 2019 current tax expense includes $153.1 million of tax benefit from utilization of net operating loss carryforwards. The 2018 and 2017 current tax expense includes $201.5 million and $3.25 billion of tax expense, respectively, related to effects of the 2017 Tax Act.

[2] The 2018 and 2017 deferred tax benefit includes $26.2 million and $1.33 billion of tax benefit, respectively, related to the effects of the 2017 Tax Act.

Significant components of our deferred tax assets and liabilities as of December 31 were as follows:

	2019	2018
Deferred tax assets:		
Purchases of intangible assets	**$ 2,512.4**	$ 2,627.7
Compensation and benefits	**934.3**	781.6
Tax credit carryforwards and carrybacks	**455.8**	359.4
Tax loss carryforwards and carrybacks	**318.8**	248.2
Sales rebates and discounts	**197.3**	45.5
Operating lease liabilities	**140.6**	—
Product return reserves	**98.1**	95.3
Other comprehensive loss on hedging transactions	**59.6**	68.9
Debt	**53.9**	40.3
Other	**835.7**	646.3
Total gross deferred tax assets	**5,606.5**	4,913.2
Valuation allowances	**(616.5)**	(574.8)
Total deferred tax assets	**4,990.0**	4,338.4
Deferred tax liabilities:		
Earnings of foreign subsidiaries	**(1,776.4)**	(1,745.3)
Intangibles	**(1,298.0)**	(86.9)
Inventories	**(686.4)**	(681.3)
Prepaid employee benefits	**(305.9)**	(240.1)
Property and equipment	**(274.1)**	(260.9)
Financial instruments	**(139.4)**	(22.8)
Operating lease assets	**(124.7)**	—
Total deferred tax liabilities	**(4,604.9)**	(3,037.3)
Deferred tax assets - net	**$ 385.1**	$ 1,301.1

The deferred tax asset and related valuation allowance amounts for U.S. federal and state net operating losses and tax credits shown above have been reduced for differences between financial reporting and tax return filings.

At December 31, 2019, based on filed tax returns we have tax credit carryforwards and carrybacks of $799.2 million available to reduce future income taxes; $149.3 million, if unused, will expire by 2026, and $55.6 million, if unused, will expire between 2032 and 2038. The remaining portion of the tax credit carryforwards is related to federal tax credits of $86.6 million, international tax credits of $114.7 million, and state tax credits of $393.0 million, all of which are substantially reserved.

At December 31, 2019, based on filed tax returns we had net operating losses and other carryforwards for international and U.S. federal income tax purposes of $949.7 million: $181.4 million will expire by 2024; $345.4 million will expire between 2025 and 2039; and $422.9 million of the carryforwards will never expire. Net

operating losses and other carryforwards for international and U.S. federal income tax purposes are partially reserved. Deferred tax assets related to state net operating losses of $116.1 million and other state carryforwards of $3.6 million are fully reserved as of December 31, 2019.

Domestic and Puerto Rican companies contributed approximately 44 percent, 15 percent, and 16 percent for the years ended December 31, 2019, 2018, and 2017, respectively, to consolidated income before income taxes. We have a subsidiary operating in Puerto Rico under a tax incentive grant effective through the end of 2031.

The 2017 Tax Act introduced international tax provisions that fundamentally change the U.S. taxation of foreign earnings. As a result, substantially all of the unremitted earnings of our foreign subsidiaries are considered to not be indefinitely reinvested for continued use in our foreign operations. At December 31, 2019, we had accrued an immaterial amount of foreign withholding taxes and state income taxes that would be owed upon future distributions of unremitted earnings of our foreign subsidiaries that are not indefinitely reinvested. For the amount considered to be indefinitely reinvested, it is not practicable to determine the amount of the related deferred income tax liability due to the complexities in the tax laws and assumptions we would have to make.

Cash payments of U.S. federal, state, and foreign income taxes, net of refunds, were as follows:

	2019	2018	2017
Cash payments of income taxes	**$ 1,180.5**	$ 1,076.7	$ 221.5

The 2017 Tax Act provided an election to taxpayers subject to the Toll Tax to make payments over an eight-year period. We made this election; therefore, we have included Toll Tax payments accordingly.

Following is a reconciliation of the income tax expense applying the U.S. federal statutory rate to income before income taxes to reported income tax expense:

	2019	2018	2017
Income tax at the U.S. federal statutory tax rate	**$ 1,105.8**	$ 772.8	$ 806.7
Add (deduct):			
International operations, including Puerto Rico	**(242.0)**	(627.1)	(480.8)
General business credits	**(108.8)**	(87.4)	(66.8)
Non-deductible acquired IPR&D[1]	**—**	309.9	300.1
2017 Tax Act	**—**	175.3	1,914.0
Other	**(127.0)**	(14.0)	(82.0)
Income taxes	**$ 628.0**	$ 529.5	$ 2,391.2

[1] Non-deductible acquired IPR&D was related to ARMO in 2018 and CoLucid in 2017. See Note 3 for additional information related to acquisitions.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	2019	2018	2017
Beginning balance at January 1	**$ 2,034.6**	$ 1,000.8	$ 843.3
Additions based on tax positions related to the current year	**187.2**	798.2	133.8
Additions for tax positions of prior years	**425.3**	410.9	93.8
Reductions for tax positions of prior years	**(100.3)**	(115.4)	(59.3)
Settlements	**(260.5)**	(33.2)	(2.4)
Lapses of statutes of limitation	**(161.5)**	(20.5)	(19.3)
Changes related to the impact of foreign currency translation	**(16.2)**	(6.2)	10.9
Ending balance at December 31	**$ 2,108.6**	$ 2,034.6	$ 1,000.8

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $1.53 billion and $1.48 billion at December 31, 2019 and 2018, respectively.

We file income tax returns in the U.S. federal jurisdiction and various state, local, and non-U.S. jurisdictions. We are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations in most major taxing jurisdictions for years before 2011.

The U.S. examination of tax years 2013-2015 began in 2016, and certain matters were effectively settled during the second quarter of 2019. As a result, our gross uncertain tax positions were reduced by approximately $200 million, we made a cash payment of approximately $125 million, and our consolidated results were benefited by an immaterial reduction in tax expense. During the fourth quarter of 2019, certain matters for tax year 2015 were effectively settled upon conclusion of the Internal Revenue Service's (IRS) examination which resulted in an

immaterial reduction in tax expense and gross uncertain tax positions. Also in the fourth quarter of 2019, the IRS began its examination of tax years 2016-2018.

We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized income tax (benefit) expense related to interest and penalties as follows:

	2019	2018	2017
Income tax (benefit) expense	**$ (26.4)**	$ 25.1	$ 22.8

At December 31, 2019 and 2018, our accruals for the payment of interest and penalties totaled $150.8 million and $183.9 million, respectively.

Note 15: Retirement Benefits

We use a measurement date of December 31 to develop the change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets at December 31 for our defined benefit pension and retiree health benefit plans, which were as follows:

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 13,427.1**	$ 14,839.7	**$ 1,540.0**	$ 1,718.7
Service cost	**250.4**	292.7	**36.3**	41.5
Interest cost	**486.0**	458.5	**58.0**	57.3
Actuarial (gain) loss	**2,631.7**	(1,386.5)	**54.3**	(176.9)
Benefits paid	**(584.2)**	(579.4)	**(87.3)**	(82.8)
Plan amendments	**—**	17.6	**—**	(14.1)
Curtailment (gain) loss	**(16.8)**	(43.9)	**(0.5)**	2.5
Foreign currency exchange rate changes and other adjustments	**56.8**	(171.6)	**0.6**	(6.2)
Benefit obligation at end of year	**16,251.0**	13,427.1	**1,601.4**	1,540.0
Change in plan assets:				
Fair value of plan assets at beginning of year	**10,932.6**	11,713.0	**2,398.1**	2,372.4
Actual return on plan assets	**2,012.0**	(360.1)	**444.1**	32.6
Employer contribution	**429.9**	319.0	**13.2**	75.9
Benefits paid	**(584.2)**	(579.4)	**(87.3)**	(82.8)
Foreign currency exchange rate changes and other adjustments	**67.7**	(159.9)	**0.1**	—
Fair value of plan assets at end of year	**12,858.0**	10,932.6	**2,768.2**	2,398.1
Funded status	**(3,393.0)**	(2,494.5)	**1,166.8**	858.1
Unrecognized net actuarial (gain) loss	**6,177.6**	5,011.3	**(111.6)**	140.6
Unrecognized prior service (benefit) cost	**17.4**	25.0	**(236.4)**	(299.9)
Net amount recognized	**$ 2,802.0**	$ 2,541.8	**$ 818.8**	$ 698.8
Amounts recognized in the consolidated balance sheet consisted of:				
Other noncurrent assets	**$ 163.3**	$ 193.7	**$ 1,381.3**	$ 1,043.6
Other current liabilities	**(65.3)**	(64.2)	**(7.3)**	(7.3)
Accrued retirement benefits	**(3,491.0)**	(2,624.0)	**(207.2)**	(178.2)
Accumulated other comprehensive (income) loss before income taxes	**6,195.0**	5,036.3	**(348.0)**	(159.3)
Net amount recognized	**$ 2,802.0**	$ 2,541.8	**$ 818.8**	$ 698.8

The unrecognized net actuarial loss (gain) and unrecognized prior service cost (benefit) have not yet been recognized in net periodic pension costs and were included in accumulated other comprehensive loss at December 31, 2019.

Market variables associated with the remeasurement, specifically a decrease in the discount rate partially offset by higher return on plan assets, were the primary drivers for the $2.89 billion increase in the benefit obligation in 2019.

In July 2018, we announced that we would amend our defined benefit pension and retiree health benefit plans to freeze or reduce benefits for certain employees effective January 1, 2019. We remeasured the impacted pension and retiree health plans' benefit obligations as of July 31, 2018, which resulted in a net curtailment gain of $28.0 million, which was recorded in asset impairment, restructuring, and other special charges. Market variables associated with this remeasurement, specifically an increase in the discount rate, were the primary driver for the $1.59 billion decrease in the benefit obligations in 2018.

The workforce reduction plan initiated in 2017 included a curtailment loss of $159.0 million and a special termination benefit of $354.7 million, of which $446.7 million was recorded in asset impairment, restructuring, and other special charges and $67.0 million was recorded in discontinued operations, as a result of a remeasurement as of October 31, 2017. The special termination benefits related to early retirement incentives offered as part of a voluntary early retirement program for the U.S. plan in the fourth quarter of 2017. This program allowed certain employees the opportunity to voluntarily leave the Company.

The following represents our weighted-average assumptions as of December 31:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
(Percents)	2019	2018	2017	2019	2018	2017
Discount rate for benefit obligation	**3.0%**	4.0%	3.4%	**3.3%**	4.4%	3.7%
Discount rate for net benefit costs	**4.0**	3.4	3.9	**4.4**	3.7	4.3
Rate of compensation increase for benefit obligation	**3.3**	3.4	3.4			
Rate of compensation increase for net benefit costs	**3.4**	3.4	3.4			
Expected return on plan assets for net benefit costs	**7.4**	7.4	7.4	**6.0**	8.0	8.0

We annually evaluate the expected return on plan assets in our defined benefit pension and retiree health benefit plans. In evaluating the expected rate of return, we consider many factors, with a primary analysis of current and projected market conditions; asset returns and asset allocations; and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the assumptions and trend rates utilized by similar plans, where applicable.

Given the design of our retiree health benefit plans, healthcare-cost trend rates do not have a material impact on our financial condition or results of operations.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	2020	2021	2022	2023	2024	2025-2029
Defined benefit pension plans	$ 614.5	$ 621.8	$ 641.0	$ 652.3	$ 682.4	$ 3,712.1
Retiree health benefit plans	93.7	93.8	92.9	91.7	94.3	469.8

Amounts relating to defined benefit pension plans with projected benefit obligations in excess of plan assets were as follows at December 31:

	2019	2018
Projected benefit obligation	**$ 14,039.7**	$ 11,584.2
Fair value of plan assets	**10,483.4**	8,895.6

Amounts relating to defined benefit pension plans and retiree health benefit plans with accumulated benefit obligations in excess of plan assets were as follows at December 31:

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2019	2018	2019	2018
Accumulated benefit obligation	**$ 13,063.7**	$ 10,837.8	**$ 214.4**	$ 189.4
Fair value of plan assets	**10,483.4**	8,895.6	**—**	—

The total accumulated benefit obligation for our defined benefit pension plans was $15.17 billion and $12.57 billion at December 31, 2019 and 2018, respectively.

Net pension and retiree health benefit expense included the following components:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2019	2018	2017	2019	2018	2017
Components of net periodic (benefit) cost:						
Service cost	**$ 250.4**	$ 292.7	$ 320.8	**$ 36.3**	$ 41.5	$ 46.4
Interest cost	**486.0**	458.5	411.6	**58.0**	57.3	52.9
Expected return on plan assets	**(839.6)**	(842.1)	(773.6)	**(144.3)**	(177.9)	(160.7)
Amortization of prior service (benefit) cost	**6.1**	4.6	5.6	**(62.9)**	(79.5)	(90.0)
Recognized actuarial loss	**284.9**	332.5	286.8	**1.9**	6.1	18.4
Curtailment (gain) loss	**2.2**	1.3	93.5	**—**	(29.3)	65.5
Special termination benefit	**—**	—	317.2	**—**	—	37.5
Net periodic (benefit) cost	**$ 190.0**	$ 247.5	$ 661.9	**$ (111.0)**	$ (181.8)	$ (30.0)

The following represents the amounts recognized in other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2019	2018	2017	2019	2018	2017
Actuarial gain (loss) arising during period	**$ (1,461.0)**	$ 182.8	$ (898.1)	**$ 246.1**	$ 37.5	$ 261.3
Plan amendments during period	**—**	(17.6)	—	**—**	14.1	—
Curtailment gain (loss)	**19.0**	45.2	3.2	**—**	(31.8)	(39.7)
Amortization of prior service (benefit) cost included in net income	**6.1**	4.6	5.6	**(62.9)**	(79.5)	(90.0)
Amortization of net actuarial loss included in net income	**284.9**	332.5	286.8	**1.9**	6.1	18.4
Foreign currency exchange rate changes and other	**(7.7)**	47.1	(108.8)	**3.6**	(0.1)	(3.3)
Total other comprehensive income (loss) during period	**$ (1,158.7)**	$ 594.6	$ (711.3)	**$ 188.7**	$ (53.7)	$ 146.7

We have defined contribution savings plans that cover our eligible employees worldwide. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save. Our contributions to the plans are based on employee contributions and the level of our match. Expenses under the plans totaled $145.2 million, $132.6 million, and $147.0 million for the years ended December 31, 2019, 2018, and 2017, respectively.

We provide certain other postemployment benefits primarily related to disability benefits and accrue for the related cost over the service lives of employees. Expenses associated with these benefit plans for the years ended December 31, 2019, 2018, and 2017 were not material.

Benefit Plan Investments

Our benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. U.S. and Puerto Rico plans represent approximately 80 percent of our global investments. Given the long-term nature of our liabilities, these plans have the flexibility to manage an above-average degree of risk in the asset portfolios. At the investment-policy level, there are no specifically prohibited investments. However, within individual investment manager mandates, restrictions and limitations are contractually set to align with our investment objectives, ensure risk control, and limit concentrations.

We manage our portfolio to minimize concentration of risk by allocating funds within asset categories. In addition, within a category we use different managers with various management objectives to eliminate any significant concentration of risk.

Our global benefit plans may enter into contractual arrangements (derivatives) to implement the local investment policy or manage particular portfolio risks. Derivatives are principally used to increase or decrease exposure to a particular public equity, fixed income, commodity, or currency market more rapidly or less expensively than could be accomplished through the use of the cash markets. The plans utilize both exchange-traded and over-the-counter instruments. The maximum exposure to either a market or counterparty credit loss is limited to the carrying value of the receivable, and is managed within contractual limits. We expect all of our counterparties to meet their

obligations. The gross values of these derivative receivables and payables are not material to the global asset portfolio, and their values are reflected within the tables below.

The defined benefit pension and retiree health benefit plan allocation for the U.S. and Puerto Rico currently comprises approximately 70 percent growth investments and 30 percent fixed-income investments. The growth investment allocation encompasses U.S. and international public equity securities, hedge funds, private equity-like investments, and real estate. These portfolio allocations are intended to reduce overall risk by providing diversification, while seeking moderate to high returns over the long term.

Public equity securities are well diversified and invested in U.S. and international small-to-large companies across various asset managers and styles. The remaining portion of the growth portfolio is invested in private alternative investments.

Fixed-income investments primarily consist of fixed-income securities in U.S. treasuries and agencies, emerging market debt obligations, corporate bonds, mortgage-backed securities, commercial mortgage-backed obligations, and any related repurchase agreements.

Hedge funds are privately owned institutional investment funds that generally have moderate liquidity. Hedge funds seek specified levels of absolute return regardless of overall market conditions, and generally have low correlations to public equity and debt markets. Hedge funds often invest substantially in financial market instruments (stocks, bonds, commodities, currencies, derivatives, etc.) using a very broad range of trading activities to manage portfolio risks. Hedge fund strategies focus primarily on security selection and seek to be neutral with respect to market moves. Common groupings of hedge fund strategies include relative value, tactical, and event driven. Relative value strategies include arbitrage, when the same asset can simultaneously be bought and sold at different prices, achieving an immediate profit. Tactical strategies often take long and short positions to reduce or eliminate overall market risks while seeking a particular investment opportunity. Event strategy opportunities can evolve from specific company announcements such as mergers and acquisitions, and typically have little correlation to overall market directional movements. Our hedge fund investments are made through limited partnership interests in fund-of-funds structures and directly into hedge funds. Plan holdings in hedge funds are valued based on net asset values (NAVs) calculated by each fund or general partner, as applicable, and we have the ability to redeem these investments at NAV.

Private equity-like investment funds typically have low liquidity and are made through long-term partnerships or joint ventures that invest in pools of capital invested in primarily non-publicly traded entities. Underlying investments include venture capital (early stage investing), buyout, special situations, private debt, and private real estate investments. Private equity management firms typically acquire and then reorganize private companies to create increased long term value. Private equity-like funds usually have a limited life of approximately 10-15 years, and require a minimum investment commitment from their limited partners. Our private equity-like investments are made both directly into funds and through fund-of-funds structures to ensure broad diversification of management styles and assets across the portfolio. Plan holdings in private equity-like investments are valued using the value reported by the partnership, adjusted for known cash flows and significant events through our reporting date. Values provided by the partnerships are primarily based on analysis of and judgments about the underlying investments. Inputs to these valuations include underlying NAVs, discounted cash flow valuations, comparable market valuations, and may also include adjustments for currency, credit, liquidity and other risks as applicable. The vast majority of these private partnerships provide us with annual audited financial statements including their compliance with fair valuation procedures consistent with applicable accounting standards.

Real estate is composed of public holdings. Real estate investments in registered investment companies that trade on an exchange are classified as Level 1 on the fair value hierarchy. Real estate investments in funds measured at fair value on the basis of NAV provided by the fund manager are classified as such. These NAVs are developed with inputs including discounted cash flow, independent appraisal, and market comparable analyses.

Other assets include cash and cash equivalents and mark-to-market value of derivatives.

The cash value of the trust-owned insurance contract is primarily invested in investment-grade publicly traded equity and fixed-income securities.

Other than hedge funds, private equity-like investments, and a portion of the real estate holdings, which are discussed above, we determine fair values based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses.

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2019 by asset category were as follows:

Asset Class	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 794.2	$ 532.5	$ —	$ —	$ 261.7
International	2,439.2	1,046.8	—	—	1,392.4
Fixed income:					
Developed markets	3,661.4	4.8	2,658.9	—	997.7
Developed markets - repurchase agreements	(1,659.1)	—	(1,659.1)	—	—
Emerging markets	648.0	18.5	277.4	4.1	348.0
Private alternative investments:					
Hedge funds	2,897.9	—	—	—	2,897.9
Equity-like funds	2,279.3	—	—	16.8	2,262.5
Real estate	570.3	166.2	—	—	404.1
Other	1,226.8	62.9	222.6	6.6	934.7
Total	$ 12,858.0	$ 1,831.7	$ 1,499.8	$ 27.5	$ 9,499.0
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 76.5	$ 52.1	$ —	$ —	$ 24.4
International	152.6	60.8	—	—	91.8
Fixed income:					
Developed markets	82.7	—	56.3	—	26.4
Emerging markets	58.5	—	27.0	0.4	31.1
Private alternative investments:					
Hedge funds	250.8	—	—	—	250.8
Equity-like funds	187.4	—	—	1.6	185.8
Cash value of trust owned insurance contract	1,832.2	—	1,832.2	—	—
Real estate	31.3	16.2	—	—	15.1
Other	96.2	11.4	7.9	0.7	76.2
Total	$ 2,768.2	$ 140.5	$ 1,923.4	$ 2.7	$ 701.6

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2019. The activity in the Level 3 investments during the year ended December 31, 2019 was not material.

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2018 by asset category were as follows:

Asset Class	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 617.7	$ 409.1	$ —	$ —	$ 208.6
International	2,117.8	828.8	—	1.8	1,287.2
Fixed income:					
Developed markets	2,933.4	17.2	2,173.3	—	742.9
Developed markets - repurchase agreements	(1,225.5)	—	(1,225.5)	—	—
Emerging markets	565.2	3.4	255.8	6.1	299.9
Private alternative investments:					
Hedge funds	2,795.3	—	—	—	2,795.3
Equity-like funds	1,893.5	—	—	16.8	1,876.7
Real estate	505.7	147.1	—	—	358.6
Other	729.5	213.0	83.7	—	432.8
Total	$ 10,932.6	$ 1,618.6	$ 1,287.3	$ 24.7	$ 8,002.0
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 59.9	$ 41.0	$ —	$ —	$ 18.9
International	127.0	50.5	—	0.2	76.3
Fixed income:					
Developed markets	69.1	—	61.5	—	7.6
Emerging markets	53.5	—	25.5	0.6	27.4
Private alternative investments:					
Hedge funds	245.8	—	—	—	245.8
Equity-like funds	169.2	—	—	1.7	167.5
Cash value of trust owned insurance contract	1,574.7	—	1,574.7	—	—
Real estate	27.7	14.7	—	—	13.0
Other	71.2	38.1	(3.8)	—	36.9
Total	$ 2,398.1	$ 144.3	$ 1,657.9	$ 2.5	$ 593.4

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2018. The activity in the Level 3 investments during the year ended December 31, 2018 was not material.

In 2020, we expect to contribute approximately $40 million to our defined benefit pension plans to satisfy minimum funding requirements for the year. Additional discretionary contributions are not expected to be significant.

Note 16: Contingencies

We are a party to various legal actions and government investigations. The most significant of these are described below. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that, except as noted below with respect to the Alimta patent litigation and administrative proceedings, the resolution of 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.

Litigation accruals, environmental liabilities, and the related estimated insurance recoverables are reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets. With respect to the product liability claims currently asserted against us, we have accrued for our estimated exposures to the extent they are both probable and reasonably estimable based on the information available to us. We accrue for certain product liability claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. Legal defense costs expected to be incurred in connection with significant product liability loss contingencies are accrued when both probable and reasonably estimable.

Patent Litigation

Alimta Patent Litigation and Administrative Proceedings

A number of manufacturers are seeking approvals in the U.S., a number of countries in Europe, and Japan to market generic forms of Alimta prior to the expiration of our vitamin regimen patents, alleging that those patents are invalid, not infringed, or both. We believe our Alimta vitamin regimen patents are valid and enforceable against these generic manufacturers. However, it is not possible to determine the ultimate outcome of the proceedings, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome in the U.S. could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect that a loss of exclusivity for Alimta in any of the below jurisdictions would result in a rapid and severe decline in future revenue for the product in the relevant market.

U.S. Patent Litigation and Administrative Proceedings

We filed a lawsuit in the U.S. District Court for the District of Delaware against Eagle Pharmaceuticals, Inc. (Eagle) in response to its application to market a product using an alternative form of pemetrexed (the active ingredient in Alimta). In December 2019, we and Eagle reached an agreement to settle all pending litigation, allowing Eagle a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022. Alimta is protected by a vitamin regimen patent (2021) plus pediatric exclusivity through May 2022.

In June 2018, the U.S. District Court for the Southern District of Indiana ruled in our favor in two similar cases, finding Dr. Reddy's Laboratories' (Dr. Reddy) and Hospira, Inc.'s (Hospira) proposed products would infringe our method of use patent under the doctrine of equivalents. The district court also ruled that the use of Hospira's proposed product would literally infringe our method of use patent. In August 2019, the U.S. Court of Appeals for the Federal Circuit affirmed the district court's ruling that the use of Dr. Reddy's and Hospira's proposed products would infringe our patent under the doctrine of equivalents but reversed the finding of literal infringement with respect to Hospira's product. In November 2019, the court denied Dr. Reddy and Hospira's petition for rehearing of the court's doctrine of equivalents ruling. Dr. Reddy and Hospira have petitioned the U.S. Supreme Court to review the case.

We have lawsuits pending alleging infringement against Actavis LLC (Actavis) and Apotex Inc. (Apotex) in response to their applications to market products using alternative forms of pemetrexed. In December 2019, the U.S. District Court for the Southern District of Indiana granted our motion for summary judgment of infringement under the doctrine of equivalents and denied Apotex's motion. Apotex has appealed. The lawsuit against Actavis has been stayed, pending the conclusion of the Dr. Reddy and Hospira appeals (described above).

European Patent Litigation

Legal proceedings are ongoing in various national courts throughout Europe. We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets (including generics currently on the market at risk in France, Germany, and the Netherlands) and that additional generic competitors may choose to launch at risk. We will continue to seek to remove any generic pemetrexed products launched at risk in European markets and seek damages with respect to such launches, and defend our patents against validity challenges.

Japanese Administrative Proceedings

Three separate sets of demands for invalidation of our two Japanese vitamin regimen patents, involving several companies, have been filed with the Japanese Patent Office (JPO). The JPO rejected a demand for invalidation by Sawai Pharmaceutical Co., Ltd., which was affirmed on appeal in 2017. In July 2018, the JPO issued written decisions dismissing demands brought by Nipro Corporation (Nipro) for invalidation of our two Japanese vitamin regimen patents. In November 2019, the IP High Court in Tokyo affirmed the dismissal of Nipro's demand for invalidation. The JPO scheduled a hearing in March 2020 concerning the demands brought by Hospira. If upheld through all challenges, these patents would provide intellectual property protection for Alimta until June 2021. Notwithstanding our patents, generic versions of Alimta received regulatory approval in Japan starting in February 2016. We do not currently anticipate that generic versions of Alimta will proceed to pricing approval.

Jardiance Patent Litigation

Boehringer Ingelheim, our partner in marketing and development of Jardiance, initiated U.S. patent litigation in the U.S. District Court of Delaware involving Jardiance, Glyxambi, and Synjardy in accordance with the procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). Several companies submitted Abbreviated New Drug Applications seeking approval to market generic versions of Jardiance prior to the expiration of the relevant patents, alleging certain patents, including in some allegations the compound patent, are invalid or would not be infringed. Trial is scheduled in April 2021.

Taltz Patent Litigation

We have been named as a defendant in litigation filed by Genentech, Inc. in the U.S. District Court for the Southern District of California seeking a ruling that Genentech's patent would be infringed by our continued sales of Taltz. Separately, the U.S. Patent and Trademark Office (USPTO) has granted our request to initiate a post grant review (PGR) to examine the validity of Genentech's patent asserted against us in the litigation. We expect USPTO's decision on the merits in the fourth quarter of 2020. The litigation in the U.S. District Court for the Southern District of California has been stayed pending the outcome of the PGR. We have also been named as defendant in litigation filed by Genentech in Germany asserting infringement of a related Genentech patent and seeking a similar ruling of patent infringement by sales of Taltz in Germany. We expect a trial to assess Genentech's infringement claims could take place in late 2020 or early 2021. We have ongoing litigation in the U.K. in which Genentech has asserted similar claims regarding Genentech's corresponding U.K. patent. We believe all of these lawsuits are without merit and we are vigorously defending against them.

Emgality Patent Litigation

We have been named as a defendant in litigation filed by Teva Pharmaceuticals International GMBH and Teva Pharmaceuticals USA, Inc. (collectively, Teva) in the U.S. District Court for the District of Massachusetts seeking a ruling that various claims in nine different Teva patents would be infringed by our launch and continued sales of Emgality for the prevention of migraine in adults. We believe this lawsuit is without merit and are defending against it vigorously. Separately, the USPTO granted our request to initiate an *inter partes review* (IPR) to reexamine the validity of the nine Teva patents asserted against us in the litigation. In February 2020, the USPTO ruled in our favor and found that all claims asserted against us in six of Teva's nine patents were invalid. We expect the USPTO to issue a decision on the remaining three Teva patents in the second quarter of 2020. The litigation in the U.S. District Court for the District of Massachusetts has been stayed pending the outcome of the USPTO's decision on all nine of Teva's patents.

Product Liability Litigation

Cymbalta Product Liability Litigation

We were named as a defendant in a purported class-action lawsuit in the U.S. District Court for the Central District of California (now called *Strafford et al. v. Eli Lilly and Company*) involving Cymbalta. The plaintiffs, purporting to represent a class of persons who purchased and/or paid for Cymbalta, asserted claims under the consumer protection statutes of California, Massachusetts, Missouri, and New York, and sought declaratory, injunctive, and monetary relief for various alleged economic injuries arising from their purchases. After the district court denied the plaintiffs' motions for class certification, plaintiffs voluntarily dismissed their claims. The plaintiffs subsequently appealed to the U.S. Court of Appeals for the Ninth Circuit. In November 2017, the U.S. Court of Appeals for the Ninth Circuit dismissed the appeal for lack of jurisdiction. In July 2018, the U.S. District Court for the Central District of California denied the plaintiffs' motion to reopen the case. The plaintiffs appealed this denial to the U.S. Court of Appeals for the Ninth Circuit and in January 2020, the Ninth Circuit affirmed the district court's decision. The plaintiffs have filed a petition for rehearing before the Ninth Circuit.

Other Matters

Brazil Litigation – Cosmopolis Facility

Labor Attorney Litigation

Our subsidiary in Brazil, Eli Lilly do Brasil Limitada (Lilly Brasil), is named in a lawsuit brought by the Labor Attorney for the 15th Region in the Labor Court of Paulinia, State of Sao Paulo, Brazil, alleging possible harm to employees and former employees caused by exposure to heavy metals at a former Lilly Brasil manufacturing facility in Cosmopolis, Brazil, operated by the company between 1977 and 2003. In May 2014, the labor court judge ruled against Lilly Brasil, ordering it to undertake several actions of unspecified financial impact, including paying lifetime health coverage for the employees and contractors who worked at the Cosmopolis facility more than six months during the affected years and their children born during and after this period. We appealed this decision. In July 2018, the appeals court affirmed the labor court's ruling with the total financial impact of the ruling estimated to be approximately 500 million Brazilian real (approximately $125 million as of December 31, 2019). The appeals court restricted the broad health coverage awarded by the labor court to health problems that claimants could show arose from exposure to the alleged contamination. In August 2019, Lilly Brasil filed an appeal to the superior labor court. In September 2019, the appeals court stayed a number of elements of its prior decision, including the obligation to provide health coverage for contractors, their children, and children of employees who worked at the Cosmopolis facility, pending the determination of Lilly Brasil's appeal to the superior labor court.

In June 2019, the Labor Attorney filed an application in the labor court for enforcement of the healthcare coverage granted by the appeals court in its July 2018 ruling and requested restrictions on Lilly Brasil's assets in Brazil. In July 2019, the labor court issued a ruling requiring either a freeze of Lilly Brasil's immovable property or, alternatively, a security deposit of 500 million Brazilian real (approximately $125 million as of December 31, 2019). Lilly Brasil filed a writ of mandamus challenging this ruling, but the court has stayed its decision on this writ and instead directed the parties to attend conciliation hearings, a process which is ongoing. The labor court also stayed the Labor Attorney's application to enforce the previous healthcare coverage ruling until after the appeals court ruled on the various motions pending before it. If the conciliation hearings are unsuccessful, once concluded, we intend to file a motion to strike the Labor Attorney's application to enforce the previous healthcare coverage given the appeals court's stay in September 2019 of a number of elements of its prior decision described above.

Individual Former Employee Litigation

We are also named in approximately 30 lawsuits filed in the same labor court by individual former employees making similar claims. These lawsuits are each at various stages in the litigation process, with judgments being handed down in approximately half of the lawsuits, nearly all of which are on appeal in the labor courts.

We believe all of these lawsuits are without merit and are defending against them vigorously.

Pricing Litigation, Investigations, and Inquiries

Litigation

We, along with Sanofi and Novo Nordisk, are named as defendants in a consolidated purported class action lawsuit, *In re. Insulin Pricing Litigation*, in the U.S. District Court of New Jersey relating to insulin pricing. Plaintiffs seek damages under various state consumer protection laws and the Federal Racketeer Influenced and Corrupt Organization Act (federal RICO Act). Separately, we, along with Sanofi and Novo Nordisk, are named as defendants in *MSP Recovery Claims, Series, LLC et al. v. Sanofi Aventis U.S. LLC et al.*, in the same court, seeking damages under various state consumer protection laws, common law fraud, unjust enrichment, and the federal RICO Act. Also, in the same court, we, along with Sanofi and Novo Nordisk, had been named as defendants in a purported class action lawsuit, *Prof'l Drug Co., Inc. & FWK Holdings, LLC v. Novo Nordisk Inc. et al.,* seeking damages under the federal and New Jersey RICO Acts. Plaintiffs in that matter voluntarily dismissed their lawsuit in January 2020.

The Minnesota Attorney General's Office filed a complaint against us, Sanofi, and Novo Nordisk, State of Minnesota v. Sanofi-Aventis U.S. LLC et al., in the U.S. District Court of New Jersey, alleging unjust enrichment, and violations of various Minnesota state consumer protection laws and the federal RICO Act. Additionally, the Kentucky Attorney General's Office filed a complaint against us, Sanofi, and Novo Nordisk, Commonwealth of Kentucky v. Novo Nordisk, Inc. et al., in Kentucky state court, alleging violations of the Kentucky consumer protection law, false advertising, and unjust enrichment. Harris County in Texas filed a complaint against us, Sanofi, Novo Nordisk, Express Scripts, CVS, Optum, and Aetna, *County of Harris Texas v. Eli Lilly & Co., et al.*, in federal court in the Southern District of Texas, alleging violations of the federal RICO Act and RICO conspiracy, federal and state anti-trust law, and the state deceptive trade practices-consumer protection act. Harris County also alleges common law claims such as, fraud, unjust enrichment, and civil conspiracy. This lawsuit relates to our insulins as well as Trulicity.

We believe all of these claims are without merit and are defending against them vigorously.

Investigations, Subpoenas, and Inquiries

We have received a subpoena from the New York Attorney General's Office and civil investigative demands from the Washington, New Mexico, and Colorado Attorney General Offices relating to the pricing and sale of our insulin products. The Offices of the Attorney General in Mississippi, Washington D.C., California, Florida, Hawaii, and Nevada have requested information relating to the pricing and sale of our insulin products. We also received interrogatories from the California Attorney General's Office regarding our competition in the long-acting insulin market. We received two requests from the House of Representatives' Committee on Energy and Commerce and a request from the Senate's Committee on Health, Education, Labor, and Pensions, seeking certain information related to the pricing of insulin products, among other issues. We also received requests from the House of Representatives' Committee on Oversight and Reform and the Senate's Committee on Finance, which seek detailed commercial information and business records. We are cooperating with all of these aforementioned requests and investigations.

Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of additional product liability and related claims in the future. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently and previously marketed products.

Note 17: Other Comprehensive Income (Loss)

The following table summarizes the activity related to each component of other comprehensive income (loss):

	Continuing Operations					
(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Discontinued Operations	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2017 [1]	$ (1,686.6)	$ 224.0	$ (3,352.0)	$ (210.9)	$ (200.3)	$ (5,225.8)
Other comprehensive income (loss) before reclassifications	525.6	(15.7)	(532.1)	8.5	127.7	114.0
Net amount reclassified from accumulated other comprehensive loss	8.1	(110.6)	151.9	9.6	1.5	60.5
Net other comprehensive income (loss)	533.7	(126.3)	(380.2)	18.1	129.2	174.5
Reclassifications of stranded tax effects (Note 1)	(38.8)	15.8	(579.1)	(41.5)	—	(643.6)
Balance at December 31, 2017[2]	(1,191.7)	113.5	(4,311.3)	(234.3)	(71.1)	(5,694.9)
Reclassification due to adoption of new accounting standard[3]	—	(128.9)	—	—	—	(128.9)
Other comprehensive income (loss) before reclassifications	(378.0)	24.5	250.7	(16.3)	12.2	(106.9)
Net amount reclassified from accumulated other comprehensive loss	—	(31.2)	207.9	11.7	2.1	190.5
Net other comprehensive income (loss)	(378.0)	(6.7)	458.6	(4.6)	14.3	83.6
Balance at December 31, 2018[4]	(1,569.7)	(22.1)	(3,852.7)	(238.9)	(56.8)	(5,740.2)
Other comprehensive income (loss) before reclassifications	**(46.2)**	**28.9**	**(967.6)**	**14.5**	**(27.2)**	**(997.6)**
Net amount reclassified from accumulated other comprehensive loss	**(62.1)**	**(1.9)**	**181.7**	**12.5**	**84.0**	**214.2**
Net other comprehensive income (loss)	**(108.3)**	**27.0**	**(785.9)**	**27.0**	**56.8**	**(783.4)**
Ending balance at December 31, 2019	**$ (1,678.0)**	**$ 4.9**	**$ (4,638.6)**	**$ (211.9)**	**$ —**	**$ (6,523.6)**

[1] Accumulated other comprehensive loss as of January 1, 2017 consists of $5.27 billion of accumulated other comprehensive loss attributable to controlling interest and $48.2 million of accumulated other comprehensive income attributable to noncontrolling interest.

[2] Accumulated other comprehensive loss as of December 31, 2017 consists of $5.72 billion of accumulated other comprehensive loss attributable to controlling interest and $23.7 million of accumulated other comprehensive income attributable to noncontrolling interest.

[3] This reclassification consists of $105.2 million of accumulated other comprehensive loss attributable to controlling interest and $23.7 million of accumulated other comprehensive loss attributable to noncontrolling interest. Refer to Note 1 for further details regarding the reclassification due to the adoption of ASU 2016-01.

[4] Accumulated other comprehensive loss as of December 31, 2018 consists of $5.73 billion of accumulated other comprehensive loss attributable to controlling interest and $11.0 million of accumulated other comprehensive loss attributable to noncontrolling interest.

The tax effects on the net activity related to each component of other comprehensive income (loss) for the years ended December 31, were as follows:

Tax benefit (expense)	2019	2018	2017
Foreign currency translation gains/losses	**$ (18.4)**	$ 51.6	$ 170.8
Unrealized net gains/losses on securities	**(7.4)**	2.1	55.0
Defined benefit pension and retiree health benefit plans	**184.1**	(85.3)	186.6
Effective portion of cash flow hedges	**(7.3)**	1.3	(9.7)
Benefit/(provision) for income taxes allocated to other comprehensive income (loss) items	**$ 151.0**	$ (30.3)	$ 402.7

Except for the tax effects of foreign currency translation gains and losses related to our foreign currency-denominated notes, cross-currency interest rate swaps, and other foreign currency exchange contracts designated as net investment hedges (see Note 7), income taxes were not provided for foreign currency translation. 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 in shareholders' equity rather than in the consolidated statements of operations.

Reclassifications out of accumulated other comprehensive loss were as follows:

Details about Accumulated Other Comprehensive Loss Components	Year Ended December 31, 2019	2018	2017	Affected Line Item in the Consolidated Statements of Operations
Amortization of retirement benefit items:				
Prior service benefits, net	**$ (56.8)**	$ (74.9)	$ (84.4)	Other—net, (income) expense
Actuarial losses	**286.8**	338.6	305.2	Other—net, (income) expense
Total before tax	**230.0**	263.7	220.8	
Tax benefit	**(48.3)**	(55.8)	(68.9)	Income taxes
Net of tax	**181.7**	207.9	151.9	
Unrealized gains/losses on available-for-sale securities:				
Realized gains, net	**(2.4)**	(39.5)	(170.2)	Other—net, (income) expense
Tax expense	**0.5**	8.3	59.6	Income taxes
Net of tax	**(1.9)**	(31.2)	(110.6)	
Other, net of tax	**(49.6)**	11.7	17.7	Other—net, (income) expense
Reclassifications from continuing operations (net of tax)	**130.2**	188.4	59.0	
Reclassifications from discontinued operations (net of tax)	**84.0**	2.1	1.5	Net income (loss) from discontinued operations
Total reclassifications for the period, net of tax	**$ 214.2**	$ 190.5	$ 60.5	

Note 18: Other–Net, (Income) Expense

Other–net, (income) expense consisted of the following:

	2019	2018	2017
Interest expense	**$ 400.6**	$ 242.5	$ 225.0
Interest income	**(80.4)**	(159.3)	(166.4)
Debt extinguishment loss (Note 11)	**252.5**	—	—
Gain on sale of antibiotic business in China (Note 3)	**(309.8)**	—	—
Retirement benefit	**(209.9)**	(240.5)	(249.0)
Other (income) expense	**(344.6)**	11.7	(111.1)
Other–net, (income) expense	**$ (291.6)**	$ (145.6)	$ (301.5)

For the years ended December 31, 2019 and 2017, other income was primarily related to net gains on investments (Note 7).

Note 19: Discontinued Operations

On September 24, 2018, Elanco completed its initial public offering (IPO) resulting in the issuance of 72.3 million shares of its common stock, which represented 19.8 percent of Elanco's outstanding shares, at $24 per share.

In connection with the completion of the IPO, through a series of equity and other transactions, we transferred to Elanco the animal health businesses that formed its business. In exchange, Elanco transferred to us consideration of approximately $4.2 billion, which consisted primarily of the net proceeds from the IPO and the net proceeds from a $2.00 billion debt offering and a $500.0 million three-year term loan facility entered into by Elanco in August 2018. The consideration that we received was used for debt repayment, dividends, and share repurchases. The excess of the net proceeds from the IPO over the net book value of our divested interest was $629.2 million and was recorded in additional paid-in capital. As of December 31, 2018, the noncontrolling interest of $1.02 billion associated with Elanco was reflected in noncontrolling interests in the consolidated balance sheet.

Through March 11, 2019, we continued to consolidate Elanco, as we retained control over Elanco. We completed the disposition of our remaining 80.2 percent ownership of Elanco common stock through a tax-free exchange offer that closed on on March 11, 2019 (the disposition date). The earnings attributable to the divested, noncontrolling interest for the period from the IPO until disposition were not material.

As a result of the disposition, in the first quarter of 2019, we recognized a gain related to the disposition of approximately $3.7 billion, and we presented Elanco, including the gain related to the disposition, as discontinued operations in our consolidated financial statements for all periods presented.

The following table sets summarizes revenue and net income (loss) from discontinued operations:

	2019	2018	2017
Revenue from discontinued operations	**$ 580.0**	$ 3,062.4	$ 2,897.5
Net income (loss) from discontinued operations	**3,680.5**	81.4	(117.7)

The following table presents the major classes of assets and liabilities from discontinued operations at December 31, 2018:

	December 31, 2018
Inventories	$ 1,013.7
Other current assets	1,215.4
Current assets of discontinued operations	$ 2,229.1
Goodwill	$ 2,980.9
Other intangibles, net	2,453.0
Property and equipment, net	923.4
Other assets	126.8
Noncurrent assets of discontinued operations	$ 6,484.1
Current liabilities of discontinued operations	$ 692.8
Long-term debt	$ 2,443.3
Other liabilities	299.0
Noncurrent liabilities of discontinued operations	$ 2,742.3

The gain related to the disposition of Elanco in the consolidated statement of cash flows includes the operating results of Elanco through the disposition date, which were not material. Net cash flows of our discontinued operations for operating and investing activities for the year ended December 31, 2019 were not material. Net cash provided by operating activities related to our discontinued operations was approximately $500 million and $300 million for the years ended December 31, 2018 and 2017, respectively. Net cash used by investing activities related to our discontinued operations was approximately $130 million and $960 million for the years ended December 31, 2018 and 2017, respectively.

We entered into a transitional services agreement (TSA) with Elanco that is designed to facilitate the orderly transfer of various services to Elanco. The TSA relates primarily to administrative services, which are generally to be provided over 24 months from the disposition date. This agreement is not material and does not confer upon us the ability to influence the operating and/or financial policies of Elanco subsequent to the disposition date.

Note 20: Selected Quarterly Data (unaudited)

2019	Fourth	Third	Second	First
Revenue	$ 6,114.0	$ 5,476.6	$ 5,636.7	$ 5,092.2
Cost of sales	1,282.6	1,175.0	1,124.9	1,138.7
Operating expenses[1]	3,279.5	2,793.2	2,988.5	2,747.6
Acquired IPR&D	—	77.7	25.0	136.9
Asset impairment, restructuring, and other special charges[2]	151.7	—	—	423.9
Income before income taxes	1,663.1	1,405.8	1,465.9	731.1
Income taxes	167.4	151.9	138.7	170.0
Net income from continuing operations	1,495.7	1,253.9	1,327.2	561.1
Net Income from discontinued operations	—	—	—	3,680.5
Net income	1,495.7	1,253.9	1,327.2	4,241.6
EPS from continuing operations - basic	1.64	1.37	1.44	0.57
EPS from discontinued operations - basic	—	—	—	3.76
EPS—basic	1.64	1.37	1.44	4.33
EPS from continuing operations - diluted	1.64	1.37	1.44	0.57
EPS from discontinued operations - diluted	—	—	—	3.74
EPS—diluted	1.64	1.37	1.44	4.31
Dividends paid per share	0.6450	0.6450	0.6450	0.6450

2018	Fourth	Third	Second	First
Revenue	$ 5,637.6	$ 5,306.9	$ 5,585.0	$ 4,963.8
Cost of sales	1,129.9	1,152.9	1,234.3	1,164.6
Operating expenses[1]	3,085.5	2,738.1	2,756.6	2,446.2
Acquired IPR&D[3]	329.4	30.0	1,624.5	—
Asset impairment, restructuring, and other special charges	192.7	42.9	(25.5)	56.8
Income before income taxes	931.6	1,341.1	41.7	1,365.7
Income taxes[4]	(189.8)	247.5	273.3	198.5
Net income (loss) from continuing operations	1,121.4	1,093.6	(231.6)	1,167.2
Net Income (loss) from discontinued operations	3.7	55.9	(28.3)	50.2
Net income (loss)	1,125.1	1,149.5	(259.9)	1,217.4
Earnings (loss) per share from continuing operations - basic	1.11	1.07	(0.22)	1.11
Earnings (loss) per share from discontinued operations - basic	—	0.06	(0.03)	0.05
Earnings (loss) per share—basic	1.11	1.13	(0.25)	1.16
Earnings (loss) per share from continuing operations - diluted	1.10	1.07	(0.22)	1.11
Earnings (loss) per share from discontinued operations - diluted	—	0.05	(0.03)	0.05
Earnings (loss) per share—diluted	1.10	1.12	(0.25)	1.16
Dividends paid per share	0.5625	0.5625	0.5625	0.5625

[1] Includes research and development and marketing, selling, and administrative expenses.

[2] Asset impairment, restructuring, and other special charges in the first quarter of 2019 were primarily associated with the accelerated vesting of Loxo employee equity awards as a result of the closing of the acquisition of Loxo. See Note 5 for further discussion.

[3] Acquired IPR&D charges in the second quarter of 2018 were primarily due to the ARMO acquisition. See Note 3 for further discussion.

[4] Income taxes in the fourth quarter of 2018 were a tax benefit primarily due to adjustments associated with U.S. tax reform. See Note 14 for further discussion.

Our common stock is listed under the ticker symbol LLY on the New York Stock Exchange (NYSE).

Management's Reports

Management's Report for Financial Statements—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for the accuracy, integrity, and fair presentation of the financial statements. The statements have been prepared in accordance with generally accepted accounting principles in the United States and include amounts based on judgments and estimates by management. In management's opinion, the consolidated financial statements present fairly our financial position, results of operations, and cash flows.

In addition to the system of internal accounting controls, we maintain a code of conduct (known as "*The Red Book*") that applies to all employees worldwide, requiring proper overall business conduct, avoidance of conflicts of interest, compliance with laws, and confidentiality of proprietary information. All employees must take training annually on *The Red Book* and are required to report suspected violations. A hotline number is published in *The Red Book* to enable employees to report suspected violations anonymously. Employees who report suspected violations are protected from discrimination or retaliation by the company. In addition to *The Red Book*, the chief executive officer and all financial management must sign a financial code of ethics, which further reinforces their ethical and fiduciary responsibilities.

The consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. Their responsibility is to examine our consolidated financial statements in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Ernst & Young's opinion with respect to the fairness of the presentation of the statements is included in our Annual Report. Ernst & Young reports directly to the audit committee of the board of directors.

Our audit committee includes five nonemployee members of the board of directors, all of whom are independent from our company. The committee charter, which is available on our website, outlines the members' roles and responsibilities. It is the audit committee's responsibility to appoint an independent registered public accounting firm subject to shareholder ratification, approve both audit and non-audit services performed by the independent registered public accounting firm, and review the reports submitted by the firm. The audit committee meets several times during the year with management, the internal auditors, and the independent public accounting firm to discuss audit activities, internal controls, and financial reporting matters, including reviews of our externally published financial results. The internal auditors and the independent registered public accounting firm have full and free access to the committee.

We are dedicated to ensuring that we maintain the high standards of financial accounting and reporting that we have established. We are committed to providing financial information that is transparent, timely, complete, relevant, and accurate. Our culture demands integrity and an unyielding commitment to strong internal practices and policies. Finally, we have the highest confidence in our financial reporting, our underlying system of internal controls, and our people, who are objective in their responsibilities and operate under a code of conduct and are subject to the highest level of ethical standards.

Management's Report on Internal Control Over Financial Reporting—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. We have global financial policies that govern critical areas, including internal controls, financial accounting and reporting, fiduciary accountability, and safeguarding of corporate assets. Our internal accounting control systems 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. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls. The general auditor reports directly to the audit committee of the board of directors.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "2013 *Internal Control—Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation under this framework, we concluded that our internal control over financial reporting was effective as of December 31, 2019. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The internal control over financial reporting has been assessed by Ernst & Young LLP as of December 31, 2019. Their responsibility is to evaluate whether internal control over financial reporting was designed and operating effectively.

David A. Ricks
Chairman, President and Chief Executive Officer

Joshua L. Smiley
Senior Vice President and Chief Financial Officer

February 19, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Eli Lilly and Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Adoption of Accounting Standards Update ("ASU") No. 2016-16

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for the recognition of income tax consequences of intra-entity transfers of assets other than inventory in 2018 due to the adoption of ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*, using the modified retrospective adoption method.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Medicaid, Managed Care, and Medicare sales rebate accruals

Description of the Matter

As described in Note 1 to the consolidated financial statements under the caption "Revenue Recognition," the Company establishes provisions for sales rebate and discounts in the same period as the related sales occur. At December 31, 2019 the Company had $4,933.6 million in sales rebate and discount accruals. A large portion of these accruals are rebates associated with sales in the United States for which payment for purchase of the product is covered by Medicaid, Managed Care, and Medicare.

Auditing the Medicaid, Managed Care, and Medicare sales rebate and discount liabilities is challenging because of the subjectivity of certain assumptions required to estimate the rebate liabilities. In calculating the appropriate accrual amount, the Company considers historical Medicaid, Managed Care, and Medicare rebate payments by product as a percentage of their historical sales as well as any significant changes in sales trends, the lag in payment timing, an evaluation of the current Medicaid and Medicare laws and interpretations, the percentage of products that are sold via Medicaid, Managed Care, and Medicare, and product pricing. For Medicaid, there is significant complexity associated with calculating the legislated Medicaid rebates. Management utilizes employees with legislative experience and knowledge in developing assumptions used to calculate Medicaid rebates. Similarly, for Managed Care and Medicare, given variability in prescription drug costs, continued historical year over year increases in enrollees and variability in prescription data, historical rebate information may not be predictive for management to estimate the rebate accrual and thus, management supplements its historical data analysis with qualitative adjustments based upon current utilization.

How We Addressed the Matter in Our Audit

We tested the Company's controls addressing the identified risks of material misstatement related to the valuation of the sales rebate and discount liabilities. This included testing controls over management's review of the significant assumptions used to calculate the Medicaid, Managed Care, and Medicare rebate liabilities, including the significant assumptions discussed above. This testing also included management's control to compare actual activity to forecasted activity and controls to ensure the data used to evaluate the significant assumptions was complete and accurate.

Our audit procedures included, among others, evaluating for reasonableness the significant assumptions in light of economic trends, product profiles, and other regulatory factors. Our testing involved assessing the historical accuracy of management's estimates by comparing actual activity to previous estimates and performing analytical procedures, based on internal and external data sources, to evaluate the completeness of the reserves. Additionally, our procedures included reviewing a sample of contracts, testing a sample of rebate payments and testing the underlying data used in management's evaluation. For Medicaid, we involved our professional with an understanding of the statutory reimbursement requirements to assess the consistency of the Company's calculation methodologies with the applicable government regulations and policy. For Medicare we evaluated the reasonableness of assumptions made by management in estimating the Medicare coverage gap liability.

Retirement Benefits - Valuation of Alternative Investments

Description of the Matter

As described in Note 15 to the consolidated financial statements under the caption "Benefit Plan Investments," the Company's benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. At December 31, 2019 the Company had $15,626.2 million in plan assets related to the defined benefit pension plans and retiree health benefit plans. Approximately 40% of the total pension and retiree assets are in hedge funds and private equity-like investment funds ("alternative investments"). These alternative investments are valued using significant unobservable inputs or are valued at net asset value (NAV) reported by the counterparty, adjusted as necessary.

Auditing the fair value of these alternative investments is challenging because of the higher estimation uncertainty of the inputs to the fair value calculations, including the underlying net asset values ("NAVs"), discounted cash flow valuations, comparable market valuations, and adjustments for currency, credit, liquidity and other risks. Additionally, certain information regarding the fair value of these alternative investments is based on unaudited information available to management at the time of valuation.

How We Addressed the Matter in Our Audit

We tested the Company's controls addressing the risks of material misstatement relating to valuation of alternative investments. This included testing management's review controls over alternative investment valuation, which included a comparison of returns to benchmarks and in-person or telephonic meetings with investment firms to discuss valuation policies and procedures.

Our audit procedures included, among others, comparing fund returns to selected relevant benchmarks and understanding variations, obtaining the latest audited financial statements and comparing to the Company's estimated fair values and reconciling any differences. We also inquired of management about changes to the investment portfolio and/or related investment strategies and considerations. We assessed the historical accuracy of management's estimates by comparing actual activity to previous estimates. We evaluated for contrary evidence by confirming the fair value of the investments and ownership interest directly with the trustees and a sample of managers at year end.

Valuation of intangible assets related to the Loxo Oncology (Loxo) Acquisition

Description of the Matter

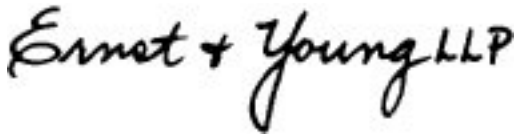
As described in Note 3 to the consolidated financial statements, in February 2019, the Company completed its acquisition of Loxo Oncology, Inc. (Loxo) for a purchase price of $6.92 billion, net of cash acquired. As a result of the acquisition, the Company acquired a pipeline of investigational medicines, including LOXO-292, an oral RET inhibitor that has been granted Breakthrough Therapy designation by the U.S. Food and Drug Administration. LOXO-292 was accounted for as an indefinite-lived in-process research and development (IPR&D) asset and valued at $4.60 billion.

Auditing the valuation of the LOXO-292 IPR&D asset was complex because of the significant estimation uncertainty in determining the fair value of the asset. The fair value determination is based on a discounted cash flow model using certain assumptions for which there is high subjectivity, such as revenue growth, probability of technical success and discount rate. These significant assumptions are forward-looking and could be affected by future economic and market conditions. Further, the estimated fair value of the IPR&D asset was sensitive to changes in these assumptions.

How We Addressed the Matter in Our Audit

We tested the Company's controls addressing the identified risks of material misstatement related to the valuation of the IPR&D asset. For example, we tested controls over management's review of the significant assumptions used to calculate the valuation of the intangible assets acquired including forecasts of future cash flows and review of the valuation model.

Our audit procedures included, among others, obtaining an understanding of management's approach to developing the probability of technical success and evaluating the reasonableness by comparing to analyst expectations, historical results of similar products in development and industry trends, to the extent applicable. We also evaluated the reasonableness of the projected revenue growth used within the valuation against analyst expectations, industry trends, market trends, other market information and identified contrary evidence. We involved our valuation specialist to evaluate the discounted cash flow model used by the Company and to test the discount rate utilized in the Company's valuation. Lastly, we evaluated the appropriateness of the Company's related disclosures.



We have served as the Company's auditor since 1940.

Indianapolis, Indiana

February 19, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Eli Lilly and Company

Opinion on Internal Control Over Financial Reporting

We have audited Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Eli Lilly and Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 19, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

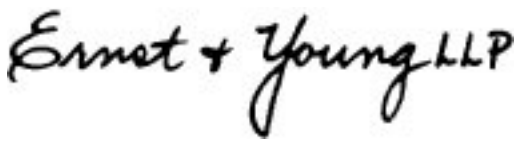
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Indianapolis, Indiana

February 19, 2020

Selected Financial Data (unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except revenue per employee and per-share data)	2019	2018	2017	2016	2015
Operations[1]					
Revenue	**$ 22,319.5**	$ 21,493.3	$ 19,973.8	$ 18,312.8	$ 17,050.5
Cost of sales	**4,721.2**	4,681.7	4,447.7	4,160.5	3,373.1
Research and development	**5,595.0**	5,051.2	5,096.2	5,040.0	4,514.2
Marketing, selling, and administrative	**6,213.8**	5,975.1	5,982.4	5,841.9	5,732.4
Other[2]	**523.6**	2,105.2	2,142.7	(5.9)	538.9
Income before income taxes	**5,265.9**	3,680.1	2,304.8	3,276.3	2,891.9
Income taxes[3]	**628.0**	529.5	2,391.2	551.4	379.7
Net income (loss) from continuing operations	**4,637.9**	3,150.6	(86.4)	2,724.9	2,512.2
Net income (loss)[4]	**8,318.4**	3,232.0	(204.1)	2,737.6	2,408.4
Earnings (loss) per share from continuing operations—diluted	**4.96**	3.05	(0.08)	2.57	2.36
Earnings (loss) per share—diluted[4]	**8.89**	3.13	(0.19)	2.58	2.26
Dividends declared per share	**2.68**	2.33	2.12	2.05	2.01
Weighted-average number of shares outstanding —diluted (thousands)	**935,684**	1,033,667	1,052,023	1,061,825	1,065,720
Financial Position[1]					
Total assets	**$ 39,286.1**	$ 43,908.4	$ 44,981.0	$ 38,805.9	$ 35,568.9
Long-term debt	**13,817.9**	9,196.4	9,940.0	8,367.4	7,971.4
Supplementary Data[1]					
Return on total equity[4]	**184.9%**	25.7%	(1.5)%	18.5%	16.1%
Return on assets[4]	**21.0%**	7.3%	(0.5)%	7.5%	6.8%
Revenue per employee	**$ 664,000**	$ 650,000	$ 575,000	$ 510,000	$ 490,000
Number of employees	**33,625**	33,090	34,750	35,910	34,790
Number of shareholders of record	**22,600**	24,000	25,300	26,800	28,000

[1] On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco Animal Health (Elanco) common stock through a tax-free exchange offer. As a result, Elanco has been presented as discontinued operations in our consolidated financial statements for all periods presented. See Note 19 to the consolidated financial statements for discussion regarding discontinued operations.

[2] Other includes acquired in-process research and development, asset impairment, restructuring, and other special charges, and other —net, (income) expense. See Note 3 to the consolidated financial statements for discussion regarding in-process research and development charges. See Note 5 to the consolidated financial statements for discussion regarding asset impairment, restructuring, and other special charges.

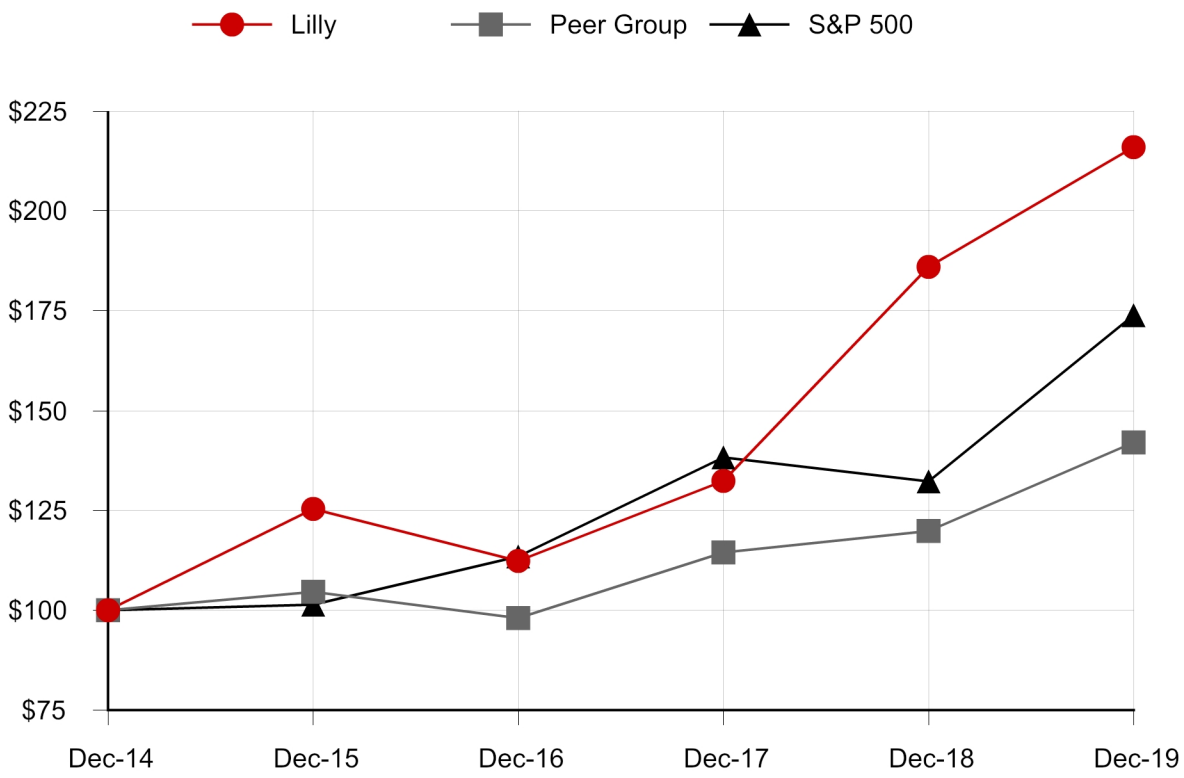
[3] See Note 14 to the consolidated financial statements for discussion regarding income taxes.

[4] The 2019 increase was primarily driven by a gain of approximately $3.7 billion related to the disposition of Elanco. The 2019 increase in earnings (loss) per share and return on equity were also driven by the reduction of common stock related to the disposition of Elanco. See Note 19 to the consolidated financial statements for discussion regarding discontinued operations.

PERFORMANCE GRAPH

This graph compares the return on Lilly stock with that of the Standard & Poor's 500 Stock Index and our peer group for the years 2015 through 2019. The graph assumes that, on December 31, 2014, a person invested $100 each in Lilly stock, the S&P 500 Stock Index, and the peer group's collective common stock. The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are reinvested in that company's stock.

Value of $100 Invested on Last Business Day of 2014
Comparison of Five-Year Cumulative Total Return Among Lilly, S&P 500 Stock Index, Peer Group[1] and Peer Group (Previous)[2]



	Lilly	Peer Group	Peer Group (Previous)	S&P 500
Dec-14	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Dec-15	$ 125.37	$ 104.58	$ 101.48	$ 101.38
Dec-16	$ 112.36	$ 98.05	$ 98.82	$ 113.51
Dec-17	$ 132.40	$ 114.47	$ 115.88	$ 138.29
Dec-18	$ 185.96	$ 119.86	$ 123.99	$ 132.23
Dec-19	$ 215.99	$ 142.01	$ 146.32	$ 173.86

[1] We constructed the peer group as the industry index for this graph. It is comprised of the following companies in the pharmaceutical and biotech industries: AbbVie Inc.; Allergan plc; Amgen Inc.; AstraZeneca plc; Biogen Inc.; Bristol-Myers Squibb Company; Gilead Sciences Inc.; GlaxoSmithKline plc; Johnson & Johnson; Merck & Co., Inc.; Novartis AG.; Novo Nordisk A/S; Pfizer Inc.; Roche Holding AG; Sanofi; and Takeda Pharmaceutical Company Limited. The peer group used for performance benchmarking aligns with the peer group used for executive compensation purposes for 2019 other than our peer group for performance benchmarking excludes Celgene Corporation and Shire plc as they were acquired in 2019.

[2] Our previous peer group is the same as the peer group, except that Allergan plc, Novo Nordisk A/S and Takeda Pharmaceutical Company Limited were added to and Baxter International Inc. and Medtronic plc were removed from the peer group. Our peer group (previous) excludes Celgene Corporation and Shire plc as they were acquired in 2019. The peer group (previous) total shareholder return is not presented in the graph above as the graph substantially overlapped the peer group total shareholder return.

Trademarks Used In This Report

Trademarks or service marks owned by Eli Lilly and Company or its 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 may be omitted.

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Notice of 2020 Annual Meeting of Shareholders and Proxy Statement

YOUR VOTE IS IMPORTANT

Please vote online, by telephone, or by signing, dating, and returning the enclosed proxy card by mail.

Letter from Our Chairman and Lead Independent Director

Dear fellow Lilly shareholders,

Thank you for your continued support of Eli Lilly and Company. We cordially invite you to attend the 2020 Annual Meeting of Shareholders. We are pleased with Lilly's strong performance in 2019 and look forward to an exciting year in 2020.

Board engagement with shareholders and other key stakeholders is core to how we govern the company. In 2019, we spoke with a number of investors on topics such as eliminating the company's classified board and supermajority voting requirements; environmental, social, and governance topics including drug pricing, product quality, and safety; our board and corporate culture; litigation and key enterprise risks; the company's executive compensation; and proxy access, among other topics. As a result of input from stakeholders, we recently amended the company's bylaws to include proxy access provisions. Further, this year, as in past years, the board is putting forward management proposals to eliminate the classified board structure and supermajority voting provisions.

We are dedicated to effective oversight of our business and believe that governance is key to the board's oversight of our long-term performance, strategy, key risks, and compliance. Our board believes independence is essential to strong corporate governance. Having both an executive chair and a strong, lead independent director is important in balancing inputs. Our chief executive officer provides strong operational leadership coupled with a long-term strategic agenda. This is vital to our innovative research and development business with prolonged product development cycles. Further, the lead independent director, currently a chief executive officer for a Fortune 100 company, drives an "outside in" analysis of company decisions and performance and leads our independent directors in their important oversight function.

We remain committed to serving you and the millions of patients around the world whose lives it is our mission to make better. We look forward to seeing you at the 2020 Annual Meeting of Shareholders.

Sincerely,

David A. Ricks
Chairman, President, and CEO

Juan Luciano
Lead Independent Director

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Notice of 2020 Annual Meeting of Shareholders

To the holders of Common Stock of Eli Lilly and Company:

The 2020 Annual Meeting of Shareholders of Eli Lilly and Company will be held as shown below:

TIME AND DATE	LOCATION*	WHO CAN VOTE
11:00 a.m. EDT, Monday, May 4, 2020	The Lilly Center Auditorium Lilly Corporate Center Indianapolis, Indiana 46285	Shareholders of record at close of business on March 9, 2020

This proxy statement is dated March 20, 2020, and is first being sent or given to our shareholders on or about that date.

ITEMS OF BUSINESS

	Management Proposals	Board Voting Recommendation	Page Reference
Item 1	Election of the five directors listed in the proxy statement to serve three-year terms	**FOR** each of the director nominees	10
Item 2	Approval, by non-binding vote, of the compensation paid to the company's named executive officers	**FOR**	34
Item 3	Ratification of Ernst & Young LLP as the independent auditor for 2020	**FOR**	62
Item 4	Approve amendments to the Articles of Incorporation to eliminate the classified board structure	**FOR**	64
Item 5	Approve amendments to the Articles of Incorporation to eliminate supermajority voting provisions	**FOR**	65
	Shareholder Proposals		
Item 6	Shareholder proposal to disclose direct and indirect lobbying activities and expenditures	**AGAINST**	67
Item 7	Shareholder proposal to publish a report on the effectiveness of the forced swim test	**AGAINST**	68
Item 8	Shareholder proposal to amend the bylaws to require an independent board chair	**AGAINST**	70
Item 9	Shareholder proposal on board diversity requesting disclosures of specific minimum qualifications and board nominee skills, experience, and ideological perspective	**AGAINST**	72
Item 10	Shareholder proposal to publish feasibility report on incorporating public concern over drug prices into senior executive compensation arrangements	**AGAINST**	74
Item 11	Shareholder proposal to implement a bonus deferral policy	**AGAINST**	75
Item 12	Shareholder proposal to disclose clawbacks on executive incentive compensation due to misconduct	**AGAINST**	76

Admission procedure for attending the annual meeting: In 2019, we introduced a new admission procedure to attend the annual meeting, and we will be utilizing the same procedure again this year. To attend the meeting, you must preregister for an admission ticket before 5:00 p.m. on April 28, 2020. For further details on the admission process and for information regarding how to attend the meeting, see the section titled "Other Information - Meeting and Voting Logistics."

Every shareholder vote is important. Even if you plan to attend the meeting in person, we encourage you to sign, date, and return your proxy card or voting instructions by mail, or to vote by telephone or online promptly so that a quorum may be represented at the meeting.

By order of the Board of Directors,

Bronwen L. Mantlo
Secretary

March 20, 2020
Indianapolis, Indiana

***As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held by means of remote communication. If we take this step, we will announce the decision to do so in advance, and details on how to participate will be available at investor.lilly.com/proxy.**

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 4, 2020: The annual report and proxy statement are available at **lilly.com/disclosures/2019-annual-report**.

Proxy Statement Summary

New in This Year's Proxy Statement

In May 2019, Ellen Marram retired from the board; Juan Luciano was elected by the board to serve as the board's lead independent director following the 2019 annual meeting of shareholders.

After considering the interests of the company and our shareholders, we recently amended the company's bylaws to include proxy access provisions. Further, this year, as in past years, the board has approved, and recommends that the shareholders approve, the following management proposals at this year's meeting. The board recommends approval of amendments to the company's articles of incorporation to eliminate the classified board structure (see Item 4 herein) and to eliminate supermajority voting provisions (see Item 5 herein). The board believes these two proposals balance shareholder interests and demonstrate its accountability and willingness to take steps that address shareholder-expressed concerns.

The information contained in, or that can be accessed through, our website is not a part of, or incorporated by reference in, this proxy statement.

Highlights of 2019 Company Performance

The following provides a brief look at our 2019 performance in three dimensions: operating performance, progress in our innovation pipeline, business development, and shareholder return (both absolute and relative). See our 2019 annual report on Form 10-K for more details.

Operating Performance

Performance highlights:

- 2019 revenue increased 4 percent to approximately $22.3 billion.
- 2019 earnings per share (EPS) on a reported basis were $8.89, compared to 2018 EPS on a reported basis of $3.13.
- 2019 EPS increased 11 percent on a non-GAAP basis to $6.04.

Reported results were prepared in accordance with U.S. generally accepted accounting principles (GAAP), include all revenue and expenses recognized during the periods, and reflect Elanco Animal Health as discontinued operations. A reconciliation of EPS on a reported basis to EPS on a non-GAAP basis is included in Appendix A.

2019 Innovation and Business Development Progress

We made significant pipeline advances in 2019, including:

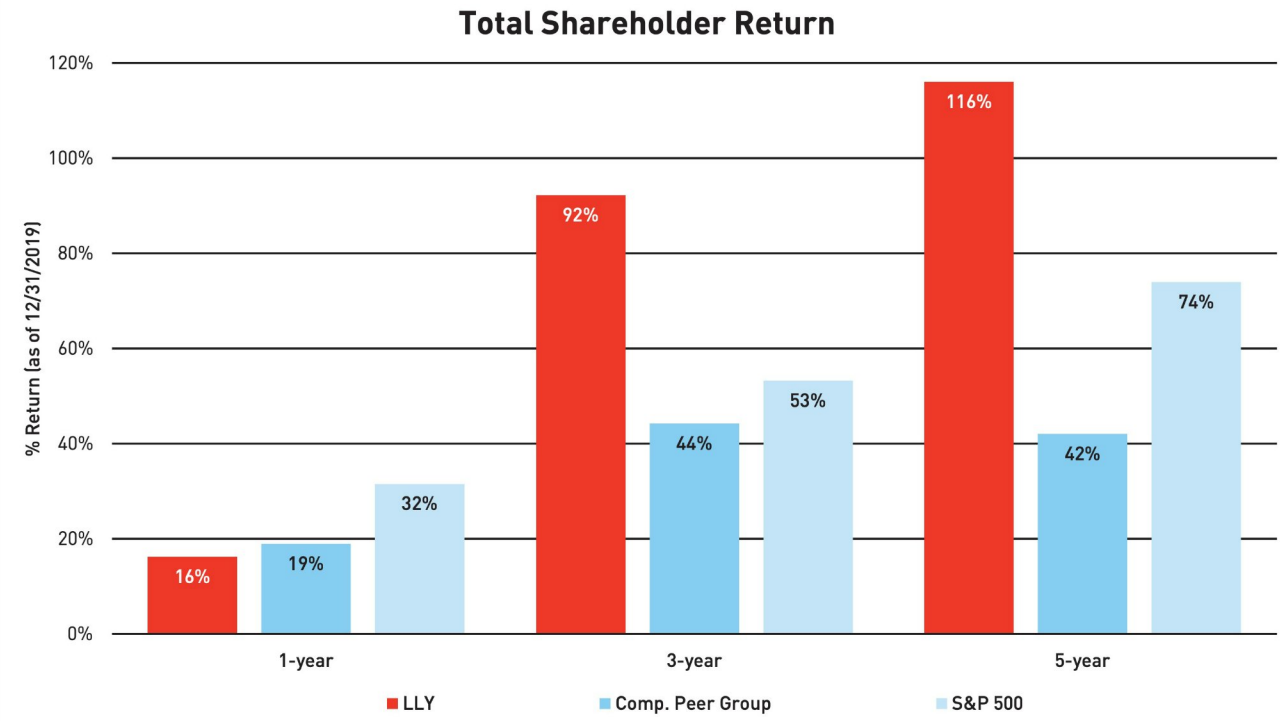
- U.S. approval of Reyvow™ (lasmiditan), an oral medication for the acute treatment of migraine.
- U.S. approval of Baqsimi® (glucagon) nasal powder for the treatment of severe hypoglycemia in people with diabetes.
- U.S. approval of a new indication for Emgality® (galcanezumab-gnlm) for the treatment of episodic cluster headache.
- U.S. approval of a new indication for Taltz® (ixekizumab) for the treatment of active ankylosing spondylitis, also known as radiographic axial spondyloarthritis.
- U.S. approval of a new indication for Alimta® (pemetrexed for injection) in combination with Keytruda® and platinum chemotherapy for the first-line treatment of patients with metastatic nonsquamous non-small cell lung cancer.
- EU approval of an update to the Trulicity® (dulaglutide) label and indication statement to include results from the REWIND™ cardiovascular outcomes trial.
- Introduction in the U.S. of Insulin Lispro, a lower-priced version of Humalog®, providing patients with diabetes an insulin option with a list price 50 percent lower than the current Humalog list price.

We also completed multiple significant strategic development activities in 2019, including:

- the divestiture of Elanco Animal Health, Inc.
- acquisitions, license agreements, and research collaborations to strengthen our pipeline, including the acquisition of Loxo Oncology, Inc., broadening the scope of Lilly's oncology portfolio into precision medicines through the addition of a promising pipeline of investigational medicines, including LOXO-292 (selpercatinib), a first-in-class oral RET inhibitor, and LOXO-305, an oral BTK inhibitor.

Shareholder Returns

We generated strong shareholder returns (share price appreciation plus dividends, reinvested quarterly) through year-end 2019. Our returns significantly exceeded both the compensation peer group and the S&P 500 across the three- and five-year time periods presented below:



Governance

Item 1: Election of Directors

Further information see page 10

	Name and principal occupation	Public boards	Management recommendation	Vote required to pass
	**Michael L. Eskew, 70** Retired Chairman and CEO, United Parcel Service, Inc. Director since 2008	3M Corporation IBM Corporation Allstate Insurance Company	**Vote FOR**	**Majority of votes cast**
	**William G. Kaelin, Jr., M.D., 62** Sidney Farber Professor of Medicine Harvard Medical School Director since 2012		**Vote FOR**	**Majority of votes cast**
	**David A. Ricks, 52** Chairman, President, and CEO, Eli Lilly and Company Director since 2017	Adobe	**Vote FOR**	**Majority of votes cast**
	**Marschall S. Runge, M.D., Ph.D., 65** Executive Vice President for Medical Affairs and Medical School Dean, University of Michigan; CEO Michigan Medicine Director since 2013		**Vote FOR**	**Majority of votes cast**
	**Karen Walker, 58** Senior Vice President and Chief Marketing Officer, Intel Corporation Director since 2018		**Vote FOR**	**Majority of votes cast**

Our Corporate Governance Policies Reflect Best Practices

Strategy and risk oversight

- ✓ Our board actively oversees and approves our corporate strategy.
- ✓ Our board and board committee agendas are structured to engage our directors in informed reviews of strategic and forward-looking issues, as well as in constructive challenge to management initiatives and programs.
- ✓ Our board oversees the state of our compliance program and reviews our enterprise-level risks and risk management practices.
- ✓ We have a comprehensive code of ethical and legal business conduct applicable to our board and all employees worldwide. This code is reviewed and approved annually by the board.

- ✓ We have a supplemental code for our CEO and all members of financial management, in recognition of their unique responsibilities to ensure proper accounting, financial reporting, internal controls, and financial stewardship.
- ✓ The charters of the board committees clearly establish the committees' respective roles and responsibilities.
- ✓ We have an annual cap on director compensation.

Board skills and experience

- ✓ Our board membership is characterized by leadership, experience, and diversity.
- ✓ We conduct orientation and continuing education programs for directors.
- ✓ Our board conducts a robust annual assessment of board performance led by the lead independent director, including an annual assessment of each individual director.
- ✓ We are committed to board refreshment and seek to balance continuity and fresh perspectives. Our director composition reflects a mix of tenure on the board. Currently, eight directors have served on the board for six years or more and five directors have served on the board for five years or less.

Focus on independence

- ✓ 12 of our 13 directors are independent.
- ✓ We have a strong, independent, clearly defined lead independent director role with significant governance duties, including conducting regular executive sessions of independent directors.
- ✓ All standing board committees are composed solely of independent directors.
- ✓ Our board holds executive sessions of the independent directors at every regular board meeting and most committee meetings.
- ✓ Our independent directors actively engage in board meetings, have direct access to management, and have sole discretion to hire independent advisors at the company's expense.
- ✓ Our independent directors select and evaluate our CEO and ensure we have a strong succession plan for executive officer roles. Our Compensation Committee determines the compensation for our CEO and other executive officers.
- ✓ Our conflict of interest policy requires disclosures of potential conflicts to Lilly and clarifies when Lilly board service must be disclosed to others.

Governance and accountability to shareholders

- ✓ Our board values active shareholder engagement. **In response to input from shareholders, we have put forward for consideration at this year's annual meeting management proposals to eliminate our classified board structure and supermajority voting provisions.**
- ✓ **In addition, in December 2019, the board amended the company's bylaws to add proxy access rights for shareholders holding at least three percent of the company's stock for at least three years to nominate board candidates for up to 20 percent of the board seats.**
- ✓ We have a majority voting standard and resignation policy for the election of directors in uncontested elections.
- ✓ We have no shareholder rights plan ("poison pill").
- ✓ We have meaningful stock ownership and retention guidelines for our directors and executive officers to foster alignment with shareholders.

Sustainability

- ✓ Our board has a longstanding commitment to corporate responsibility.
- ✓ We have strong governance and disclosure of corporate political spending.
- ✓ We have transparent public policy engagement.
- ✓ Our board oversees and maintains ongoing engagement with our senior executives on key environmental, social, and governance matters, including cybersecurity, sustainability, and human capital management.
- ✓ We publish annual corporate responsibility reports describing our corporate citizenship efforts across key focus areas.

Compensation

Item 2: Advisory Vote on Compensation Paid to Named Executive Officers	Management recommendation	Vote required to pass
Further information see page 34	**Vote FOR**	Majority of votes cast

Our Executive Compensation Programs Reflect Best Practices

- ✓ We have had strong shareholder support of our compensation practices: for the last five consecutive years, over 97 percent of shares cast voted in favor of our executive compensation programs.
- ✓ Our compensation programs are designed to align with shareholder interests and link pay to performance through a blend of short- and long-term performance measures.
- ✓ Our Compensation Committee annually reviews our compensation programs to ensure they provide incentives to deliver long-term, sustainable business results while discouraging excessive risk-taking and other adverse behaviors.
- ✓ We have a broad compensation recovery or "clawback" policy that applies to all executives and covers a wide range of misconduct.
- ✓ Our executive officers are subject to robust stock ownership and retention guidelines and are prohibited from hedging or pledging their company stock.
- ✓ We do not have "top hat" retirement plans. Supplemental plans are open to all employees and are limited to restoring benefits lost due to IRS limits on qualified plans.
- ✓ We do not provide tax gross-ups to executive officers (except for limited gross-ups related to international assignments).
- ✓ We have a very restrictive policy on perquisites.
- ✓ Our severance plans related to change-in-control generally require a double trigger.
- ✓ We do not have employment agreements with any of our executive officers.

Executive Compensation Summary for 2019

At the time the total target compensation was established at the end of 2018, target compensation for our named executive officers (the five officers whose compensation is disclosed in this proxy statement) was slightly below median of the company's peer group. Incentive compensation payouts exceeded target, consistent with the company's strong performance in 2019.

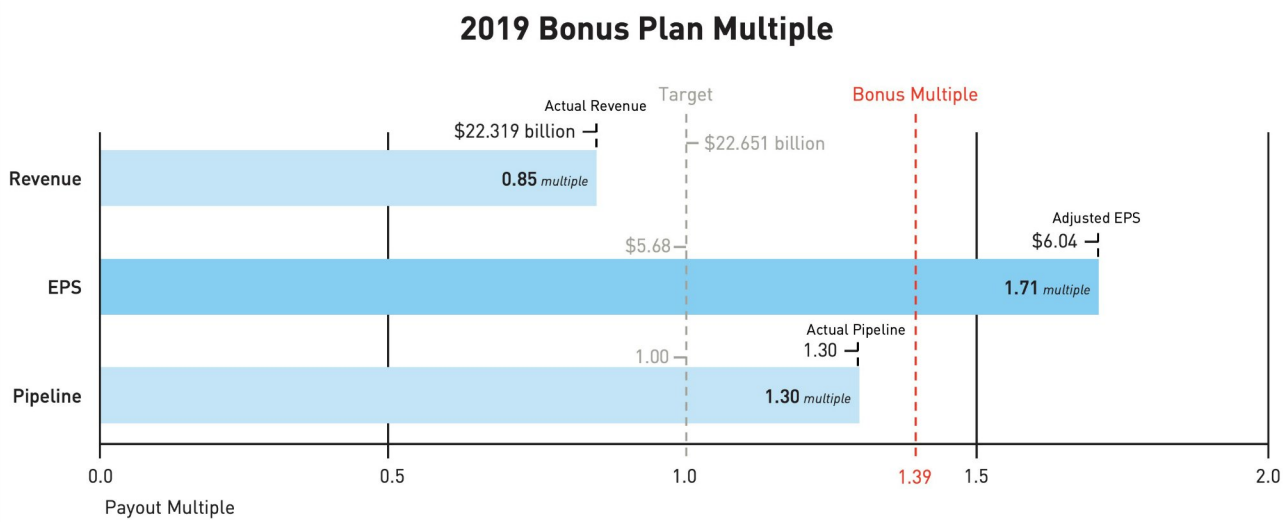
Pay for Performance

As described in the Compensation Discussion and Analysis (CD&A), we link our incentive pay programs to a mix of measures on three dimensions of company performance: operating performance; progress with our innovation pipeline; and shareholder return (both absolute and relative). The Compensation Committee adjusts reported EPS results to eliminate the distorting effect of certain unusual items on incentive compensation performance measures.

The summary below highlights how our incentive pay programs are intended to align with company performance. Please also see Appendix A for any adjustments that were made to EPS for incentive compensation programs.

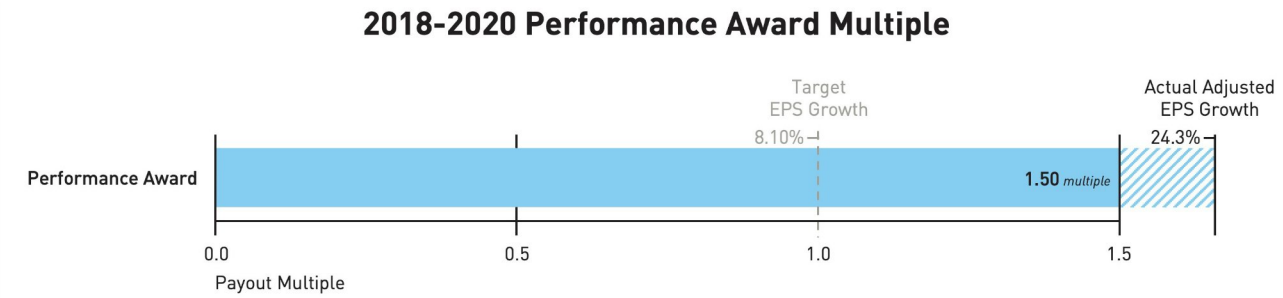
2019 Bonus Plan Multiple

The company exceeded its annual cash bonus targets for EPS and pipeline progress and nearly achieved its target for revenue. See the CD&A for further discussion on the Eli Lilly and Company Bonus Plan (Bonus Plan). For purposes of the bonus, EPS was adjusted for the same items reflected in the non-GAAP financial results included in our 2019 earnings announcement.



2018-2020 Performance Award Multiple

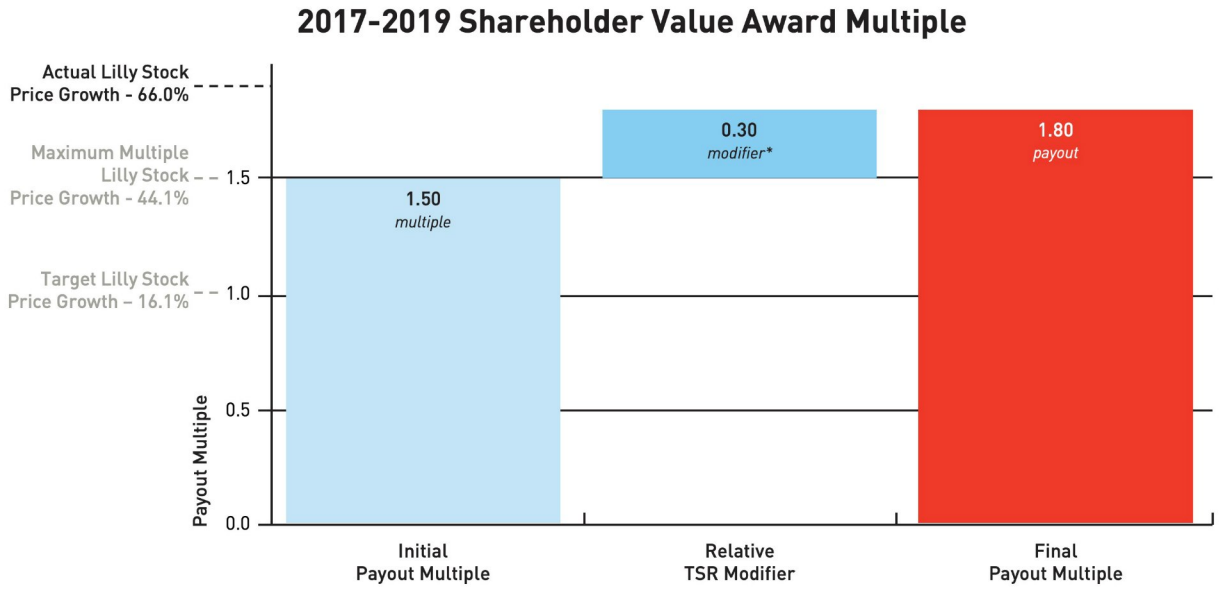
We exceeded the EPS growth targets under our performance award program, which has targets based on expected EPS growth of peer companies over a two-year period. For purposes of the performance award, EPS was adjusted as detailed in Appendix A. This performance resulted in a performance award payout above target. See the CD&A for further discussion on the performance award program.



2017-2019 Shareholder Value Award Multiple

Our stock price growth exceeded the target range (16.1 percent to 28.6 percent) under our shareholder value award program, which is based on expected large-cap company returns over a three-year period. This performance resulted in a shareholder value award payout above target.

For individuals who were executive officers when the award was granted, shareholder value award payouts were modified based on a three-year cumulative total shareholder return (TSR) relative to peer companies. Our relative TSR was 32 percent above the peer group median, resulting in a +20 percent modifier, which resulted in a final payout of 1.80 percent of target. See the CD&A for further discussion on the shareholder value award program and the TSR modifier.



**Over the performance period, Lilly's cumulative TSR was 78.6 percent and the median peer cumulative TSR was 46.6 percent for a total outperformance of 32.0 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the compensation committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent = 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

Audit Matters

Item 3: Ratification of Appointment of Independent Auditor	Management recommendation	Vote required to pass
Further information see page 62	**Vote FOR**	Majority of votes cast

Management Proposals

Item 4: Approval of Amendments to the Articles of Incorporation to Eliminate the Classified Board Structure	Management recommendation	Vote required to pass
Further information see page 64	**Vote FOR**	80% of outstanding shares

Item 5: Approval of Amendments to the Articles of Incorporation to Eliminate Supermajority Voting Provisions	Management recommendation	Vote required to pass
Further information see page 65	**Vote FOR**	80% of outstanding shares

Shareholder Proposals

	Management recommendation	Vote required to pass
Item 6: Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures **Further information see page 67**	**Vote AGAINST**	Majority of votes cast
Item 7: Proposal to Publish a Report on the Effectiveness of the Forced Swim Test **Further information see page 68**	**Vote AGAINST**	Majority of votes cast
Item 8: Proposal to Amend the Bylaws to Require an Independent Board Chair **Further information see page 70**	**Vote AGAINST**	Majority of votes cast
Item 9: Shareholder Proposal on Board Diversity Requesting Disclosures of Specific Minimum Qualifications and Board Nominee Skills, Experience, and Ideological Perspective **Further information see page 72**	**Vote AGAINST**	Majority of votes cast
Item 10: Proposal to Publish Feasibility Report on Incorporating Public Concern Over Drug Prices into Senior Executive Compensation Arrangements **Further information see page 74**	**Vote AGAINST**	Majority of votes cast
Item 11: Proposal to Implement a Bonus Deferral Policy **Further information see page 75**	**Vote AGAINST**	Majority of votes cast
Item 12: Proposal to Disclose Clawbacks on Executive Incentive Compensation Due to Misconduct **Further information see page 76**	**Vote AGAINST**	Majority of votes cast

Voting

How to Vote in Advance of the Meeting

Even if you plan to attend the 2020 annual meeting in person, we encourage you to vote prior to the meeting via one of the methods described below.

ONLINE
Visit the website listed on your proxy card or voting instruction form

BY TELEPHONE
Call the telephone number on your proxy card or voting instruction form

BY MAIL
Sign, date, and return your proxy card or voting instruction form

Further information on how to vote is provided at the end of the proxy statement under "Other Information."

Voting at our 2020 Annual Meeting

You may also opt to vote in person at the 2020 annual meeting, which will be held on Monday, May 4, 2020, at the Lilly Corporate Center, Indianapolis, IN 46285, at 11:00 a.m., EDT. See the section titled "Other Information" for instructions.

Governance

Item 1. Election of Directors

Under the company's articles of incorporation, the board is divided into three classes with approximately one-third of the directors standing for election each year. The term for directors to be elected this year will expire at the annual meeting of shareholders held in 2023. Each of the director nominees listed below has agreed to serve that term. The following sections provide information about our directors, including their qualifications, the director nomination process, and director compensation.

Board Recommendation on Item 1

The board recommends that you vote FOR each of the following nominees:

- Michael L. Eskew
- Williams G. Kaelin, Jr., M.D.
- David A. Ricks
- Marschall S. Runge, M.D., Ph.D.
- Karen Walker

Board Operations and Governance

Board of Directors

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a bona fide nominee set forth in this proxy statement is unable to serve or for good cause will not serve, proxy holders may vote for another nominee proposed by the board or, as an alternative, the board may reduce the number of directors to be elected at the annual meeting.

Director Biographies

Set forth below is information as of March 20, 2020, regarding the nominees for election, which has been confirmed by each of them for inclusion in this proxy statement. We have provided the most significant experiences, qualifications, attributes, and skills that led to the conclusion that each director or director nominee should serve as a director in light of our business and structure. Full biographies for each of our directors are available on our website at lilly.com/about/board-of-directors/Pages/board-of-directors.aspx.

No family relationship exists among any of our directors, director nominees, or executive officers. To the best of our knowledge, there are no pending material legal proceedings in which any of our directors or nominees for director, or any of their associates, is a party adverse to us or any of our affiliates, or has a material interest adverse to us or any of our affiliates. Additionally, to the best of our knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no judgments, sanctions, or injunctions during the past 10 years that are material to

the evaluation of the ability or integrity of any of our directors or nominees for director. There is no arrangement between any director or director nominee and any other person pursuant to which he or she was or is to be selected as a director or director nominee.

Class of 2020

The five directors listed below will seek election at this year's annual meeting. Four of these directors are standing for reelection; Karen Walker was appointed to the board in December 2018 to replace a retiring director and is seeking election for the first time. See "Item 1. Election of Directors" above for more information.

Michael L. Eskew

Age: 70, Director since 2008, **Board Committees:** Audit; Compensation; Directors and Corporate Governance (chair)

PUBLIC BOARDS	NON-PROFIT BOARDS
3M Corporation; IBM Corporation; Allstate Insurance Company	Chairman of the board of trustees of The Annie E. Casey Foundation

CAREER HIGHLIGHTS

- **United Parcel Service, Inc.,** a global shipping and logistics company
  - UPS Board of Directors (1998 - 2014)
  - Chairman and CEO (2002 - 2007)
  - Vice Chairman (2000 - 2002)

QUALIFICATIONS

Mr. Eskew has CEO experience with UPS, where he established a record of success in managing complex worldwide operations, strategic planning, and building a strong consumer brand focus. He is an audit committee financial expert, based on his CEO experience and his service on other U.S. public company audit committees. He has extensive corporate governance experience through his service on the boards of other companies.

William G. Kaelin, Jr., M.D.

Age: 62, Director since 2012, **Board Committees:** Finance; Science and Technology (chair)

INDUSTRY MEMBERSHIPS	HONORS
National Academy of Medicine; National Academy of Sciences; American College of Physicians; Association of American Physicians; American Society of Clinical Investigation (ASCI)	Nobel Prize in Physiology or Medicine; Albert Lasker Basic Medical Research Award; Wiley Prize in Biomedical Sciences from the Rockefeller University; Steven C. Beering Award from the Indiana University School of Medicine; ASCI's Stanley J. Korsmeyer Award; Paul Marks Prize for Cancer Research from the Memorial Sloan Kettering Cancer Center; Richard and Hinda Rosenthal Prize from the American Association for Cancer Research; Scientific Grand Prix of the Foundation Lefoulon-Delalande; Canada Gairdner International Award; Doris Duke Distinguished Clinical Scientist Award; Helis Award from Baylor College of Medicine; Massry Prize from the Meira and Shaul G. Massry Foundation

CAREER HIGHLIGHTS

- **Harvard Medical School**
  - Sidney Farber Professor of Medicine (2002 - present)
- **Brigham and Women's Hospital**
  - Professor (2002 - present)
- **Howard Hughes Medical Institute**
  - Investigator (2002 - present)
  - Assistant Investigator (1998 - 2002)

QUALIFICATIONS

Dr. Kaelin is a prominent medical researcher and academician. He has extensive experience at Harvard Medical School, a major medical institution, as well as special expertise in oncology, a key component of Lilly's business. He also has deep expertise in basic science, including mechanisms of drug action, and experience with pharmaceutical discovery research.

David A. Ricks

Age: 52, Director since 2017, **Board Committees:** none

PUBLIC BOARDS	NON-PROFIT BOARDS	INDUSTRY MEMBERSHIPS
Adobe	Board of Governors for Riley Children's Foundation; Central Indiana Corporate Partnership	International Federation of Pharmaceutical Manufacturers & Associations (IFPMA); Pharmaceutical Research and Manufacturers of America (PhRMA)

CAREER HIGHLIGHTS

- **Eli Lilly and Company**
  - Chairman, President, and CEO (2017 - present)
  - Senior Vice President and President, Lilly Bio-Medicines (2012 - 2016)

QUALIFICATIONS

Mr. Ricks was named President and CEO on January 1, 2017, and Chairman on June 1, 2017. Mr. Ricks joined Lilly in 1996 and most recently served as President of Lilly Bio-Medicines. He has deep expertise in product development, global sales and marketing, as well as public policy. He has significant global experience in leading the company's commercial operations.

Marschall S. Runge, M.D., Ph.D.

Age: 65, Director since 2013, **Board Committees:** Public Policy and Compliance; Science and Technology

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Michigan Medicine	Experimental Cardiovascular Sciences Study Section of the National Institutes of Health

CAREER HIGHLIGHTS

- **University of Michigan**
  - CEO, Michigan Medicine (2015 - present)
  - Executive Vice President for Medical Affairs (2015 - present)
  - Dean, Medical School (2015 - present)
- **University of North Carolina, School of Medicine**
  - Executive Dean (2010 - 2015)
  - Chair of the Department of Medicine (2000 - 2015)
  - Principal Investigator and Director of the North Carolina Translational and Clinical Sciences Institute (2010 - 2015)

QUALIFICATIONS

Dr. Runge brings the unique perspective of a practicing physician who has a broad background in health care and academia. He has extensive experience as a practicing cardiologist, a strong understanding of health care facility systems, and deep expertise in biomedical research and clinical trial design.

Karen Walker

Age: 58, Director since 2018, **Board Committees:** Audit; Public Policy and Compliance

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Salvation Army Advisory Board of Silicon Valley	Association of National Advertisers; Sprout Social

CAREER HIGHLIGHTS

- **Intel Corporation,** a leader in the semiconductor industry
  - Senior Vice President and Chief Marketing Officer (2019 - present)
- **Cisco Systems,** a provider of packaging products, aerospace, and other technologies and services to commercial and governmental customers
  - Senior Vice President and Chief Marketing Officer (2015 - 2019)
  - Senior Vice President, Marketing (2013 - 2015)
  - Senior Vice President of Segment, Services and Partner Marketing (2012 - 2013)

QUALIFICATIONS

Ms. Walker brings extensive marketing and digital expertise. She has valuable commercial experience developed through her business and consumer leadership positions in the information technology industry and is a recognized industry authority on both technology and marketing. Her business expertise includes senior field and marketing roles in Europe, North America, and the Asia-Pacific region.

Class of 2021

The following four directors are serving terms that will expire in May 2021.

Katherine Baicker, Ph.D.

Age: 48, Director since 2011, **Board Committees:** Audit, Public Policy and Compliance (chair)

MEMBERSHIPS + OTHER ORGANIZATIONS

Board member of HMS Holdings; Panel of Health Advisers to the Congressional Budget Office? Advisory Board of the National Institute for Health Care Management; Editorial Board of Health Affairs; Research Associate of the National Bureau of Economic Research; Trustee of the Mayo Clinic; Member of the Mayo Clinic; Member of the National Academy of Medicine; The National Academy of Social Insurance; The Council on Foreign Relations; and American Academy of Arts and Sciences

CAREER HIGHLIGHTS

- **Harris School of Public Policy, University of Chicago**
  - Dean and the Emmett Dedmon Professor (2017 - present)
- **Harvard T.H. Chan School of Public Health, Department of Health Policy and Management**
  - C. Boyden Gray Professor (2014 -2017)
  - Acting Chair (2014 - 2016)
  - Professor of health economics (2007 - 2017)
- **Council of Economic Advisers, Executive Office of the President**
  - Member (2005 - 2007)
  - Senior Economist (2001 - 2002)

QUALIFICATIONS

Dr. Baicker is a leading researcher in the fields of health economics, public economics, and labor economics. As a valued adviser to numerous health care-related commissions and committees, her expertise in health policy and health care delivery is recognized in both academia and government.

J. Erik Fyrwald

Age: 60, Director since 2005, **Board Committees:** Compensation; Science and Technology

PUBLIC BOARDS	PRIVATE BOARDS	NON-PROFIT BOARDS
Bunge Limited	Syngenta International	UN World Food Program Farm to Market Initiative; CropLife International; Swiss-American Chamber of Commerce; Syngenta Foundation for Sustainable Agriculture (chair)

CAREER HIGHLIGHTS

- **Syngenta,** a global Swiss-based agriculture technology company that produces agrochemicals and seeds
  - CEO (2016 - present)
- **Univar, Inc.,** a leading distributor of chemicals and provider of related services
  - President and CEO (2012 - 2016)
- **Ecolab,** a leading provider of cleaning, sanitization, and water products and services
  - President (2012)
- **Nalco Company,** a leading provider of water treatment products and services
  - Chairman and Chief Executive Officer (2008 - 2011)
- **E.I. duPont de Nemours and Company,** a global chemical company
  - Group Vice President, agriculture and nutrition (2003 - 2008)

QUALIFICATIONS

Mr. Fyrwald has a strong record of operational and strategic leadership in three complex worldwide businesses with a focus on technology and innovation. He is an engineer by training and has significant CEO experience with Syngenta, Univar, and Nalco.

Jamere Jackson

Age: 51, Director since 2016, **Board Committees:** Audit (chair); Finance

CAREER HIGHLIGHTS

- **Hertz Global Holdings Inc.,** a global vehicle rental, leasing, and fleet management business
  - Chief Financial Officer (2018 - present)
- **Nielsen Holdings plc,** a global measurement and data analytics company
  - Chief Financial Officer (2014 - 2018)
- **GE**
  - Vice President and CFO, GE Oil & Gas, drilling and surface division (2013 - 2014)
  - Senior Executive, Finance, GE Aviation (2007 - 2013)
  - Finance Executive, GE Corporate (2004 - 2007)

QUALIFICATIONS

Through his senior financial roles at Hertz, Nielsen, and GE, Mr. Jackson brings to the board significant global financial expertise and a strong background in strategic planning, having spent his professional career in a broad range of financial and strategic planning roles. He is an audit committee financial expert, based on his CFO experience and his training as a certified public accountant.

Jackson P. Tai

Age: 69, Director since 2013, **Board Committees:** Audit; Directors and Corporate Governance; Finance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
MasterCard Incorporated; HSBC Holdings (chair, Group Risk Committee)	Canada Pension Plan Investment Board; Royal Phillips NV; The Bank of China Limited; Singapore Airlines; NYSE Euronext; ING Group NV; CapitaLand (Singapore); DBS Holdings and DBS Bank	Metropolitan Opera; Rensselaer Polytechnic Institute	Harvard Business School; Asia-Pacific Advisory Board

CAREER HIGHLIGHTS

- **DBS Group Holdings Ltd and DBS Bank Ltd (formerly the Development Bank of Singapore)**, one of the largest financial services groups in Asia
  - Vice Chairman and Chief Executive Officer (2002 - 2007)
  - President and Chief Operating Officer (2001 - 2002)
  - Chief Financial Officer (1999 - -2001)
- **J.P. Morgan & Co. Incorporated,** a leading global financial institution
  - Managing Director in the Investment Banking Division (1974 - 1999)

QUALIFICATIONS

Mr. Tai is a former CEO with extensive experience in international business and finance, and is an audit committee financial expert. He has deep expertise in the Asia-Pacific region, an important growth market for Lilly. He also has broad corporate governance experience from his service on public company boards in North America, Europe, and Asia.

Class of 2022

The following four directors are serving terms that will expire in May 2022.

Ralph Alvarez

Age: 64, Director since 2009, **Board Committees:** Compensation (chair); Science and Technology

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.	McDonald's Corporation; KeyCorp; Skylark Co., Ltd.; Realogy Holdings Corp.	University of Miami: President's Council

CAREER HIGHLIGHTS

- **Advent International Corporation,** a leading global private equity firm
  - Operating Partner (2017 - present)
- **Skylark Co., Ltd.,** a leading restaurant operator in Japan
  - Chairman of the Board (2013 - 2018)
- **McDonald's Corporation**
  - President and Chief Operating Officer (2006 - 2009)

QUALIFICATIONS

Through his positions at Skylark Co., Ltd. and McDonald's Corporation, as well as with other global restaurant businesses, Mr. Alvarez has extensive experience in consumer marketing, global operations, international business, and strategic planning. His international experience includes a special focus on Japan and emerging markets. He also has extensive corporate governance experience through his service on other public company boards.

Carolyn R. Bertozzi, Ph.D.

Age: 53, Director since 2017, **Board Committees:** Public Policy and Compliance; Science and Technology

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Glenn Foundation; Grace Science Foundation	National Institute of Medicine; National Academy of Sciences; Foreign Member of the Royal Society; and American Academy of Arts and Sciences

HONORS

Solvay Prize for the Future of Chemistry; MacArthur Foundation Fellowship; Lemelson MIT Prize; Heinrich Wieland Prize; National Academy of Sciences Award in the Chemical Sciences; UC Berkeley Distinguished Teaching Award; Donald Sterling Noyce Prize for Excellence in Undergraduate Teaching

CAREER HIGHLIGHTS

- **Stanford University**
  - Anne T. and Robert M. Bass Professor of Chemistry, Professor of Chemical and Systems Biology and Radiology by courtesy (2015 - present)
  - Baker Family Co-Director of Stanford ChEM-H (2017 - present)
- **Howard Hughes Medical Institute**
  - Investigator (2000 - present)
- **University of California, Berkeley**
  - T.Z. and Irmgard Chu Professor of Chemistry and Professor of Molecular and Cell Biology (1996 - 2015)

QUALIFICATIONS

Dr. Bertozzi is a prominent researcher and academician. She has extensive experience at Stanford University and the University of California, Berkeley, two major research institutions. Her deep expertise spans the disciplines of chemistry and biology, with an emphasis on studies of cell surface glycosylation associated with cancer, inflammation, and bacterial infection and exploiting this knowledge for development of diagnostic and therapeutic approaches.

Juan R. Luciano

Age: 58, Director since 2016, Lead Independent Director since 2019. **Board Committees:** Directors and Corporate Governance; Finance (chair)

PUBLIC BOARDS	NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Archer Daniels Midland Company;	Intersect Illinois; Boys and Girls Clubs of America; Kellogg School of Management, Northwestern University	Economic Club of Chicago; Commercial Club of Chicago

CAREER HIGHLIGHTS

- **Archer Daniels Midland Company,** a global food-processing and commodities-trading company
  - Chairman (2016 - present)
  - CEO and President (2015 - present)
  - President (2014 - 2015)
  - Executive Vice President and Chief Operating Officer (2011 - 2014)
- **The Dow Chemical Company,** a multinational chemical company
  - Executive Vice President and President, Performance Division (2010 - 2011)

QUALIFICATIONS

Mr. Luciano has CEO and global business experience with Archer Daniels Midland Company, where he has established a reputation for strong results-oriented and strategic leadership, as well as many years of global leadership at The Dow Chemical Company. He brings to the board a strong technology and operations background, along with expertise in the highly regulated food and agriculture sectors.

Kathi P. Seifert

Age: 70, Director since 1995, **Board Committees:** Compensation; Directors and Corporate Governance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS
Investors Community Bank	Albertsons; Revlon Consumer Products Co.; Supervalu Inc.; Lexmark International, Inc.	Community Foundation for the Fox Valley Region; Fox Cities Building for the Arts; Fox Cities Chamber of Commerce; New North; Greater Fox Cities Area Habitat for Humanity; Riverview Gardens; Bubolz Nature Preserve; Fox Valley Humane Association

CAREER HIGHLIGHTS

- **Katapult, LLC,** a provider of pro bono mentoring and consulting services to nonprofit organizations
  - Chairman (2004 - present)
- **Kimberly-Clark Corporation,** a global consumer products company
  - Executive Vice President (1999 - 2004)

QUALIFICATIONS

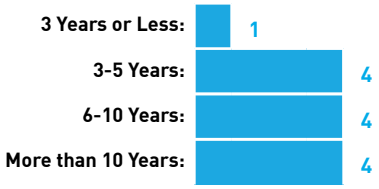
Ms. Seifert is a retired senior executive of Kimberly-Clark. She has strong expertise in consumer marketing and brand management, having led sales and marketing for several worldwide brands, with a special focus on consumer health. She has extensive corporate governance experience through her other board positions.

Director Qualifications and Nomination Process

Director Qualifications

Experience: Our directors are responsible for overseeing the company's business consistent with their fiduciary duties. This significant responsibility requires highly skilled individuals with various qualities, attributes, and professional experience. We believe the board is well-rounded, with a balance of relevant perspectives and experience, as illustrated in the following chart. Categories referencing "expertise" indicate that the director is an expert in the field, while "experience" indicates direct experience, including management and oversight of significant operations:

Board Tenure: As the following chart demonstrates, our director composition reflects a mix of tenure on the board, which provides an effective balance of historical perspective and an understanding of the evolution of our business with fresh perspectives and insights.



Diversity: The board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, ethnicity, age, and experiences. Although the board does not establish specific diversity goals or have a standalone diversity policy, the board's overall diversity is an important consideration in the director selection and nomination process. The Directors and Corporate Governance Committee assesses the effectiveness of board diversity efforts in connection with the annual nomination process as well as in new director searches. The company's 13 directors range in age from 48 to 71 and include four women and five members of underrepresented groups.

Character: Board members should possess the personal attributes necessary to be an effective director, including unquestioned integrity, sound judgment, a collaborative spirit, and commitment to the company, our shareholders, and other constituencies.

Director Refreshment

The Directors and Corporate Governance Committee performs periodic assessments of the overall composition and skills of the board to ensure that the board and management are actively engaged in succession planning for directors, and that our board reflects the viewpoints, diversity, and expertise necessary to support our complex and evolving business. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors.

The results of these assessments inform the board's recommendations on nominations for directors at the annual meeting each year and help provide us with insight on the types of experiences, skills, and other characteristics we should be seeking for future director candidates. Based on this assessment, the Directors and Corporate Governance Committee has recommended that the directors in the 2020 class be elected at the 2020 annual meeting.

The board delegates the director screening process to the Directors and Corporate Governance Committee, which receives input from other board members. Director candidates are identified from several sources, including executive search firms retained by the committee, incumbent directors, management, and shareholders.

The Directors and Corporate Governance committee employs the same process for evaluating all candidates, including those submitted by shareholders. The committee initially evaluates a candidate based on publicly available information and any additional information supplied by the party recommending the candidate. If the candidate appears to satisfy the selection criteria and the committee's initial evaluation is favorable, the committee, assisted by management or a search firm, gathers additional data on the candidate's qualifications, availability, probable level of interest, and any potential conflicts of interest. If the committee's subsequent evaluation continues to be favorable, the candidate is contacted by the chairman of the board and one or more of the independent directors, including the lead independent director, for direct discussions to determine the mutual level of interest in pursuing the candidacy. If these discussions are favorable, the committee recommends that the board nominate the candidate for election by the shareholders (or elects the candidate to fill a vacancy, as applicable).

Director Compensation

Director compensation is reviewed and approved annually by the board, on the recommendation of the Directors and Corporate Governance Committee. Directors who are employees receive no additional compensation for serving on the board.

Cash Compensation

The following table shows the retainers and meeting fees in effect in 2019 for all non-employee directors.

Board and Committee Membership Retainers (annual, paid in monthly installments)		**Leadership Retainers** (annual, paid in monthly installments)	
Annual Board Retainer	$110,000	Lead Independent Director	$35,000
Audit Committee, Science and Technology Committee members (including the chairs)	$6,000	Audit Committee chair	$18,000
Compensation Committee, Directors and Corporate Governance Committee, Finance Committee, Public Policy and Compliance Committee members (including the chairs)	$3,000	Science and Technology Committee chair	$15,000
		All other committee chairs	$12,000

Directors are reimbursed for customary and usual travel expenses in connection with their travel to and from board meetings and other company events. Directors may also receive additional cash compensation for serving on ad hoc committees that may be formed by the board from time to time.

Stock Compensation

Directors are required to hold meaningful equity ownership positions in the company and may not sell the equity compensation they earn as a director until after leaving the board. A significant portion of director compensation is in the form of deferred Lilly stock payable after they leave the board. Directors are required to hold Lilly stock, directly or through company plans, valued at not less than five times their annual board retainer; new directors are allowed five years to reach this ownership level. All directors serving at least five years have satisfied these guidelines, and all other directors are making progress toward these requirements.

In 2019, non-employee directors received an annual grant of $175,000 of equity compensation (but no more than 7,500 shares), deposited in a deferred stock account in the Lilly Directors' Deferral Plan (as described below). This award is prorated for time served and payable beginning the second January following the director's departure from board service.

Annual Compensation Cap for Directors

In 2018, the board approved a cap to the total annual compensation (cash and equity compensation) for non-employee directors of $800,000. The cap is intended to avoid excessive director compensation and is included in

both our Directors' Deferral Plan and in the Amended and Restated 2002 Lilly Stock Plan approved by shareholders at the 2018 annual shareholders' meeting.

Lilly Directors' Deferral Plan: The Lilly Directors' Deferral Plan allows non-employee directors to defer receipt of all or part of their cash compensation until after their service on the board has ended. Each director can choose to invest the amounts deferred in one or both of the following two accounts:

Deferred Stock Account. This account allows the director, in effect, to invest his or her deferred cash compensation in company stock. Funds in this account are credited as hypothetical shares of company stock based on the closing stock price on pre-set monthly dates. In addition, the annual stock compensation award as described above is also credited to this account. The number of shares credited is calculated by dividing the $175,000 annual compensation figure by the closing stock price on a pre-set annual date. Hypothetical dividends are "reinvested" in additional shares based on the market price of the stock on the date dividends are paid. Actual shares are issued on the second January following the director's departure from board service.

Deferred Compensation Account. Funds in this account earn interest each year at a rate of 120 percent of the applicable federal long-term rate, compounded monthly, as established the preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code of 1986 (the Internal Revenue Code). The aggregate amount of interest that accrued in 2019 for the participating directors was $164,734, at a rate of 3.9 percent. The rate for 2020 is 2.5 percent.

Both accounts may generally only be paid out in a lump sum or in annual installments for up to 10 years, beginning the second January following the director's departure from board service. Amounts in the deferred stock account are paid in shares of company stock.

2019 Compensation for Non-Employee Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation and Payments ($)[2]	Total ($)[3]
Mr. Alvarez	$131,000	$175,000	$0	$306,000
Dr. Baicker	$131,000	$175,000	$0	$306,000
Dr. Bertozzi	$119,000	$175,000	$0	$294,000
Mr. Eskew	$136,000	$175,000	$0	$311,000
Mr. Fyrwald	$119,000	$175,000	$31,000	$325,000
Mr. Jackson	$131,000	$175,000	$0	$306,000
Dr. Kaelin	$134,000	$175,000	$3,000	$312,000
Mr. Luciano	$151,333	$175,000	$0	$326,333
Dr. Runge	$119,000	$175,000	$0	$294,000
Ms. Seifert	$117,000	$175,000	$10,667	$302,667
Mr. Tai	$122,000	$175,000	$60,000	$357,000
Ms. Walker	$144,000	$175,000	$0	$319,000
Retired				
Ms. Marram	$67,917	$72,917	$38,000	$178,834

[1] Each non-employee director received an award of stock valued at $175,000 (approximately 1,534 shares), except Ms. Marram, who retired from the board in May 2019 and received a pro-rated award for a partial year of service. This stock award and all prior stock awards are fully vested; however, the shares are not issued until the second January following the director's departure from board service, as described above under "Lilly Directors' Deferral Plan." The column shows the grant date fair value for each director's stock award computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, for additional detail regarding assumptions underlying the valuation of equity awards. Aggregate outstanding stock awards are shown in the "Common Stock Ownership by Directors and Executive Officers" table in the "Stock Units Not Distributable Within 60 Days" column.

[2] This column consists of amounts donated by the Eli Lilly and Company Foundation, Inc. (Foundation) under its matching gift program, which is generally available to U.S. employees as well as non-employee directors. Under this program, the Foundation matched 100 percent of charitable donations over $25 made to eligible charities, up to a maximum of $30,000 per year for each individual. The Foundation matched these donations via payments made directly to the recipient charity. The amounts for Mr. Fyrwald, Dr. Kaelin, Ms. Marram, and Mr. Tai include matching contributions for donations made at the end of 2018 (Mr. Fyrwald - $1,000; Dr. Kaelin - $3,000; Ms. Marram - $8,000; and Mr. Tai - $30,000), for which the matching contribution was not paid until 2019.

[3] Directors do not participate in a company pension plan or non-equity incentive plan.

2020 Director Compensation

In 2019, the Directors and Corporate Governance Committee reviewed the company's compensation for independent directors, including a peer group analysis which showed total director compensation slightly above the median of the general industry peer group (though below pharmaceutical industry peers). As a result of this analysis, the committee recommended no changes to independent director compensation for 2020.

Director Independence

The board annually determines the independence of directors based on a review by the Directors and Corporate Governance Committee. No director is considered independent unless the board has determined that he or she has no material relationship with the company, either directly or as a partner, significant shareholder, or officer of an organization that has a material relationship with the company. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. To evaluate the materiality of any such relationship, the board has adopted categorical independence standards consistent with the New York Stock Exchange (NYSE) listing standards, except that the "look-back period" for determining whether a director's prior relationship(s) with the company impairs independence is extended from three to four years.

The company's process for determining director independence is set forth in our Standards for Director Independence, which can be found on our website at lilly.com/who-we-are/governance, along with our Corporate Governance Guidelines.

On the recommendation of the Directors and Corporate Governance Committee, the board determined that each current non-employee director is independent. Prior to her retirement in 2019, the board reached the same conclusions regarding Ms. Marram, and determined that the members of each committee also meet our and the NYSE's independence standards. The board determined that none of the non-employee directors has had during the last four years (i) any of the relationships identified in the company's categorical independence standards or (ii) any other material relationship with the company that would compromise his or her independence. The table that follows includes a description of categories or types of transactions, relationships, or arrangements the board considered in reaching its determinations.

Director	Organization	Type of Organization	Director Relationship to Organization	Primary Type of Transaction/ Relationship/ Arrangement between Lilly and Organization	2019 Aggregate Percentage of Organization's Revenue
Dr. Baicker	University of Chicago	Educational Institution	Employee	Clinical Research	Less than 0.1 percent
Dr. Bertozzi	Stanford University	Educational Institution	Employee	Clinical Research	Less than 0.1 percent
Mr. Fyrwald	Syngenta International AG	For-profit Corporation	Executive Officer	Purchase of products	Less than 0.1 percent
Mr. Jackson	Hertz Global Holdings Inc	For-profit Corporation	Executive Officer	Purchase of products	Less than 0.1 percent
Dr. Kaelin	Harvard University	Educational Institution	Employee	Research grants	Less than 0.1 percent
	Brigham and Women's Hospital	Health Care Institution	Employee	Clinical Research	Less than 0.1 percent
	Dana-Farber Cancer Institute	Health Care Institution	Employee	Clinical Research	Approximately 0.2 percent
Mr. Luciano	Archer Daniels Midland	For-profit Corporation	Executive Officer	Purchase of products	Less than 0.1 percent
				Sale of products	Less than 0.1 percent of Lilly's revenue
Dr. Runge	University of Michigan Medical School	Educational Institution	Executive Officer	Clinical Research	Less than 0.1 percent
Ms. Walker	Cisco Systems Inc	For-profit Corporation	Former Employee	Purchase of products	Less than 0.1 percent

All of the transactions described above were entered into at arm's length in the normal course of business and, to the extent they are commercial relationships, have standard commercial terms. Aggregate payments to each of the organizations, in each of the last four fiscal years, did not exceed the greater of $1 million or 2 percent of that organization's consolidated gross revenues in a single fiscal year for the relevant four-year period. No director had any direct business relationships with the company or received any direct personal benefit from any of these transactions, relationships, or arrangements.

Committees of the Board of Directors

The duties and membership of the six board-appointed committees are described below. All committee members are independent as defined in the NYSE listing requirements and Lilly's independence standards. The members of the Audit and Compensation Committees each meet the additional independence requirements applicable to them as members of those committees.

The Directors and Corporate Governance Committee makes recommendations to the board regarding director committee membership and selection of committee chairs. The board has no set policy for rotation of committee members or chairs but annually reviews committee memberships and chair positions, seeking the best blend of continuity and fresh perspectives.

The chair of each committee determines the frequency and agenda of committee meetings. The Audit, Compensation, and Public Policy and Compliance Committees meet alone in executive session on a regular basis; all other committees meet in executive session as needed.

Membership and Meetings of the Board and Its Committees

In 2019, each director attended at least 80 percent of the total number of meetings of the board and the committees on which he or she served during his or her tenure as a board or committee member. In addition, all board members are expected to attend the 2020 annual meeting, and all directors then serving attended the annual meeting in 2019. Current committee membership and the number of meetings of the board and each committee in 2019 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Finance	Public Policy and Compliance	Science and Technology
Mr. Alvarez	✓		C				✓
Dr. Baicker	✓	✓				C	
Dr. Bertozzi	✓					✓	✓
Mr. Eskew	✓	✓	✓	C			
Mr. Fyrwald	✓		✓				✓
Mr. Jackson	✓	C			✓		
Dr. Kaelin	✓				✓		C
Mr. Luciano	LD			✓	C		
Mr. Ricks	✓						
Dr. Runge	✓					✓	✓
Ms. Seifert	✓		✓	✓			
Mr. Tai	✓	✓		✓	✓		
Ms. Walker	✓	✓				✓	
Number of 2019 Meetings	10	10	6	4	8	4	6

C Committee Chair
LD Lead Independent Director

All six committee charters are available online at lilly.com/who-we-are/governance, or upon request to the company's corporate secretary. Key responsibilities of each committee are set forth below.

Audit Committee

The Audit Committee assists the board in fulfilling its oversight responsibilities by monitoring:

- the integrity of financial information provided to the shareholders and others
- management's systems of internal controls and disclosure controls
- the performance of internal and independent audit functions
- the company's compliance with legal and regulatory requirements.

The committee has sole authority to appoint or replace the independent auditor, subject to shareholder ratification.

The board has determined that Mr. Eskew, Mr. Jackson, and Mr. Tai are audit committee financial experts, as defined in the SEC rules.

Compensation Committee

The Compensation Committee:

- oversees the company's global compensation philosophy and policies
- establishes the compensation of our CEO and other executive officers
- acts as the oversight committee with respect to the company's deferred compensation plans, management stock plans, and other management incentive compensation programs
- reviews succession plans for the CEO and other key senior leadership positions as well as the company's diversity and inclusion efforts
- reviews, monitors, and oversees stock ownership guidelines for executive officers.

Compensation Committee Interlocks and Insider Participation

None of the Compensation Committee members:

- has ever been an officer or employee of the company
- is or has been a participant in a related-person transaction with the company (see "Review and Approval of Transactions with Related Persons" for a description of our policy on related-person transactions)
- has any other interlocking relationships requiring disclosure under applicable SEC rules.

Directors and Corporate Governance Committee

The Directors and Corporate Governance Committee:

- leads the process for director recruitment, together with the lead independent director
- recommends to the board candidates for membership on the board and its committees, as well as for the role of lead independent director
- oversees matters of corporate governance, including board performance, director independence and compensation, corporate governance guidelines, and shareholder engagement on governance matters.

Finance Committee

The Finance Committee reviews and makes recommendations to the board regarding financial matters, including:

- capital structure and strategies
- dividends
- stock repurchases
- capital expenditures
- investments, financing, and borrowings
- benefit plan funding and investments
- financial risk management
- significant business development opportunities.

Public Policy and Compliance Committee

The Public Policy and Compliance Committee:

- reviews, identifies, and when appropriate, brings to the attention of the board ethical, social, environmental, political, and legal trends and issues, and compliance and quality matters that may have an impact on the business operations, financial performance, or public image of the company
- reviews, monitors, and makes recommendations to the board on corporate policies and practices that relate to public policy and compliance, including those related to employee health and safety.

Science and Technology Committee

The Science and Technology Committee:

- reviews and makes recommendations regarding the company's strategic research goals and objectives
- reviews new developments, technologies, and trends in pharmaceutical research and development
- reviews the progress of the company's product pipeline
- reviews the scientific aspects of significant business development opportunities
- oversees matters of scientific and medical integrity and risk management.

Board Oversight of Strategy, Compliance, and Risk Management

The board takes an active approach to its role in overseeing the development and execution of the company's business strategies. On an annual basis, the board and executive management conducts an extended review and discussion of the company's strategy, reviewing goals, the external environment, key questions, and key risks. Board meetings include discussions of company performance relative to the strategy. The board also reviews strategic focus areas for the company, such as innovation, information security, and human capital management.

The board, together with its committees, oversees the processes by which the company conducts its business to ensure the company operates in a manner that complies with laws and regulations and reflects the highest standards of integrity. On an annual basis, the full board reviews the company's overall state of compliance and the Public Policy and Compliance Committee receives an update on compliance at each meeting.

The chief ethics and compliance officer reports directly to the CEO.

The company also has an enterprise risk management program directed by its chief ethics and compliance officer. Enterprise risks are identified and prioritized by management through both top-down and bottom-up processes. The risk management program is overseen by the full board, and certain prioritized risks are reviewed by a board committee or the full board. Company management is charged with managing risk through robust internal processes and controls. The enterprise risk management program as a whole is reviewed annually at a full board meeting, and enterprise risks are also addressed in periodic business function reviews and at the annual board and senior management strategy session.

Code of Ethics

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

The Red Book: a comprehensive code of ethical and legal business conduct applicable to all employees worldwide and to our board. The Red Book is reviewed and approved annually by the board.

Code of Ethical Conduct for Lilly Financial Management: a supplemental code for our CEO and all members of financial management, in recognition of their unique responsibilities to ensure proper accounting, financial reporting, internal controls, and financial stewardship.

These documents are available online at lilly.com/who-we-are/governance/ethics-and-compliance-program and lilly.com/ethical-conduct-for-financial-management, or upon request to the company's corporate secretary. In the event of any amendments to, or waivers from, a provision of the code affecting the CEO, chief financial officer, chief accounting officer, controller, or persons performing similar functions, we intend to post on the above website within four business days after the event a description of the amendment or waiver as required under applicable SEC rules, and we will maintain that information on our website for at least 12 months.

Highlights of the Company's Corporate Governance

The company is committed to good corporate governance, which promotes the long-term interests of shareholders and other company stakeholders, builds confidence in our company leadership, and strengthens accountability by the board and company management. The board has adopted corporate governance guidelines that set forth the company's basic principles of corporate governance. The section that follows outlines key elements of the guidelines and other governance matters. Investors can learn more by reviewing the corporate governance guidelines, which are available online at lilly.com/who-we-are/governance or upon request to the company's corporate secretary.

Role of the Board

The directors are elected by the shareholders to oversee the actions and results of the company's management. The board exercises oversight over a broad range of areas, but the board's key responsibilities include the following (certain of which are carried out through the board's committees):

- providing general oversight of the business
- approving corporate strategy
- approving major management initiatives

- selecting, compensating, evaluating, and, when necessary, replacing the CEO, and compensating other key senior leadership positions
- ensuring that an effective succession plan is in place for all key senior leadership positions and reviewing the broader talent management process, including diversity and inclusion
- overseeing the company's ethics and compliance program and management of significant business risks
- nominating, compensating, and evaluating directors
- overseeing the company's enterprise risk management program.

The board takes an active role in its oversight of our corporate strategy. Each year, the board and executive management closely examine the company's strategy, including key risks and decisions facing the company. Decisions reached in this session are updated throughout the year, including as the board discusses the company's financial performance, the performance of our business units, and progress in our pipeline.

Board Composition and Requirements

Mix of Independent Directors and Officer-Directors

We believe there should always be a substantial majority (75 percent or more) of independent directors. The CEO should be a member of the board.

Voting for Directors

In an uncontested election, directors are elected by a majority of votes cast. An incumbent nominee who fails to receive a greater number of votes "for" than "against" his or her election will tender his or her resignation from the board (following the certification of the shareholder vote). The board, on recommendation of the Directors and Corporate Governance Committee, will decide whether to accept the resignation. The company will promptly disclose the board's decision, including, if applicable, the reasons the board rejected the resignation.

Director Tenure and Retirement Policy

Non-employee directors must retire no later than the date of the annual meeting that follows their seventy-second birthday, although the Directors and Corporate Governance Committee has authority to recommend exceptions to this policy. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors annually, with a more robust assessment at least every three years when considering whether to nominate directors to new three-year terms. The company has not adopted term limits because the board believes that the company benefits from having a mix of longer- and shorter-tenured members of the board.

Other Board Service

In general, no director may serve on more than three other public company boards. The Directors and Corporate Governance Committee may approve exceptions if it determines that the additional service will not impair the director's effectiveness on the Lilly board.

Board Confidentiality Policy

The board has adopted a Confidentiality Policy, applicable to all current and future members of the board. The policy prohibits a director from sharing confidential information obtained in his or her role as a director with any outside party except under limited circumstances where the director is seeking legal advice or is required by law to disclose information. The Confidentiality Policy can be viewed on the company's website: lilly.com/about/corporate-governance/Pages/corporate-governance.aspx.

Leadership Structure; Oversight of Chairman, CEO, and Senior Management

Leadership Structure

The board currently believes that combining the role of chairman of the board and CEO, coupled with a strong lead independent director position (see the description of the role below), is the most efficient and effective leadership model for the company, fostering clear accountability, effective decision making, and alignment on corporate strategy. The board periodically reviews its leadership structure and developments in the area of corporate governance to ensure that this approach continues to strike the appropriate balance for the company and our stakeholders and enables it to promote the long-term interests of shareholders. Such a review was conducted during the succession-management process relating to the appointment of Mr. Ricks as chairman, effective June 2017, and more recently in considering the shareholder proposal that has been put forward as Item 8 below. The board believes that Mr. Ricks

has served the company well as the chairman and CEO, and that the combined role provides unified leadership and focus on the company's strategy, business plans, and efficiency efforts.

Mr. Luciano serves as the current lead independent director. Mr. Luciano is a strong, lead independent director who fulfilled each of the duties below during the past year. As the CEO and president of Archer Daniels Midland Company, he brings diverse experience and outside perspective to his lead independent director role, which permits him to serve as a trusted adviser to Mr. Ricks and ensure effective board management.

In 2019, the independent directors, led by Mr. Luciano, met at every board meeting in executive session to discuss various matters related to the oversight of the company, the management of the board's affairs, and the CEO's performance. We believe Mr. Luciano fosters an open and constructive dialogue during these sessions as well as during individual discussions with the independent directors. Mr Luciano advised Mr. Ricks on the independent directors' discussions, including performance feedback.

Board Independence

The board has put in place a number of governance practices to ensure effective independent oversight, including:

- **Executive sessions of the independent directors:** held after every regular board meeting.

- **Annual performance evaluation of the chairman and CEO:** conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee in establishing the CEO's compensation for the next year.

- **A strong, independent, clearly defined lead independent director role:** The lead independent director's responsibilities include:
  - leading the board's processes for selecting and evaluating the CEO
  - presiding at all meetings of the board at which the chairman is not present
  - serving as a liaison between the chairman and the independent directors
  - if requested by major shareholders, ensuring that he or she is available for consultation and direct communication
  - approving meeting agendas and schedules and generally approving information sent to the board
  - conducting executive sessions of the independent directors
  - overseeing the independent directors' annual performance evaluation of the chairman and CEO
  - together with the board chair and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process
  - together with the Directors and Corporate Governance Committee, leading the director recruitment process.

- The lead independent director also has authority to call meetings of the independent directors and to retain advisors for the independent directors.

- The lead independent director is appointed annually by the board, which conducts an assessment of his or her performance as part of the annual board assessment process. Currently Mr. Luciano is the lead independent director.

- **Director access to management and independent advisors:** Independent directors have direct access to members of management whenever they deem it necessary, and the company's executive officers attend part of each regularly scheduled board meeting. The independent directors and all committees are also free to retain their own independent advisors, at the company's expense, whenever they feel it would be desirable to do so.

CEO Succession Planning

The Compensation Committee, board, and CEO annually review the company's succession plans for the CEO and other key senior leadership positions. The independent directors also meet without the CEO to discuss CEO succession planning.

During these reviews, the CEO and directors discuss:

- future candidates for the CEO and other senior leadership positions
- succession timing
- development plans for the highest-potential candidates.

The independent directors and the CEO maintain a confidential plan for the timely and efficient transfer of the CEO's responsibilities in the event of an emergency or his sudden departure, incapacitation, or death.

The company ensures that the directors have multiple opportunities to interact with the company's top leadership talent in both formal and informal settings to allow them to most effectively assess the candidates' qualifications and capabilities.

Board Education and Annual Performance Assessment

The company engages in a comprehensive orientation process for incoming new directors. Directors also attend ongoing continuing educational sessions on areas of particular relevance or importance to our company, and we hold periodic mandatory training sessions for the Audit Committee.

Every year the Directors and Corporate Governance Committee, together with the chair and the lead independent director, conducts a robust assessment of the board's performance, board committee performance, and all board processes, based on input from all directors. We also conduct an annual assessment of each individual director's performance, and every three years we conduct a detailed review of individual director performance when considering whether to nominate the director to a new three-year term.

Conflicts of Interest and Transactions with Related Persons

Conflicts of Interest

Occasionally a director's business or personal relationships may give rise to an interest that conflicts, or appears to conflict, with the interests of the company. As outlined in the company's corporate governance guidelines, directors must disclose to the company all relationships that could create a conflict or an appearance of a conflict. The board, after consultation with counsel, takes appropriate steps to identify actual or apparent conflicts and ensure that all directors voting on an issue are disinterested with respect to that issue. A director may be excused from board discussions and decisions on an issue related to an actual or apparent conflict, as appropriate.

In addition, a director's relationship with Lilly may give rise to an interest that conflicts, or appears to conflict, with the interests of another company, institution, or other stakeholder. A director must disclose his or her relationship with Lilly in connection with any scientific publication, using the International Committee of Medical Journal Editors (ICMJE) conflict of interest form for this purpose when possible. Each director must disclose his or her service on the board to his or her employer and any other organization with which the director has a relationship of trust and where the relationship with the company is relevant. In addition, directors must follow the internal conflict of interest policies and procedures of each such organization.

Review and Approval of Transactions with Related Persons

The board has adopted a policy and procedures for review, approval, and monitoring of transactions involving the company and related persons (directors and executive officers, their immediate family members, or shareholders of more than 5 percent of the company's outstanding stock). The policy covers any related-person transaction that meets the minimum threshold for disclosure in the proxy statement under the relevant SEC rules (generally, transactions involving amounts exceeding $120,000 in which a related person has a direct or indirect material interest).

Policy:

Related-person transactions must be approved by the board or by a committee of the board consisting solely of independent directors, who will approve the transaction only if the board or committee determines that it is in the best interests of the company. In considering the transaction, the board or committee will consider all relevant factors, including:

- the company's business rationale for entering into the transaction
- the alternatives to entering into a related-person transaction
- whether the transaction is on terms comparable to those available to third parties, or in the case of employment relationships, to employees generally
- the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts
- the overall fairness of the transaction to the company.

Procedures:

- Management or the affected director or executive officer will bring the matter to the attention of the chairman, the lead independent director, the chair of the Directors and Corporate Governance Committee, or the corporate secretary.
- The chairman and the lead independent director shall jointly determine (or, if either is involved in the transaction, the other shall determine) whether the matter should be considered by the board or by one of its existing committees.
- If a director is involved in the transaction, he or she will be recused from all discussions and decisions about the transaction.
- The transaction must be approved in advance whenever practicable, and if not practicable, must be ratified, if appropriate, as promptly as practicable.
- The board or relevant committee will review the transaction annually to determine whether it continues to be in the company's best interests.

In 2019, there were no related party transactions to report pursuant to the relevant SEC rules and no required proxy statement disclosure.

Communication with the Board of Directors

You may send written communications to members of the board, including independent directors, addressed to:

Board of Directors
Eli Lilly and Company
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, IN 46285

Shareholder Engagement on Governance Issues

Each year, the company engages large shareholders and other key constituents to discuss areas of interest or concern related to corporate governance, as well as any specific issues for the coming proxy season. In 2019, we spoke with a number of investors, both large and small, on topics such as eliminating the company's classified board and supermajority voting requirements; environmental, social, and governance topics including drug pricing, product quality and safety, and our board and corporate culture; litigation and key enterprise risks; the company's executive compensation; and proxy access, among other topics. The overall tone of these conversations was productive and positive, and the investors with whom we spoke were generally supportive of our performance and overall compensation and governance policies, although a few shareholders communicated differing views on some of our governance practices. This feedback has been discussed with our chairman and CEO, the lead independent director, our Compensation Committee, and our Directors and Corporate Governance Committee, and it was a key input into board discussions on corporate governance topics. As a result of these discussions and its own deliberations, the board decided to amend the company's bylaws to implement proxy access and recommend in favor of the two management proposals described below. We are committed to continuing to engage with our investors to ensure their diverse perspectives on corporate governance and other issues are thoughtfully considered.

Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements

Each year between 2007 and 2012, and again in 2018 and 2019, our management put forward proposals to eliminate the company's classified board structure. The proposals did not pass because they failed to receive a "supermajority vote" of 80 percent of the outstanding shares of our common stock, as required in the company's articles of incorporation. In addition, in 2010, 2011, 2012, 2018, and 2019, we submitted management proposals to eliminate the supermajority voting requirements themselves. Those proposals also fell short of the required 80 percent vote.

Prior to 2012, these proposals received support ranging from 72 to 77 percent of the outstanding shares. In 2012, the vote in support of these proposals was approximately 63 percent of the outstanding shares, driven in part by a 2012 NYSE rule revision prohibiting brokers from voting their clients' shares on corporate governance matters absent specific instructions from such clients. In 2018, the vote in support was approximately 62 percent of the outstanding shares and in 2019, the vote in support was approximately 66 percent of the outstanding shares.

After considering the interests of the company and our shareholders, we have resubmitted management proposals to eliminate the classified board and supermajority voting requirements for consideration at the 2020 annual meeting (see Items 4 and 5). We will continue to engage with our shareholders on these and other topics to ensure that we continue to demonstrate strong corporate governance and accountability to shareholders.

Shareholder Proposals

If a shareholder wishes to have a proposal considered for inclusion in next year's proxy statement, he or she must submit the proposal in writing so that we receive it by November 20, 2020. Proposals should be addressed to the company's corporate secretary, Lilly Corporate Center, Indianapolis, Indiana 46285. In addition, the company's bylaws provide that any shareholder wishing to propose any other business at the 2021 annual meeting must give the company written notice by November 20, 2020, and no earlier than September 21, 2020. That notice must provide certain other information as described in the bylaws. Copies of the bylaws are available online at lilly.com/who-we-are/governance or upon request to the company's corporate secretary.

Shareholder Recommendations and Nominations for Director Candidates

A shareholder who wishes to recommend a director candidate for evaluation should forward the candidate's name and information about the candidate's qualifications to:

Chair of the Directors and Corporate Governance Committee
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, IN 46285

The candidate must meet the selection criteria described above under "Director Qualifications and Nomination Process - Director Qualifications" and must be willing and expressly interested in serving on the board.

Under Section 1.9 of the company's bylaws, a shareholder who wishes to directly nominate a director candidate at the 2021 annual meeting (i.e., to propose a candidate for election who is not otherwise nominated by the board through the recommendation process described above) must give the company written notice by November 20, 2020, and no earlier than September 21, 2020. The notice should be addressed to the corporate secretary at the address provided above. The notice must contain prescribed information about the candidate and about the shareholder proposing the candidate as described in more detail in Section 1.9 of the bylaws. A copy of the bylaws is available online at lilly.com/who-we-are/governance. The bylaws will also be provided by mail upon request to the corporate secretary.

We have not received any notice regarding shareholder nominations for board candidates or other shareholder business to be presented at the 2020 shareholders' meeting.

Ownership of Company Stock

Common Stock Ownership by Directors and Executive Officers

The following table sets forth the number of shares of company common stock beneficially owned by the directors, the named executive officers, and all directors and executive officers as a group, as of February 14, 2020. None of the stock or stock units owned by any of the listed individuals has been pledged as collateral for a loan or other obligation.

Beneficial Owners	Common Stock [1]		
	Shares Owned [2]	Stock Units Distributable Within 60 Days [3]	Stock Units Not Distributable Within 60 Days [4]
Ralph Alvarez	—	—	46,909
Katherine Baicker, Ph.D.	—	—	18,779
Carolyn R Bertozzi, Ph.D.	—	—	4,924
Enrique A. Conterno (retired)	124,501 [5]	—	21,779
Michael L. Eskew	—	—	41,825
J. Erik Fyrwald	100	—	64,493
Michael J. Harrington (retired)	119,299 [6]	—	22,968
Jamere Jackson	—	—	5,652
William G. Kaelin, Jr., M.D.	—	—	17,224
Juan R. Luciano	—	—	11,152
David A. Ricks	290,911 [7]	—	75,387
Marschall S. Runge, M.D., Ph.D.	—	—	12,840
Kathi P. Seifert	3,533	—	71,174
Daniel Skovronsky, M.D., Ph.D.	97,159	—	—
Joshua L. Smiley	39,045	—	27,213
Jackson P. Tai	45,570	—	12,515
Karen Walker	—	—	2,921
All directors and current executive officers as a group (26 people):	**890,301**	**97**	**487,143**

[1] The sum of the "Shares Owned" and "Stock Units Distributable Within 60 Days" columns represents the shares considered "beneficially owned" for purposes of disclosure in the proxy statement. Unless otherwise indicated in a footnote, each person listed in the table possesses sole voting and sole investment power with respect to their shares. No person listed in the table owns more than 0.03 percent of the outstanding common stock of the company. The directors and executive officers as a group own approximately 0.09 percent of the outstanding common stock of the company.

[2] This column includes the number of shares of common stock held individually as well as the number of 401(k) Plan shares held by the beneficial owners indirectly through the 401(k) Plan.

[3] This column sets forth restricted stock units that vest within 60 days of February 14, 2020.

[4] For the executive officers, this column reflects restricted stock units that will not vest within 60 days of February 14, 2020. For the independent directors, this column reflects the number of stock units credited to the directors' accounts in the Lilly Directors' Deferral Plan.

[5] The shares shown for Mr. Conterno are as of his retirement, December 31, 2019, and are excluded from the aggregate totals for all directors and current officers as a group.

[6] The shares shown for Mr. Harrington are as of his retirement, January 31, 2020, and are excluded from the aggregate totals for all directors and current officers as a group.

[7] The shares shown for Mr. Ricks include 16,026 shares that are owned by a family foundation for which he is a director. Mr. Ricks has shared voting power and shared investment power with respect to the shares held by the foundation.

Principal Holders of Stock

Based on reports filed with the SEC pursuant to Regulation 13D-G of the Securities Exchange Act of 1934 (the Exchange Act), the only beneficial owners of more than 5 percent of the outstanding shares of the company's common stock, as of December 31, 2019, are the shareholders listed below:

Name and Address	Number of Shares Beneficially Owned	Percent of Class
Lilly Endowment Inc. (the Endowment)[1] 2801 North Meridian Street Indianapolis, IN 46208	114,560,599	11.9%
The Vanguard Group[2] 100 Vanguard Blvd. Malvern, PA 19355	70,920,050	7.3%
BlackRock, Inc.[3] 55 East 52nd Street New York, NY 10055	60,879,212	6.3%
The PNC Financial Services Group, Inc.[4] 101 W Washington St. Indianapolis, IN 46255	52,130,652	5.4%

[1] The Endowment has sole voting and sole dispositive power with respect to all of its shares. The board of directors of the Endowment is composed of N. Clay Robbins, chairman, president & CEO; Mary K. Lisher; William G. Enright; Daniel P. Carmichael; Charles E. Golden; Eli Lilly II; David N. Shane; Craig Dykstra; Jennett M. Hill; and John C. Lechleiter.

[2] The Vanguard Group provides investment management services for various clients. It has sole voting power with respect to 1,317,587 of its shares and shared voting power with respect to 259,876 of its shares. It has sole dispositive power with respect to 69,419,868 of its shares and shared dispositive power with respect to 1,500,182 of its shares.

[3] BlackRock, Inc. provides investment management services for various clients. It has sole voting power with respect to 52,609,640 of its shares and sole dispositive power with respect to all of its shares.

[4] The PNC Financial Services Group, Inc.; PNC Bancorp, Inc.; PNC Bank, National Association; PNC Capital Advisors, LLC; PNC Delaware Trust Company; and PNC Investments LLC (collectively, "PNC") beneficially owns 52,130,652 shares altogether. PNC has sole voting power with respect to 2,090,752 of its shares and shared voting power with respect to 50,000,308 of its shares. PNC has sole dispositive power with respect to 1,700,429 of its shares and shared dispositive power with respect to 50,358,773 of its shares. Of the total shares of common stock reported for PNC above, 50,000,000 shares (5.21% of the class) are held in the Eli Lilly and Company Compensation Trust account for which PNC Bank, National Association ("PNC Bank") serves as directed trustee. As directed trustee, PNC Bank is deemed to share both voting power and investment discretion with respect to those 50,000,000 shares.

Compensation

Item 2. Advisory Vote on Compensation Paid to Named Executive Officers

Section 14A of the Securities Exchange Act of 1934 provides the company's shareholders with the opportunity to approve, on an advisory basis, the compensation of the company's named executive officers as disclosed in the proxy statement. Our compensation philosophy is designed to attract, engage, and retain highly talented individuals and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing the company's values of integrity, excellence, and respect for people.

The Compensation Committee and the board believe that our executive compensation aligns well with our philosophy and with corporate performance. Executive compensation is an important matter for our shareholders. We routinely review our compensation practices and engage in ongoing dialogue with our shareholders to ensure our practices are aligned with stakeholder interests and reflect best practices.

We request shareholder approval, on an advisory basis, of the compensation of the company's named executive officers as disclosed in this proxy statement. As an advisory vote, this proposal is not binding on the company.

However, the Compensation Committee values input from shareholders and will consider the outcome of the vote when making future executive compensation decisions.

Board Recommendation on Item 2

The board recommends that you vote FOR the approval, on an advisory basis, of the compensation paid to the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis (CD&A), the compensation tables, and related narratives provided below in this proxy statement.

Compensation Committee Matters

Background

Role of the Independent Consultant in Assessing Executive Compensation

The Compensation Committee has retained Frederic W. Cook & Co., Inc., ("FW Cook") as its independent compensation consultant. FW Cook reports directly to the Compensation Committee, and it is not permitted to have any business or personal relationship with management or members of the Compensation Committee. The consultant's responsibilities are to:

- review the company's total compensation philosophy, peer group, and target competitive positioning for reasonableness and appropriateness
- review the company's executive compensation program and advise the Compensation Committee of evolving best practices
- provide independent analyses and recommendations to the Compensation Committee on the CEO's pay
- review draft CD&A and related tables for the proxy statement
- proactively advise the Compensation Committee on best practices for board governance of executive compensation
- undertake special projects at the request of the Compensation Committee chair.

FW Cook interacts directly with members of company management only on matters under the Compensation Committee's oversight and with the knowledge and permission of the Compensation Committee chair.

Role of Executive Officers and Management in Assessing Executive Compensation

With the oversight of the CEO and the senior vice president of human resources and diversity, the company's global compensation group formulates recommendations on compensation philosophy, plan design, and compensation for executive officers (other than the CEO, as noted below). The CEO provides the Compensation Committee with a performance assessment and compensation recommendation for each of the other executive officers. The Compensation Committee considers those recommendations with the assistance of its compensation consultant. The CEO and the senior vice president of human resources and diversity attend Compensation Committee meetings; they are not present for executive sessions or any discussion of their own compensation. Only non-employee directors and the Compensation Committee's consultant attend executive sessions.

The CEO does not participate in the formulation or discussion of his pay recommendations. He has no prior knowledge of the recommendations that the consultant makes to the Compensation Committee.

Risk Assessment Process

As part of the company's overall enterprise risk management program, in 2019 (consistent with prior years), the Compensation Committee reviewed the company's compensation policies and practices and concluded that the programs and practices are not reasonably likely to have a material adverse effect on the company. The Compensation Committee noted numerous policy and design features of the company's compensation programs and governance structure that reduce the likelihood of inappropriate risk-taking, including, but not limited to:

- Only independent directors serve on the Compensation Committee
- The Compensation Committee engages its own independent compensation consultant
- The Compensation Committee has downward discretion to lower compensation plan payouts
- The Compensation Committee approves all adjustments to financial results that affect compensation calculations
- Different measures and metrics are used across multiple incentive plans that appropriately balance cash/stock, fixed/variable pay, and short-term/long-term incentives

- Incentive plans have predetermined maximum payouts
- Performance objectives are challenging but achievable
- Programs with operational metrics have a continuum of payout multiples based upon achievement of performance milestones, rather than "cliffs" that might encourage suboptimal or improper behavior
- A compensation recovery policy is in place for all members of senior management; negative compensation consequences can result in cases involving serious compliance violations
- Meaningful share ownership and retention requirements are in place for all members of senior management and the board.

Compensation Committee Report

The Compensation Committee evaluates and establishes compensation for executive officers and oversees the deferred compensation plan, management stock plans, and other management incentive and benefit programs. Management has the primary responsibility for the company's financial statements and reporting process, including the disclosure of executive compensation. With this in mind, the Compensation Committee has reviewed and discussed with management the CD&A above. The Compensation Committee recommended to the board that the CD&A be included in this proxy statement for filing with the SEC.

Compensation Committee

Ralph Alvarez, Chair
Michael L. Eskew
J. Erik Fyrwald
Kathi P. Seifert

Compensation Discussion and Analysis

This CD&A describes our executive compensation philosophy, the Compensation Committee's process for setting executive compensation, the elements of our compensation program, the factors the Compensation Committee considered when setting executive compensation for 2019, and how the company's results affected incentive payouts. This CD&A provides compensation information for our CEO, David Ricks, our chief financial officer, Joshua Smiley, and the three other most highly compensated executive officers who were serving as executive officers on December 31, 2019, Daniel Skovronsky, Enrique Conterno (retired), and Michael Harrington (retired).

Our Philosophy on Compensation

At Lilly, our purpose is to unite caring with discovery to create medicines that make life better for people around the world. To do this, we must attract, engage, and retain highly talented individuals who are committed to our core values of integrity, excellence, and respect for people. Our compensation programs are designed to help us achieve these goals while balancing the long-term interests of our shareholders and customers.

Objectives

Our compensation and benefits programs are based on the following objectives:

- **Reflect individual and company performance:** We reinforce a high-performance culture by linking pay with individual and company performance. As employees assume greater responsibilities, the proportion of total compensation based on company performance and shareholder returns increases. We perform annual reviews to ensure our programs provide an incentive to deliver long-term, sustainable business results while discouraging excessive risk-taking or other adverse behaviors.

- **Attract and retain talented employees:** Compensation opportunity should be market competitive and reflect the level of job impact and responsibilities. Retention of talent is an important factor in the design of our compensation and benefit programs.

- **Implement broad-based programs:** While the amount of compensation paid to employees varies, the overall structure of our compensation and benefit programs is broadly similar across the organization to encourage and reward all employees who contribute to our success.

- **Consider shareholder input:** Management and the Compensation Committee consider the results of our annual say-on-pay vote and other sources of shareholder feedback when designing executive compensation and benefit programs.

Say-on-Pay Results for 2019

At last year's annual meeting, more than 97 percent of the shares cast voted in favor of the company's say-on-pay proposal on executive compensation. Management and the Compensation Committee view this vote as supportive of the company's overall approach toward executive compensation.

Compensation Committee's Processes and Analyses

Setting Compensation

The Compensation Committee considers individual performance assessments, compensation recommendations from the CEO (with respect to all other named executive officers), company performance, peer group data, input from its compensation consultant, and its own judgment when determining compensation for the company's executive officers.

- **Individual performance:** Generally, the independent directors, under the direction of the lead independent director, meet with the CEO at the beginning of each year to establish the CEO's performance objectives. At the end of the year, the independent directors meet to assess the CEO's achievement of those objectives along with other factors, including contribution to the company's performance, ethics, and integrity. This evaluation is used in setting the CEO's compensation opportunity for the next year.

  The Compensation Committee receives individual performance assessments and target compensation recommendations from the CEO for each of the remaining executive officers. Each executive officer's performance assessment is based on the achievement of objectives established at the start of the year, as well as other factors, including the demonstration of Lilly values and leadership behaviors. The Compensation Committee considers these inputs, its knowledge of and interactions with each executive officer, and its judgment to develop a final individual performance assessment. For new executive officers, target compensation is set by the Compensation Committee at the time of promotion or offer.

- **Company performance:** Lilly performance is considered in two ways:
  - Overall performance for the prior year based on a variety of metrics is a factor in establishing target compensation for the coming year.
  - Specific performance goals are established at the beginning of each performance year to determine payouts under cash and equity incentive programs.

- **Peer group analysis:** The Compensation Committee uses data from the peer group described below as a market check for compensation decisions but does not use this data as the sole basis for its compensation targets and does not target a specific position within that range of market data.

- **Input from an independent compensation consultant concerning executive pay:** The Compensation Committee considers the advice of its independent compensation consultant, FW Cook, when setting executive officer compensation.

Competitive Pay Assessment

Lilly's peer group is composed of companies that directly compete with Lilly, use a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. The Compensation Committee selects a peer group whose median market cap and revenue are broadly similar to Lilly's. The Compensation Committee reviews the peer group at least every three years. The Compensation Committee established the following peer group in May 2018 for purposes of assessing competitive pay:

AbbVie	Celgene	Novo Nordisk
Allergan	Gilead	Pfizer
Amgen	GlaxoSmithKline	Roche
AstraZeneca	Johnson & Johnson	Sanofi
Biogen	Merck	Shire
Bristol-Myers Squibb	Novartis	Takeda

At the time of the review in May 2018, all peer companies were no greater than two times our revenue or market cap except Johnson & Johnson, Novartis, Pfizer, and Roche. The Compensation Committee included these four companies despite their size because they compete directly with Lilly, have similar business models, and seek to hire from the same pool of management and scientific talent.

When determining pay levels for target compensation, the Compensation Committee considers an analysis of peer group pay for each executive officer position (except CEO), along with internal factors such as the performance and experience of each executive officer. The independent compensation consultant for the Compensation Committee provides a similar analysis when recommending pay levels for the CEO. The CEO analysis includes a comparison of our CEO actual total direct compensation in the prior year to company performance on an absolute basis and on a relative basis to the peer group. The analysis also includes a comparison of current target total direct compensation for our CEO to the most recently available data on CEO target total direct compensation for our peer companies. On average, the named executive officer's target total direct compensation for 2019 was below the median of the peer group, which reflects several named executive officers being relatively new to their roles.

Components of Our Compensation

Our 2019 executive compensation was primarily composed of three components:

- base salary
- annual cash bonus, which is generally calculated based on company performance relative to internal targets for revenue, EPS, and the progress of our pipeline
- two different forms of equity incentives:
  - performance awards, which are performance-based equity awards that vest over three years and have a performance component measuring the company's two-year change in EPS relative to the expected peer group change followed by a 13-month service-vesting period
  - shareholder value awards, which are performance-based equity awards that pay out based on absolute company stock price growth and TSR relative to peers, both measured over a three-year period, followed by a one-year holding period.

Executives also receive a company benefits package, described below under "Other Compensation Practices and Information - Employee Benefits."

Adjustments to Reported Financial Results

The Compensation Committee has authority to adjust the company's reported revenue and EPS upon which incentive compensation payouts are determined to eliminate the distorting effect of unusual income or expense items. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items in the award year, and, where relevant, the previous (comparator) year
- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

The Compensation Committee considers the adjustments approved by the Audit Committee for reporting non-GAAP EPS and other adjustments, based on guidelines approved by the Compensation Committee prior to the performance period. The Compensation Committee reviews and approves adjustments on a quarterly basis and may adjust payouts for items, including but not limited to, the impact of significant acquisitions or divestitures, the impact of share repurchases that differ significantly from business plan, and large swings in foreign exchange rates. For the 2018-2020 performance award, the Compensation Committee adjusted for the expected impact of the acquisition of Loxo Oncology, Inc., and the impact of the Elanco Animal Health, Inc., divestiture. Further details on the adjustments for 2019 and the rationale for making these adjustments are set forth in Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award." For ease of reference, throughout the CD&A and the other compensation disclosures, we refer simply to "revenue" and "EPS" but we encourage you to review the information in Appendix A to understand the adjustments from reported EPS that were approved.

The Compensation Committee also has general authority to apply downward (but not upward) discretion to bonus, performance award, and shareholder value award payouts for individual executive officers.

1. Base Salary

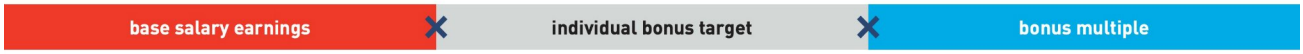
In setting salaries, Lilly seeks to retain, motivate, and reward successful performers while maintaining affordability within the company's business plan. Base salaries are reviewed and established annually and may be adjusted upon promotion, following a change in job responsibilities, or to maintain market competitiveness. Salaries are based on each person's level of contribution, responsibility, expertise, and competitiveness and are compared annually with peer group data.

Base salary increases for 2019 were established based upon a corporate budget for salary increases, which is set considering company performance over the prior year, expected company performance for the following year, and general external trends.

2. Annual Cash Bonus

The Bonus Plan is designed to reward the achievement of the company's annual financial and innovation objectives. All the named executive officers participated in the Bonus Plan during 2019.

Bonus Plan
The Compensation Committee sets performance goals and individual bonus targets for the Bonus Plan at the beginning of each year. The bonus is based on three areas of company performance measured relative to internal targets: revenue, EPS, and innovation progress. The annual cash bonus payout is calculated as follows:



Actual payouts can range from 0 to 200 percent of an individual's bonus target. The Compensation Committee references the annual operating plan and pipeline objectives to establish performance targets and to assess the relative weighting for each objective. The 2019 weightings remain unchanged from the prior year:

Lilly Goals	Weighting
Revenue performance	25%
EPS performance	50%
Pipeline progress	25%

Based on this weighting, the company bonus multiple is calculated as follows:

Executive officer bonuses for 2019 were also subject to the terms of the Executive Officer Incentive Plan (EOIP). Under the EOIP, the maximum annual cash bonus allowable was calculated based on non-GAAP net income (generally described in "Adjustments for 2019 Bonus Plan" in Appendix A) for the year. For Mr. Ricks, the maximum amount for 2019 was 0.3 percent of non-GAAP net income. For other executive officers, the maximum amount was 0.15 percent of non-GAAP net income. In addition, none of the executive officers were eligible to receive an annual cash bonus payment unless the company had positive non-GAAP net income for the year.

Under the EOIP, the Compensation Committee had the discretion to reduce (but not to increase) the amount to be paid. In exercising this discretion, the Compensation Committee awarded the lesser of (i) the bonus the executive officer would have received under the Bonus Plan, or (ii) the EOIP maximum payout. As described further in "Looking Ahead to 2020 Compensation" below, the EOIP was terminated effective January 1, 2020.

3. Equity Incentives

The company grants two types of equity incentives to executives and certain other employees: performance awards that are designed to focus leaders on multi-year operational performance relative to peer companies and shareholder value awards that are intended to align earned compensation with long-term growth in shareholder value and relative TSR performance within our industry. The Compensation Committee has the discretion to adjust

any payout from an equity award granted to an executive officer downward (but not upward) from the amount yielded by the applicable formula.

Performance Awards

Performance awards vest over three years. Payouts are based on achieving EPS growth targets over a two-year performance period, followed by an additional 13-month service-vesting period for executive officers, during which the award is held in the form of restricted stock units. The growth-rate targets are set relative to the median expected EPS growth for our peer group over the same performance period. These awards do not accumulate dividends during the two-year performance period, but they do accumulate dividend equivalent units during the service-vesting period.

The Compensation Committee believes EPS growth is an effective measure of operational performance because it is closely linked to shareholder value, is broadly communicated to the public, is understood by Lilly employees, and allows for objective comparisons to performance of Lilly's peer group. Consistent with the objectives established by the Compensation Committee, Lilly company performance exceeding the expected peer group median results in above-target payouts, while Lilly company performance lagging the expected peer group median results in below-target payouts. Possible payouts range from 0 percent to 150 percent of the target number of shares, depending on Lilly EPS growth over the performance period.

The measure of EPS used in the performance award program differs from the measure used in the Bonus Plan in two ways. First, the EPS goal in the Bonus Plan is set with reference to internal goals that align to our annual operating plan for the year, while the EPS goal in the performance award program is set based on the expected growth rates of our peer group. Second, the Bonus Plan measures EPS over a one-year period, while the performance award program measures EPS over a two-year period. In a given year, the Bonus Plan may pay above target while the performance award pays below target (or vice versa).

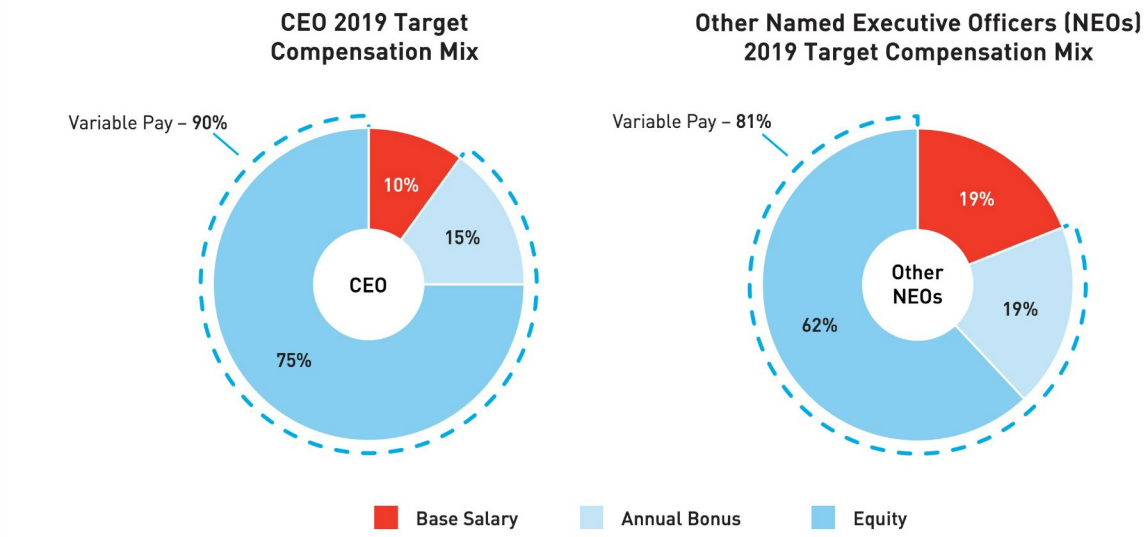
Shareholder Value Awards

Shareholder value awards are earned based on Lilly's share price and relative TSR performance. Shareholder value awards pay above target if Lilly's stock outperforms an expected rate of return and below target if Lilly's stock underperforms that expected rate of return. The expected rate of return is based on the three-year TSR that a reasonable investor would consider appropriate when investing in a basket of large-cap U.S. companies, as determined by the Compensation Committee. The minimum price to achieve target is calculated by multiplying the starting share price of Lilly's stock by the three-year compounded expected rate of return less Lilly's dividend yield. Shareholder value awards have a three-year performance period, and any shares paid are subject to a one-year holding requirement. No dividends are accrued during the performance period. Executive officers receive no payout if Lilly's TSR for the three-year period is zero or negative. Possible payouts are based on share price growth and range from 0 to 150 percent of the target number of shares.

A modifier based on Lilly's three-year cumulative TSR relative to our peer companies' median TSR performance is applied to executive officer payouts. The committee added the relative TSR modifier to the shareholder value award to align executive officers' rewards with strong relative performance within the industry. The payout is increased by one percent for every percentage point that Lilly's TSR exceeds the median (up to a maximum of 20 percent). Likewise, the payout is reduced by one percent for every percentage point that Lilly's TSR is below the median (maximum reduction of 20 percent).

Pay for Performance

The mix of compensation for our named executive officers reflects Lilly's desire to link executive compensation with individual and company performance. As reflected in the charts below, a substantial portion of the target pay for executive officers is performance-based. The annual cash bonus and equity payouts are contingent upon company performance, with the bonus factoring in performance over a one-year period, and equity compensation factoring in performance over two- and three-year periods (as described above). The charts below depict the annualized mix of target compensation for Lilly's CEO and the average for the other named executive officers.



2019 Target Total Compensation

Performance Review Process

In setting 2019 target compensation for the named executive officers, the Compensation Committee considered individual contributions, Lilly performance during 2018, internal relativity, peer group data, and input from the CEO for named executive officers other than himself.

2018 Individual Named Executive Officer Performance

A summary of the Compensation Committee's review of individual named executive officer performance is provided below:

David Ricks, Chairman, President, and CEO: In accordance with the company's Corporate Governance Guidelines, the independent directors conducted an assessment of Mr. Ricks' performance led by the lead independent director. The independent directors believe the company largely met or exceeded its combined financial and strategic goals for 2018 under Mr. Ricks' leadership. In 2018, Mr. Ricks and his team:

- delivered on the company's financial commitments, including with relation to our mid-term guidance
- launched new innovative medicines to patients around the world, including the approval of Emgality in the U.S. and ten other product approvals in Europe, Japan, and the rest of world
- progressed numerous potential medicines into Phase 1 and Phase 2 clinical development from both internal research efforts and external sources
- implemented a cross-company productivity agenda resulting in savings that funded increased investment in research and development and allowed above-plan capital return to shareholders
- completed the initial public offering of Elanco in anticipation of Elanco's complete divestiture in early 2019
- built on the company's program to improve diversity and inclusion across the company, increased the representation of women and minorities in management, and conducted pay equity studies to ensure equality in pay
- drove the refinement of the strategy for Lilly 30x30, a program to improve access to quality health care in resource-limited settings for 30 million people on an annual basis by 2030, and clarified tactics to ensure forward progress
- improved certain environmental performance areas, such as greenhouse gas emissions, energy efficiency, waste efficiency, and wastewater.

In addition, the company was named one of the world's most ethical companies by Ethisphere Institute.

Joshua Smiley, Senior Vice President and Chief Financial Officer: Mr. Smiley contributed to the strong financial performance of the company in his first year as chief financial officer. Mr. Smiley's 2018 accomplishments included:

- drove the company's 2018 strategic planning and business planning process
- led the strategic review of Lilly's Elanco Animal Health business unit and its initial public offering
- championed the company's productivity agenda during the 2018 strategic and operations planning processes
- co-led the evaluation and due diligence for numerous business development deals
- led the capital allocation process allowing for investment in several in-licensing deals and increased funding for the advancement of new medicines
- established excellent rapport with the investment community in his first year as CFO
- partnered well with the business unit presidents and chief scientific officer to drive resource allocation
- provided leadership and executive sponsorship of Lilly's Indian Network, an employee resource group focused on supporting and advancing people of Indian heritage in the company.

Daniel Skovronsky, M.D., Ph.D., Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories: Dr. Skovronsky became senior vice president and chief scientific officer on June 1, 2018. Prior to this promotion, Dr. Skovronsky was senior vice president for product development. In 2018, Dr. Skovronsky led efforts including:

- advanced innovative medicines through the product pipeline, including the first approval of Emgality in the U.S., ten other product approvals around the world, and the entry of several new potential medicines into Phase 1 and Phase 2 testing
- co-led the evaluation and due diligence for numerous business development deals
- increased the speed of research by expanding the number of internal teams with governance designed to enable agile decision making
- enhanced strategies to further reduce the time drug candidates spend in development, leading to earlier potential product launch
- sponsored an increase in Lilly's external research efforts, including expansion of key research hubs in Boston and San Francisco
- led diversity and inclusion strategies in research and development to improve innovation and productivity; acted as executive sponsor of Lilly's Japanese Network, an employee resource group focused on supporting and advancing people of Japanese heritage in the company.

Enrique Conterno (retired), Senior Vice President and President, Lilly Diabetes and President, Lilly USA: Mr. Conterno demonstrated strong leadership of Lilly Diabetes and across the company prior to his retirement effective December 31, 2019. In 2018, he:

- drove volume growth within the diabetes business unit, primarily from newer products
- championed the development of new insulin delivery devices incorporating digital technology to provide patients with better diabetes control
- led the company's U.S. commercial business, which is the company's largest market, as well as the company's human pharmaceutical commercial operations in China, Japan, and Canada
- created the Lilly Diabetes Solutions Center to provide insulin affordability support
- initiated late clinical testing for tirzepitide, a potential advancement for the treatment of type 2 diabetes
- served as executive sponsor of WILL (Women's Initiative for Leading at Lilly), the company's employee resource group focused on supporting and advancing the development of women across the company.

Michael Harrington (retired), Senior Vice President and General Counsel: Mr. Harrington was effective and influential in his role as general counsel prior to his retirement effective January 31, 2020, and he was a productive partner with the executive team. In 2018, he:

- defended several key patents, including patents for Alimta in the U.S., Europe, and Japan
- developed and implemented legal strategies in the areas of mergers and acquisitions, product liability, regulatory reform, and pharmaceutical pricing
- provided sound legal counsel throughout the Elanco Animal Health initial public offering in anticipation of its complete divestiture in early 2019 as well as numerous business development deals
- influenced the company's ethics and compliance programs globally to ensure the company lives its long-standing value of integrity
- led a company initiative to increase protection of Lilly's intellectual property assets and partnered with the chief technology officer to improve cybersecurity

- led and served as an executive sponsor of the company's Pride organization, an employee resource group focused on supporting and advancing lesbian, gay, bisexual, transgender, and queer/questioning employees.

2019 Target Compensation

The information below reflects total compensation at target for named executive officers for 2019. The actual compensation received in 2019 is summarized below in "2019 Compensation Results."

Rationale for Changes to Named Executive Officer Target Compensation

The Compensation Committee established 2019 target total compensation for each named executive officer based on the named executive officer's 2018 performance, internal relativity, and peer group data.

Base Salary

The following table shows the approved annualized salary effective at the beginning of March for each named executive officer. Each named executive officer's actual base salary earned during 2019 is reflected in the Summary Compensation Table in the "Executive Compensation" section of this proxy.

Name	2018 Annual Base Salary	2019 Annual Base Salary	Increase (effective March 1, 2019)
Mr. Ricks	$1,400,000	$1,400,000	—
Mr. Smiley	$875,000	$900,000	3%
Dr. Skovronsky	$900,000	$900,000	—
Mr. Conterno (retired)	$800,000	$840,000	5%
Mr. Harrington (retired)	$860,300	$900,000	5%

Annual Cash Bonus Targets

Based on a review of internal relativity, peer group data, and individual performance, the Compensation Committee decided to increase Mr. Conterno's bonus target and retain the same bonus targets for Mr. Ricks, Mr. Smiley, Dr. Skovronsky, and Mr. Harrington as in 2018. Bonus targets are shown in the table below as a percentage of each named executive officer's earnings from base salary in 2019:

Name	2018 Bonus Target	2019 Bonus Target
Mr. Ricks	150%	150%
Mr. Smiley	95%	95%
Dr. Skovronsky	95%	95%
Mr. Conterno (retired)	80%	95%
Mr. Harrington (retired)	80%	80%

Equity Incentives - Target Grant Values

For 2019 equity grants, the Compensation Committee set the total target values for named executive officers based on peer group data, individual performance, and internal relativity. Named executive officers have 60 percent of their equity target allocated to shareholder value awards and 40 percent to performance awards. Total target values for the 2018 and 2019 equity grants to the named executive officers were as follows:

Name	2018 Annual Equity Grant	2019 Annual Equity Grant
Mr. Ricks	$9,000,000	$10,500,000
Mr. Smiley	$2,300,000	$2,700,000
Dr. Skovronsky	$2,300,000	$3,500,000
Mr. Conterno (retired)	$2,600,000	$2,600,000
Mr. Harrington (retired)	$2,550,000	$2,550,000

Performance Goals for 2019 Incentive Programs

Annual Cash Bonus Goals

The Compensation Committee established the company performance targets using the company's 2019 annual operating plan, which was approved by the board in 2018. These targets are described below under "2019 Compensation Results."

2019-2021 Performance Award

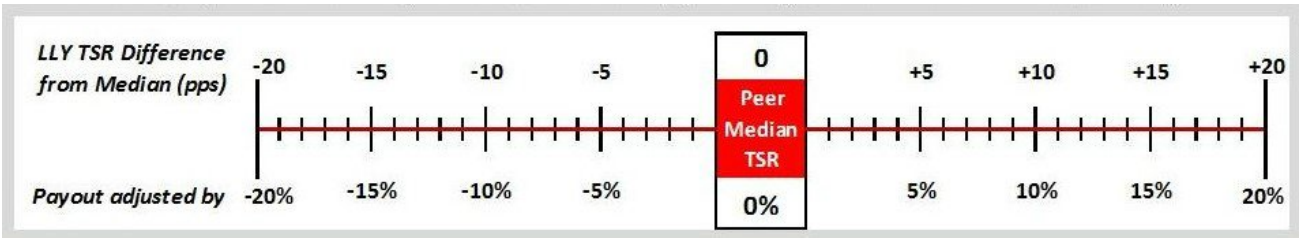
In February 2019, the Compensation Committee established a compounded two-year EPS growth target of 5.8 percent per year based on investment analysts' EPS growth estimates for our peer group companies at that time. Payouts for the 2019-2021 performance award can range from 0 to 150 percent of the target number of shares, as shown below:

2019-2021 Shareholder Value Award

For purposes of establishing the stock price target for the shareholder value awards, the starting price was $112.38 per share, the average closing stock price for all trading days in November and December 2018. The target share price was established using the expected annual rate of return for large-cap companies (8 percent), less an assumed Lilly dividend yield of 2.30 percent. To determine payout, the ending price will be the average closing price of company stock for all trading days in November and December 2021. The award is designed to deliver no payout to executive officers if the shareholder return (including projected dividends) is zero or negative. Possible payouts based on share price ranges are illustrated in the grid below.

Ending Stock Price	Less than $103.43	$103.43 - $118.07	$118.08 - $132.72	$132.73 - $147.37	$147.38 - $162.02	Greater than $162.02
Compounded Annual Share Price Growth Rate (excluding dividends)	Less than (2.7%)	(2.7%)-1.7%	1.7%-5.7%	5.7%-9.5%	9.5% -13.0%	Greater than 13.0%
Percent of Target	0%	50%	75%	100%	125%	150%

Executive officer awards are subject to a relative TSR modifier, as shown in the grid below. The number of shares to be paid will increase or decrease by one percent for every percentage point Lilly's three-year TSR deviates from our peer group's median three-year TSR, capped at 20 percent.



2019 Compensation Results

The information in this section reflects the amounts paid to named executive officers under the Bonus Plan and for equity awards granted in prior years for which the relevant performance period ended in 2019.

Lilly Performance

In 2019 we exceeded our targets for EPS and stock price, and nearly achieved our target for revenue. We also exceeded our target for pipeline progress. Key pipeline highlights include the first regulatory approval for Baqsimi and Reyvow. The discussion below details the measures used in each program, what the performance goal was to obtain target performance, how performance outcomes were assessed and what the compensation committee approved as the final payout multiple.

Bonus Plan

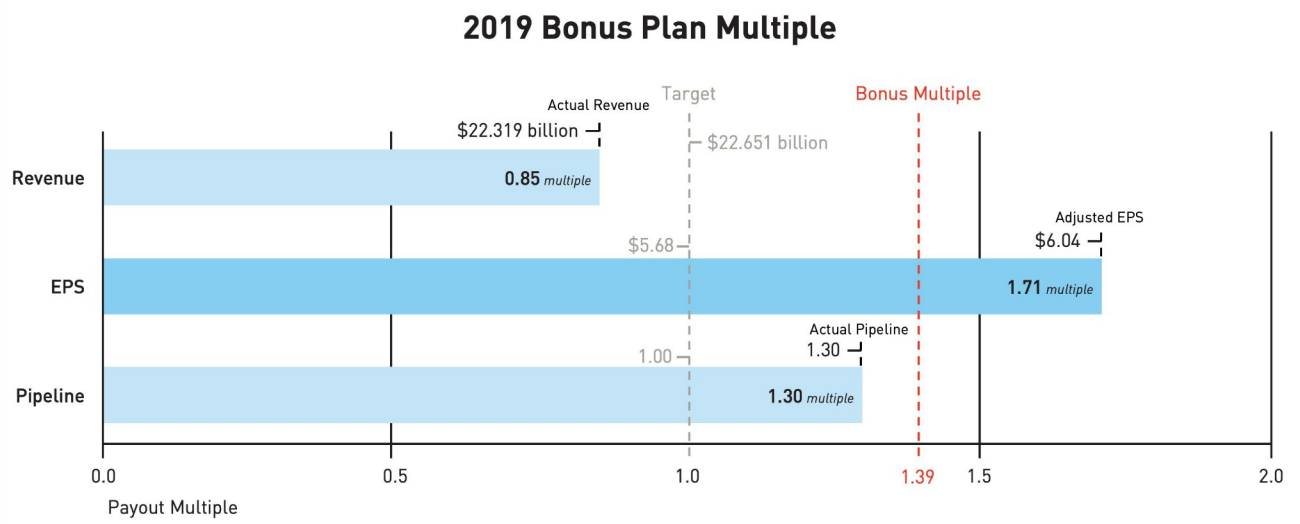
The company utilized revenue change, EPS change, and pipeline progress to incent the achievement of 2019 company objectives. Each measure contributes to the final payout multiple on a weighted basis: Revenue change (25 percent), EPS change (50 percent), and pipeline progress (25 percent). Each performance measure is assessed a payout multiple contribution of 0 to 200 percent.

The company exceeded its annual cash bonus target for EPS and nearly achieved its target for revenue. The Science and Technology Committee's assessment of the company's product pipeline achievements is detailed below:

Activity	Objective	Achievement
Approvals	2 new drug first approvals 11-12 other approvals	2 new drug first approvals 15 other approvals
Potential new drug Phase 3 starts	2	1
Potential new drug Phase 1 starts	12-14	16
Potential new indication or line extension Phase 3 starts	5	4
Plan Boldly	Meet industry benchmark for speed of development	Exceeded industry benchmark for speed of development
Deliver to Launch	Meet planned project timelines	Met planned project timelines
Qualitative Assessment	Assessment of the chief scientific officer's evaluation of performance against strategic objectives	

Based on the recommendation of the Science and Technology Committee, the Compensation Committee approved a pipeline multiple of 1.30.

The company's performance compared to targets as well as the resulting bonus multiple, is illustrated below:



For additional information on financial results, see Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award."

When combined, the revenue, EPS, and pipeline multiples yielded a bonus multiple of 1.39.

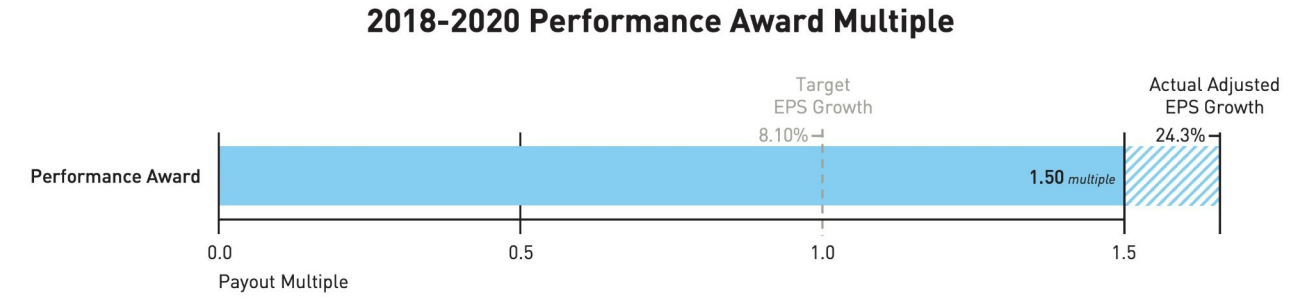
Revenue		EPS		Pipeline		Payout
0.25 x 0.85	+	0.50 x 1.71	+	0.25 x 1.30	=	1.39 bonus multiple

The 2019 bonuses paid to the applicable named executive officers under the Bonus Plan were as follows:

Name	2019 Bonus ($)
Mr. Ricks	$2,919,000
Mr. Smiley	$1,182,948
Dr. Skovronsky	$1,188,450
Mr. Conterno (retired)	$1,100,417
Mr. Harrington (retired)	$993,442

2018-2020 Performance Awards

The target cumulative EPS for the 2018-2020 performance award was set in the first quarter of 2018, reflecting expected industry growth of 8.1 percent each year over the two-year performance period of 2018-2019. The company's adjusted EPS growth for the two-year period was 24.3 percent. The compensation committee adjusted non-GAAP EPS by $0.35 for the expected impact of the acquisition of Loxo Oncology, Inc., and to neutralize the impact of the Elanco divestiture.



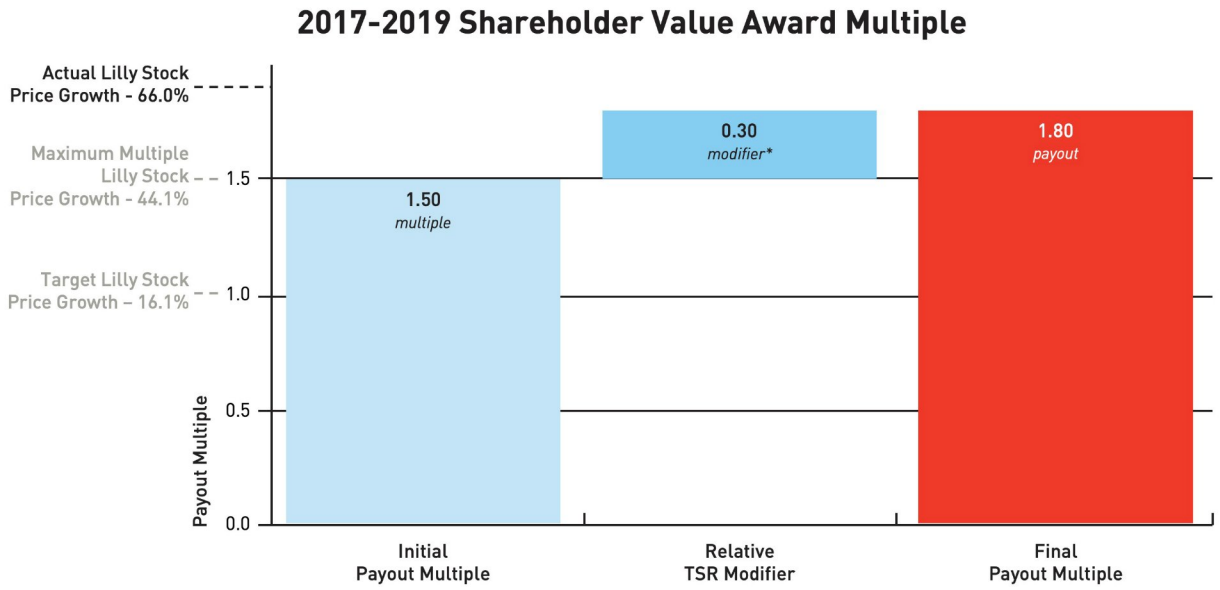
For the named executive officers other than Dr. Skovronsky, shares earned for the 2018-2019 performance period are subject to an additional 13-month service-vesting period and are shown in the table below as restricted stock units. Dr. Skovronsky's 2018-2019 performance award was paid in shares of Lilly common stock.

Name	Target Shares	Shares Earned	RSUs Earned
Mr. Ricks	50,258	N/A	75,387
Mr. Smiley	12,844	N/A	19,266
Dr. Skovronsky	16,055	24,083	N/A
Mr. Conterno (retired)	14,519	N/A	21,779
Mr. Harrington (retired)	14,240	N/A	21,360

2017-2019 Shareholder Value Award

The target stock price range of $83.80 to $92.79 (16.1 percent to 28.6 percent total stock price growth) for the 2017-2019 shareholder value award was set in 2017 based on a beginning stock price of $72.15, which was the average closing price for Lilly stock for all trading days in November and December 2016. The ending stock price of $119.76 represents stock price growth of approximately 66 percent over the relevant three-year period resulting in a payout multiple of 1.50.

The TSR modifier applies to those individuals who were executive officers when the award was granted. The cumulative TSR median for the company's peer group was 46.6 percent, and Lilly's TSR over the same period was 78.6 percent. Given this positive relative performance, the shareholder value award payout multiple was increased by 20 percent, making the final performance multiple 1.80.



**Over the performance period, Lilly's cumulative TSR was 78.6 percent and the median peer cumulative TSR was 46.6 percent for a total outperformance of 32.0 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the compensation committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent = 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

The number of shares paid to each of our named executive officers for the 2017-2019 performance period were as follows:

Name	Target Shares	Shares Paid Out
Mr. Ricks	78,089	140,560
Mr. Smiley*	5,258	7,887
Dr. Skovronsky*	9,764	14,646
Mr. Conterno (retired)	22,967	41,341
Mr. Harrington (retired)	21,130	38,034

*The TSR modifier did not apply to Mr. Smiley's and Dr. Skovronsky's 2017-2019 shareholder value award payouts since neither one was an executive officer at the time of grant.

Other Compensation Practices and Information

Employee Benefits

The company offers core employee benefits coverage to:

- provide our workforce with a reasonable level of financial support in the event of illness or injury
- provide post-retirement income
- enhance productivity and job satisfaction through benefit programs that focus on overall well-being.

The benefit programs available to executive officers are offered to all U.S. employees and include medical and dental coverage, disability insurance, and life insurance. In addition, The Lilly Employee 401(k) plan (401(k) Plan) and The Lilly Retirement Plan (the Retirement Plan) are intended to provide U.S. employees a reasonable level of retirement income reflecting employees' careers with the company. To the extent that any employee's retirement benefit exceeds Internal Revenue Service (IRS) limits for amounts that can be paid through a qualified plan, the company also offers a nonqualified pension plan and a nonqualified savings plan. These plans provide only the difference between the calculated benefits and the IRS limits, and the formula is the same for all U.S. employees. The cost of employee benefits is partially borne by the employee, including each executive officer.

Perquisites

The company provides very limited perquisites to executive officers. The company generally does not allow personal use of the corporate aircraft. In rare cases when the security and efficiency benefits outweigh the expense, the corporate aircraft is made available to Mr. Ricks for personal use. The company did not incur any expenses for personal use of its aircraft in 2019 by Mr. Ricks, and he did not receive any reportable perquisites. Depending on seat availability, family members and personal guests may accompany executive officers who are traveling for business on the company aircraft. There is no incremental cost to the company for these trips by family members and personal guests.

The Lilly Deferred Compensation Plan

Members of senior management may defer receipt of part or all of their cash compensation under The Lilly Deferred Compensation Plan (Deferred Compensation Plan), which allows executives to save for retirement in a tax-effective way at minimal cost to the company. Under this unfunded plan, amounts deferred by the executive are credited at an interest rate of 120 percent of the applicable federal long-term rate, as described in more detail following the "Nonqualified Deferred Compensation in 2019" table.

Severance Benefits

Except in the case of certain terminations following a change in control of the company, the company is generally not obligated to pay severance to executive officers upon termination of their employment; any such payments are at the discretion of the Compensation Committee.

The company has adopted change-in-control severance pay plans for nearly all employees, including executive officers. The plans are intended to preserve employee morale and productivity and encourage retention in the face of the disruptive impact of an actual or rumored change in control. In addition, the plans are intended to align executive and shareholder interests by enabling executives to evaluate corporate transactions that may be in the best interests of the shareholders and other constituents of the company without undue concern over whether the transactions may jeopardize the executives' own employment.

Highlights of Our Change-in-Control Severance Plans

- all regular employees are covered
- double trigger generally required
- no tax gross-ups
- up to two-year pay protection
- 18-month benefit continuation

Although benefit levels may differ depending on the employee's job level and seniority, the basic elements of the plans are comparable for all eligible employees:

- **Double trigger:** Unlike "single trigger" plans that pay out immediately upon a change in control, our plans require a "double trigger" — a change in control followed by an involuntary loss of employment within two years. This is consistent with the plan's intent to provide employees with financial protection upon loss of employment. With respect to unvested equity, performance to the date of the change in control will be used to determine the number of shares earned under an award, but vesting does not accelerate immediately upon a change in control. Rather, the performance-adjusted awards will convert to time-based restricted stock units that continue to vest with the new company. Shares will pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the awards.

- **Covered terminations:** Employees are eligible for payments if, within two years of the change in control, their employment is terminated (i) without cause by the company or (ii) for good reason by the employee, each as defined in the plan. See "Executive Compensation - Payments Upon Termination or Change in Control" for a more detailed discussion, including a discussion of what constitutes a change in control.

- **Employees who suffer a covered termination receive up to two years of pay and 18 months of benefits protection:** These provisions ensure employees a reasonable period of protection of their income and core employee benefits.
    - *Severance payment.* Eligible terminated employees would receive a severance payment ranging from six months to two years' base salary. Executives are all eligible for two years' base salary plus two times the then-current year's target bonus.
    - *Benefit continuation.* Basic employee benefits such as health and life insurance would continue for 18 months following termination of employment, unless the individual becomes eligible for coverage with a new employer. All employees would receive an additional two years of both age and years-of-service credit for purposes of determining eligibility for retiree medical and dental benefits.

- **Accelerated vesting of equity awards:** Any unvested equity awards would vest at the time of a covered termination.

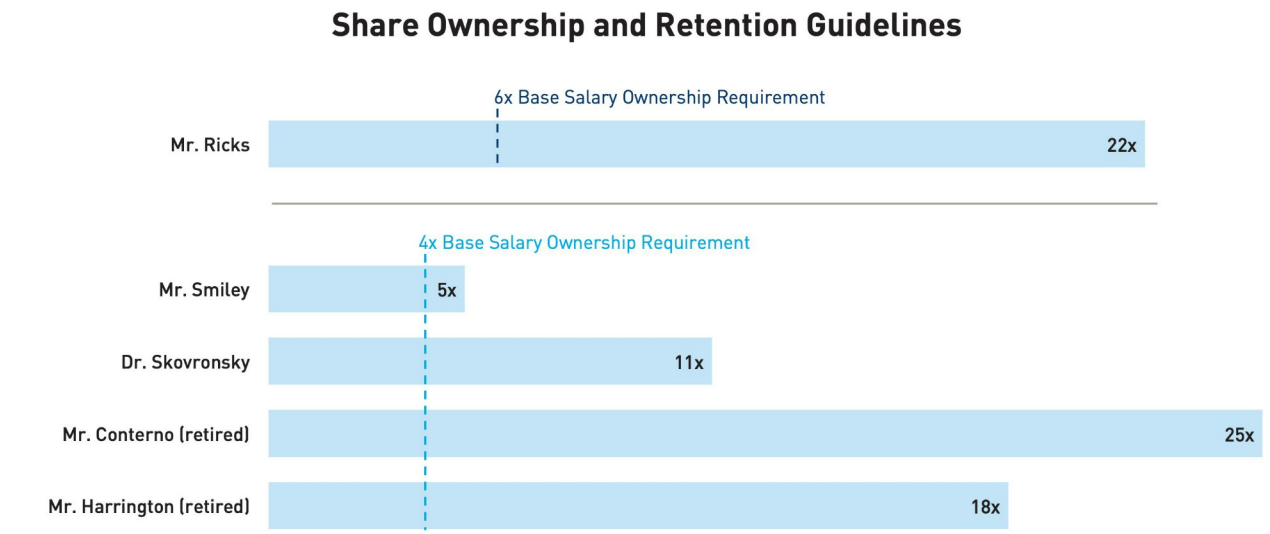
- **Excise tax:** In some circumstances, the payments or other benefits received by the employee in connection with a change in control could exceed limits established under Section 280G of the Internal Revenue Code. The employee would then be subject to an excise tax on top of normal federal income tax. The company does not reimburse employees for these taxes. However, the amount of change-in-control-related benefits will be reduced to the 280G limit if the effect would be to deliver a greater after-tax benefit than the employee would receive with an unreduced benefit.

Share Ownership and Retention Guidelines

Share ownership and retention guidelines help create direct alignment of interests between senior management and shareholders over the longer term. Lilly has established a formal share ownership policy under which the CEO and other senior executives are required to acquire and hold Lilly shares in an amount representing a multiple of base salary.

Until the required number of shares is reached, an executive officer must hold 50 percent of all shares, net of tax, from all equity payouts. Executive officers are also required to hold all shares received from equity program payouts, net of taxes, for at least one year, even once share ownership requirements have been met. For performance awards granted to executive officers, this holding requirement is met by the 13-month service-vesting period after the end of the performance period.

All of the named executive officers are compliant with the share ownership guidelines. The following graphic shows each respective named executive officers' guideline and each named executive officers' holdings as of December 31, 2019:



Prohibition on Hedging and Pledging Shares

Non-employee directors and employees, including executive officers, are not permitted to hedge their economic exposures to company stock through short sales or derivative transactions. Non-employee directors and all members of senior management (approximately 140 employees in 2019) are prohibited from pledging any company stock (i.e., using company stock as collateral for a loan or trading shares on margin).

Executive Compensation Recovery Policy

All incentive awards are subject to forfeiture upon termination of employment prior to the end of the performance or vesting period or for disciplinary reasons. In addition, the Compensation Committee has adopted an executive compensation recovery policy that gives the Compensation Committee broad discretion to claw back incentive payouts from any member of senior management whose misconduct results in a material violation of law or company policy that causes significant harm to the company or who fails in his or her supervisory responsibility to prevent such misconduct by others.

Additionally, the company can recover all or a portion of any incentive compensation from an executive officer in the case of materially inaccurate financial statements or material errors in the performance calculation, whether or not such inaccuracies or errors result in a restatement and whether or not the executive officer has engaged in wrongful conduct.

The recovery policy covers any incentive compensation awarded or paid to a member of senior management during the last three years. Subsequent changes in status, including retirement or termination of employment, do not affect the company's rights to recover compensation under the policy.

Looking Ahead to 2020 Compensation

The executive officer incentive plan (EOIP) was designed to maximize the deductibility of performance-based compensation under Internal Revenue Code Section 162(m). The changes to the US tax code associated with the Tax Cuts and Jobs Act of 2017 disallowed the deductibility of any compensation exceeding one million dollars. As a result, the company is discontinuing the EOIP as of December 31, 2019, and all executive officers will participate in the Bonus Plan starting January 1, 2020.

The Compensation Committee reviewed and approved an update to the annual equity program that encourages company leadership to successfully and efficiently execute the company's business plan, deliver value to Lilly shareholders, and effectively compete against Lilly's peers. For 2020, we continued rewarding strong financial results (as measured by two-year cumulative EPS growth goals) through use of the performance award and

continued to encourage delivery of long-term shareholder value (as measured by our three-year absolute stock price appreciation) through the shareholder value award. However, we discontinued use of the relative TSR modifier in shareholder value awards granted beginning in 2020 and instead implemented a new award called the relative value award. The relative value award is based on Lilly's TSR versus the median TSR of our peer group. If Lilly outperforms the peer group median TSR, payouts will be at target or higher. If Lilly underperforms the peer group median TSR, payouts will fall below target or result in no pay out.

We have also aligned all three equity awards to have a maximum payout of 175 percent of target. This is an increase from 150 percent of target for the performance award design, and a decrease from 180 percent of target for the prior shareholder value award (including the relative TSR modifier). This adjustment is designed to reward significant outperformance in each of three important areas: our business plan, total shareholder return, and performance relative to our peers.

For 2020, Lilly's named executive officers' equity awards were allocated into three separate awards as shown below:

Award Type	Percent
Performance Awards	30%
Shareholder Value Awards	35%
Relative Value Awards	35%

Additional details regarding each award will be provided in the 2021 proxy statement.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) [1]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($) [2]	Change in Pension Value ($) [3]	All Other Compensation ($) [4]	Total Compensation ($)
David A. Ricks	2019	$1,400,000	$0	$12,222,000	$0	$2,919,000	$4,658,242	$84,000	$21,283,242
Chairman, President, and Chief Executive Officer	2018	$1,400,000	$0	$10,584,000	$0	$3,633,000	$1,529,337	$84,000	$17,230,337
	2017	$1,400,000	$0	$10,200,000	$0	$2,814,000	$1,347,991	$84,000	$15,845,991
Joshua L. Smiley	2019	$895,833	$0	$3,142,800	$0	$1,182,948	$2,073,070	$53,750	$7,348,401
Senior Vice President and Chief Financial Officer	2018	$875,000	$0	$2,704,800	$0	$1,438,063	$174,980	$52,500	$5,245,343
	2017	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Daniel M. Skovronsky, M.D., Ph.D.	2019	$900,000	$0	$4,074,000	$0	$1,188,450	$446,521	$54,000	$6,662,971
Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories	2018	$837,500	$0	$2,806,000	$0	$1,376,431	$75,717	$50,250	$5,145,898
	2017	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Enrique A. Conterno (retired)	2019	$833,333	$0	$3,026,400	$0	$1,100,417	$2,165,228	$50,000	$7,175,378
Senior Vice President and President, Lilly Diabetes and President, Lilly USA	2018	$794,683	$0	$3,057,600	$0	$1,099,842	$0	$47,681	$4,999,806
	2017	$762,002	$0	$6,000,000	$0	$816,866	$999,426	$45,720	$8,624,014
Michael J. Harrington (retired)	2019	$893,383	$0	$2,968,200	$0	$993,442	$2,587,220	$53,603	$7,495,848
Senior Vice President and General Counsel	2018	$860,300	$0	$2,998,800	$0	$1,190,655	$338,947	$51,618	$5,440,320
	2017	$856,130	$0	$2,760,000	$0	$917,771	$1,657,718	$51,368	$6,242,987

[1] This column shows the grant date fair value of performance awards and shareholder value awards computed in accordance with FASB ASC Topic 718. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, for additional detail regarding assumptions underlying the valuation of equity awards. All values in the "Stock Awards" column were based upon the probable outcome of performance conditions as of the grant date, which vary year to year.

For purposes of comparison, the supplemental table below shows the total target grant values of stock awards approved by the Compensation Committee:

Name	2017 Total Equity	2018 Total Equity	2019 Total Equity
Mr. Ricks	$8,500,000	$9,000,000	$10,500,000
Mr. Smiley	N/A	$2,300,000	$2,700,000
Dr. Skovronsky	N/A	$2,300,000	$3,500,000
Mr. Conterno (retired)*	$2,500,000	$2,600,000	$2,600,000
Mr. Harrington (retired)*	$2,300,000	$2,550,000	$2,550,000

*Due to the retirement of Mr. Conterno on December 31, 2019, and Mr. Harrington on January 31, 2020, the stock awards granted in 2018 and 2019 will be prorated for time worked in the performance period.

The table below shows the minimum, target, and maximum payouts (using the grant date fair value) for the 2019-2021 performance award included in the Summary Compensation Table, which will payout in January 2022.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,200,000	$6,300,000
Mr. Smiley	$0	$1,080,000	$1,620,000
Dr. Skovronsky	$0	$1,400,000	$2,100,000
Mr. Conterno (retired)*	$0	$1,040,000	$1,560,000
Mr. Harrington (retired)*	$0	$1,020,000	$1,530,000

*Mr. Conterno's and Mr. Harrington's 2019-2021 performance award will be prorated for time worked in the performance period due to retirement.

The table below shows the minimum, target, and maximum payouts (using the grant date fair value) for the 2019-2021 shareholder value award included in the Summary Compensation Table, which will payout in January 2022.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$6,300,000	$11,340,000
Mr. Smiley	$0	$1,620,000	$2,916,000
Dr. Skovronsky	$0	$2,100,000	$3,780,000
Mr. Conterno (retired)*	$0	$1,560,000	$2,808,000
Mr. Harrington (retired)*	$0	$1,530,000	$2,754,000

*Mr. Conterno's and Mr. Harrington's 2019-2021 shareholder value award will be prorated for time worked in the performance period due to retirement.

[2] Payments under the Bonus Plan for performance in the years represented.

[3] The amounts in this column reflect the change in pension value for each individual, calculated by our actuary, and are affected by additional service accruals and pay earned, as well as actuarial assumption changes. The changes in pension values in 2019 were driven primarily by the change in the discount rate and increases to pensionable earnings. The design of the pension benefit plan did not change. See the Pension Benefits in 2019 table below for information about the standard actuarial assumptions used. No named executive officer received preferential or above-market earnings on deferred compensation.

[4] The amounts in this column are company matching contributions into each individual's 401(k) and nonqualified savings plan contributions. The company does not reimburse executives for taxes outside of the limited circumstance of taxes related to a domestic employee relocation or a prior international assignment. There were no reportable perquisites or personal benefits.

Grants of Plan-Based Awards During 2019

The compensation plans under which the grants in the following table were made are described in the CD&A above and consist of the Bonus Plan (a non-equity incentive plan) and the Amended and Restated 2002 Lilly Stock Plan (which provides for performance awards, shareholder value awards, and restricted stock units, among others).

To receive a payout under the performance award or the shareholder value award, a participant must remain employed with the company through the end of the relevant award period (except in the case of death, disability, retirement, or plant closing or reduction in workforce). No dividends accrue on either performance awards or shareholder value awards during the performance period. For performance awards, non-preferential dividends accrue during the 13-month service-vesting period (following the two-year performance period) and are paid upon vesting.

Name	Award		Grant Date[2]	Compensation Committee Action Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards [1] Threshold ($)	Target ($)	Maximum ($)	Estimated Possible and Future Payouts Under Equity Incentive Plan Awards Threshold (# shares)	Target (# shares)	Maximum (# shares)	All Other Stock or Option Awards: Number of Shares of Stock, Options, or Units	Grant Date Fair Value of Equity Awards
Mr. Ricks			—	—	$525,000	$2,100,000	$4,200,000					
	2019-2021 PA	[3]	2/7/2019	12/17/2018				18,735	37,470	56,205		$5,922,000
	2019-2021 SVA	[4]	2/7/2019	12/17/2018				27,353	68,382	123,088		$6,300,000
											0	
Mr. Smiley			—	—	$212,760	$851,042	$1,702,083					
	2019-2021 PA	[3]	2/7/2019	12/17/2018				4,818	9,635	14,453		$1,522,800
	2019-2021 SVA	[4]	2/7/2019	12/17/2018				7,034	17,584	31,651		$1,620,000
											0	
Dr. Skovronsky			—	—	$213,750	$855,000	$1,710,000					
	2019-2021 PA	[3]	2/7/2019	12/17/2018				6,245	12,490	18,735		$1,974,000
	2019-2021 SVA	[4]	2/7/2019	12/17/2018				9,118	22,794	41,029		$2,100,000
											0	
Mr. Conterno (retired)			—	—	$197,917	$791,667	$1,583,333					
	2019-2021 PA	[3]	2/7/2019	12/17/2018				4,639	9,278	13,917		$1,466,400
	2019-2021 SVA	[4]	2/7/2019	12/17/2018				6,773	16,933	30,479		$1,560,000
											0	
Mr. Harrington (retired)			—	—	$178,677	$714,707	$1,429,413					
	2019-2021 PA	[3]	2/7/2019	12/17/2018				4,550	9,100	13,650		$1,438,200
	2019-2021 SVA	[4]	2/7/2019	12/17/2018				6,643	16,607	29,893		$1,530,000
											0	

[1] These columns show the threshold, target, and maximum payouts for performance under the Bonus Plan. Bonus payouts range from 0 to 200 percent of target. The Bonus Plan payment for 2019 performance was 139 percent of target. Actual payouts are shown in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."

[2] To assure grant timing is not manipulated for employee gain, the annual grant date is established in advance by the Compensation Committee.

[3] This row shows the possible payouts for the 2019-2021 performance awards ranging from 0 to 150 percent of target. This performance award will pay out in January 2022. For Mr. Conterno and Mr. Harrington, payouts will be prorated for time worked during the performance period.

[4] This row shows the range of payouts for the 2019-2021 shareholder value awards. This shareholder value award will pay out in January 2022, with payouts ranging from 0 to 180 percent of target. We measure the fair value of the shareholder value award on the grant date using a Monte Carlo simulation model. For Mr. Conterno and Mr. Harrington, payouts will be prorated for time worked during the performance period.

Outstanding Equity Awards at December 31, 2019

The 2019 closing stock price used to calculate the values in the table below was $131.43.

		Stock Awards				
Name	Award	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Mr. Ricks	2019-2021 SVA			123,088 [1]	$16,177,456
	2018-2020 SVA			235,865 [2]	$30,999,737
	2019-2021 PA			56,205 [3]	$7,387,023
	2018-2020 PA	75,387 [4]	$9,908,113		
	2017-2019 PA	69,350 [5]	$9,114,671		
Mr. Smiley	2019-2021 SVA			31,651 [1]	$4,159,891
	2018-2020 SVA			60,277 [2]	$7,922,206
	2019-2021 PA			14,453 [3]	$1,899,558
	2018-2020 PA	19,266	$2,532,130		
	2010 RSU Award	7,947 [6]	$1,044,474		
Dr. Skovronsky	2019-2021 SVA			41,029 [1]	$5,392,441
	2018-2020 SVA			40,430 [2]	$5,313,715
	2019-2021 PA			18,735 [3]	$2,462,341
Mr. Conterno (retired)	2019-2021 SVA			30,479 [1]	$4,005,855
	2018-2020 SVA			68,139 [2]	$8,955,509
	2019-2021 PA			13,917 [3]	$1,829,111
	2018-2020 PA	21,779 [4]	$2,862,414		
	2017-2019 PA	20,397 [5]	$2,680,778		
	2017 RSU Award	34,615 [7]	$4,549,449		
Mr. Harrington (retired)	2019-2021 SVA			29,893 [1]	$3,928,837
	2018-2020 SVA			66,829 [2]	$8,783,335
	2019-2021 PA			13,650	$1,794,020
	2018-2020 PA	21,360 [4]	$2,807,345		
	2017-2019 PA	18,765 [5]	$2,466,284		

[1] Shareholder value awards granted for the 2019-2021 performance period will vest on December 31, 2021. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2021 is over $162.02. Actual payouts may vary from 0 to 180 percent of target; Mr. Conterno's and Mr. Harrington's payouts will be further prorated for time worked in the performance period. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2019, the payout would have been at 68 percent of target.

[2] Shareholder value awards granted for the 2018-2020 performance period will vest on December 31, 2020. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2020 is over $120.65. Actual payouts may vary from 0 to 180 percent of target; Mr. Conterno's and Mr. Harrington's payouts will be further prorated for time worked in the performance period. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2019, the payout would have been 180 percent of target. Dr. Skovronsky was not an executive officer at the time of grant, so he received a 2018-2020 shareholder value award which is not subject to the TSR modifier. As a result, his payouts will range from 0 to 150 percent of target. Had the performance period ended December 31, 2019, the payout of Dr. Skovronsky's awards would have been at 150 percent of target.

[3] This number represents the maximum value of performance award shares that could pay out for the 2019-2020 performance period, provided performance goals are met. Once the combined cumulative EPS result and associated

payout level are determined at the end of the performance period, the associated number of shares will be granted as restricted stock units, vesting in February 2022. Actual payouts may vary from 0 to 150 percent of target; Mr. Conterno's and Mr. Harrington's payouts will be further prorated for time worked in the performance period. The number of shares recorded in the table reflects the payout if the combined cumulative EPS for 2019 and 2020 is at least $12.41.

[4] The performance period ended December 31, 2019, for the 2018-2020 performance award resulting in the issuance of restricted stock units for 150 percent of target shares for Mr. Ricks, Mr. Smiley, Mr. Conterno, and Mr. Harrington. These restricted stock units will vest in February 2021. Dr. Skovronsky was not an executive officer at the time of grant and was not subject to the 13-month service-vesting holding period; his award paid out in Lilly stock in February 2020.

[5] Restricted stock units vested from the 2017-2019 performance award in February 2020.

[6] This grant was made outside of the normal annual cycle in 2010, before Mr. Smiley became an executive officer, and will vest on October 1, 2020.

[7] This grant was made in 2017 and was not scheduled to vest until December 11, 2021. Mr. Conterno forfeited this award upon his retirement on December 31, 2019.

Options Exercised and Stock Vested in 2019

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[1]
Mr. Ricks	0	$0	12,222 [2]	$1,464,929
			140,560 [3]	$20,275,780
Mr. Smiley	0	$0	7,887 [3]	$1,137,700
Dr. Skovronsky	0	$0	14,646 [3]	$2,112,686
			24,083 [4]	$3,473,973
Mr. Conterno (retired)	0	$0	12,222 [2]	$1,464,929
			41,341 [3]	$5,963,439
Mr. Harrington (retired)	0	$0	12,778 [2]	$1,531,571
			38,034 [3]	$5,486,405

[1] Amounts reflect the market value of Lilly stock on the day the stock vested.

[2] Restricted stock units resulting from the 2016-2018 performance award that vested in February 2019.

[3] Payout of the 2017-2019 shareholder value award at 150 percent of target, adjusted by Lilly's three-year cumulative TSR (78.4 percent) relative to its peer companies' median cumulative TSR of 46.6 percent, resulting in a maximum TSR modifier of 20 percent and a final payout of 180 percent of target. Since Mr. Smiley and Dr. Skovronsky and were not executive officers when the 2017-2019 shareholder value award was granted, their awards were not subject to the TSR modifier. As a result, their payout multiple was 150 percent of target.

[4] Payout of the 2018-2019 performance award at target for Dr. Skovronsky. He was not an executive officer in 2018 at time of grant; therefore, no additional 13-month service-vesting period applied.

Retirement Benefits

We provide retirement income to eligible U.S. employees, including executive officers, through the following plans:

- The 401(k) Plan, a defined contribution plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Participants may elect to contribute a portion of their base salary to the plan, and the company provides matching contributions on employees' contributions up to 6 percent of base salary up to IRS limits. The employee contributions, company contributions, and earnings thereon are paid out in accordance with elections made by the participant. See the "All Other Compensation" column in the Summary Compensation Table for information about company contributions under the 401(k) Plan for the named executive officers.
- The Retirement Plan, a tax-qualified defined benefit plan that provides monthly benefits to retirees. See the Pension Benefits in 2019 table below for additional information about the value of these pension benefits.

Sections 401 and 415 of the Internal Revenue Code generally limit the amount of annual pension that can be paid from a tax-qualified plan ($225,000 in 2019 and $230,000 in 2020) as well as the amount of annual earnings that can be used to calculate a pension benefit ($280,000 in 2019 and $285,000 in 2020). However, since 1975 the company has maintained a nonqualified pension plan that pays eligible retirees the difference between the amount payable under the Retirement Plan and the amount they would have received without the Internal Revenue Code limits. The nonqualified pension plan is unfunded and subject to forfeiture in the event of bankruptcy. Likewise the company maintains a nonqualified savings plan that allows participants to contribute up to 6 percent of base salary exceeding the IRS limit. The company matches these contributions in the same manner as described in the 401(k) Plan. For more information, see footnote 2 to the Nonqualified Deferred Compensation in 2019 table.

The following table shows benefits that the named executive officers have accrued under the Retirement Plan and the nonqualified pension plan.

Pension Benefits in 2019

Name	Plan	Number of Years of Credited Service	Present Value of Accumulated Benefit ($) [1]	Payments During Last Fiscal Year ($)
Mr. Ricks	retirement plan (pre-2010)	14	$680,071	
	retirement plan (post-2009)	10	$306,468	
	nonqualified plan (pre-2010)	14	$6,735,928	
	nonqualified plan (post-2009)	10	$3,036,168	
	total		$10,758,635	$0
Mr. Smiley	retirement plan (pre-2010)	14	$731,787	
	retirement plan (post-2009)	10	$276,901	
	retirement plan (post-2009)	14	$2,537,626	
	nonqualified plan (post-2009)	10	$961,298	
	total		$4,507,612	$0
Dr. Skovronsky	retirement plan (post-2009)	7	$183,466	
	nonqualified plan (post-2009)	7	$693,700	
	total		$877,166	$0
Mr. Conterno (retired)	retirement plan (pre-2010)	17	$1,001,089	
	retirement plan (post-2009)	10	$317,011	
	nonqualified plan (pre-2010)	17	$5,206,991	
	nonqualified plan (post-2009)	10	$1,607,072	
	total		$8,132,163	$0
Mr. Harrington (retired)	retirement plan (pre-2010)	18	$1,090,488	
	retirement plan (post-2009)	10	$350,868	
	nonqualified plan (pre-2010)	18	$6,293,511	
	nonqualified plan (post-2009)	10	$1,998,139	
	total		$9,733,006	$0

[1] The following standard actuarial assumptions were used to calculate the present value of each individual's accumulated pension benefit:

Discount rate:	3.44 percent for the qualified plan and 3.25 percent for non-qualified plan
Mortality (post-retirement decrement only):	Private 2012 base table with generational projection using Scale MP-2019
Pre-2010 joint and survivor benefit (% of pension):	50% until age 62; 25% thereafter
Post-2009 benefit payment form:	Life annuity

The Retirement Plan benefits shown in the table are net present values. The benefits are not payable as a lump sum; they are generally paid as a monthly annuity for the life of the retiree and, if elected, any qualifying survivor. The annual benefit under the Retirement Plan is calculated using years of service and the average of the annual earnings (salary plus bonus) for the highest five out of the last 10 calendar years of service (final average earnings).

Post-2009 Plan Information: Following amendment of our Retirement Plan formulas, employees hired on or after February 1, 2008, have accrued retirement benefits only under the new plan formula. Employees hired before that date have accrued benefits under both the old and new plan formulas. All eligible employees, including those hired on or after February 1, 2008, can retire at age 65 with at least five years of service and receive an unreduced benefit. The annual benefit under the new plan formula is equal to 1.2 percent of final average earnings multiplied by years of service. Early retirement benefits under this plan formula are reduced six percent for each year under age 65. Transition benefits were afforded to employees with 50 points (age plus service) or more as of December 31, 2009. These benefits were intended to ease the transition to the new retirement formula for those employees who were closer to retirement or had been with the company longer at the time the plan was changed. For the transition group, early retirement benefits are reduced three percent for each year from age 65 to age 60 and six percent for each year under age 60. All named executive officers except Dr. Skovronsky are in this transition group.

Pre-2010 Plan Information: Employees hired prior to February 1, 2008, accrued benefits under both plan formulas. For these employees, benefits that accrued before January 1, 2010, were calculated under the old plan formula. The amount of the benefit is calculated using actual years of service through December 31, 2009, while total years of service is used to determine eligibility and early retirement reductions. The benefit amount is increased (but not decreased) proportionately, based on final average earnings at termination compared to final average earnings at December 31, 2009. Full retirement benefits are earned by employees with 90 or more points (the sum of his or her age plus years of service). Employees electing early retirement receive reduced benefits as described below:

- The benefit for employees with between 80 and 90 points is reduced by three percent for each year before the earlier of 90 points or age 62.
- The benefit for employees who have fewer than 80 points, but who reached age 55 and have at least 10 years of service, is reduced as described above and is further reduced by six percent for each year before the earlier of 80 points or age 65.

Nonqualified Deferred Compensation in 2019

Name	Plan	Executive Contributions in Last Fiscal Year ($)[1]	Registrant Contributions in Last Fiscal Year ($)[2]	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year End ($)[3]
Mr. Ricks	nonqualified savings	$67,200	$67,200	$194,115	$0	$1,300,964
	deferred compensation	$0		$0		$0
	total	$67,200	$67,200	$194,115	$0	$1,300,964
Mr. Smiley	nonqualified savings	$36,950	$36,950	$76,107	$0	$428,836
	deferred compensation	$0		$0		$0
	total	$36,950	$36,950	$76,107	$0	$428,836
Dr. Skovronsky	nonqualified savings	$37,200	$37,200	$97,803	$0	$466,916
	deferred compensation	$0		$0		$0
	total	$37,200	$37,200	$97,803	$0	$466,916
Mr. Conterno (retired)	nonqualified savings	$33,200	$33,200	$245,587	$0	$1,330,031
	deferred compensation	$100,000		$59,263		$1,593,033
	total	$133,200	$33,200	$304,850	$0	$2,923,064
Mr. Harrington (retired)	nonqualified savings	$36,803	$36,803	$117,800	$0	$757,123
	deferred compensation	$35,000		$9,408		$256,359
	total	$71,803	$36,803	$127,208	$0	$1,013,482

[1] The amounts in this column are also included in the Summary Compensation Table, in the "Salary" column (nonqualified savings) or the "Non-Equity Incentive Plan Compensation" column (deferred compensation).

[2] The amounts in this column are also included in the Summary Compensation Table, in the "All Other Compensation" column as a portion of the savings plan match.

[3] Of the totals in this column, the following amounts have previously been reported in the Summary Compensation Table for this year and for previous years:

Name	2019 ($)	Previous Years ($)	Total ($)
Mr. Ricks	$134,400	$270,600	$405,000
Mr. Smiley	$73,900	$72,000	$145,900
Dr. Skovronsky	$74,400	$67,500	$141,900
Mr. Conterno (retired)	$166,400	$1,082,002	$1,248,402
Mr. Harrington (retired)	$108,606	$442,160	$550,766

The Nonqualified Deferred Compensation in 2019 table above shows information about two company programs: the nonqualified savings plan and the Deferred Compensation Plan. The nonqualified savings plan is designed to allow each employee to contribute up to 6 percent of his or her base salary and receive a company match, beyond the contribution limits prescribed by the IRS with regards to 401(k) plans. This plan is administered in the same manner as the 401(k) Plan, with the same participation and investment elections. Executive officers and other U.S. executives may also defer receipt of all or part of their cash compensation under the Deferred Compensation Plan. Amounts deferred by executives under this plan are credited with interest at 120 percent of the applicable federal long-term rate as established the preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code with monthly compounding, which was 3.9 percent for 2019 and is 2.5 percent for 2020. Participants may elect to receive the funds in a lump sum or in up to 10 annual installments following termination of employment, but may not make withdrawals while employed by the company, except in the event of hardship as approved by the Compensation Committee. All deferral elections and associated distribution schedules are irrevocable. Both plans are unfunded and subject to forfeiture in the event of company bankruptcy.

Payments Upon Termination or Change in Control (as of December 31, 2019)

The following table describes the potential payments and benefits under the company's compensation and benefit plans and arrangements to which Mr. Ricks, Mr. Smiley, and Dr. Skovronsky would be entitled upon termination of employment. Except for certain terminations following a change in control of the company, as described below, there are no agreements, arrangements, or plans that entitle named executive officers to severance, perquisites, or other enhanced benefits upon termination of their employment. Any agreement to provide such payments or benefits to a terminating executive officer (other than following a change in control) would be at the discretion of the Compensation Committee.

In connection with their retirements, Mr. Conterno and Mr. Harrington received compensation consistent with the benefits described under "Accrued Pay and Regular Retirement Benefits."

	Cash Severance Payment [1]	Continuation of Medical / Welfare Benefits (present value) [2]	Acceleration and Continuation of Equity Awards as of 12/31/2019	Total Termination Benefits
Mr. Ricks				
• Involuntary retirement or termination	$0	$0	$19,022,784	$19,022,784
• Involuntary or good-reason termination after change in control	$7,000,000	$185,217	$58,182,142	$65,367,359
Mr. Smiley				
• Involuntary retirement or termination	$0	$0	$3,576,605	$3,576,605
• Involuntary or good-reason termination after change in control	$3,510,000	$40,703	$13,605,404	$17,156,107
Dr. Skovronsky				
• Involuntary retirement or termination	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$3,510,000	$41,179	$8,189,557	$11,740,736

[1] See "Change-in-Control Severance Pay Plan—Cash Severance Payment" below.

[2] See "Accrued Pay and Regular Retirement Benefits" and "Change-in-Control Severance Pay Plan—Continuation of medical and welfare benefits" below.

Accrued Pay and Regular Retirement Benefits: The amounts shown in the table above do not include certain payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- accrued salary, vacation pay, and if applicable, equity payouts prorated for time worked in the performance period and adjusted for company performance
- regular pension benefits under the Retirement Plan and the nonqualified pension plan. See "Retirement Benefits" above
- welfare benefits provided to all U.S. retirees, including retiree medical and dental insurance. The amounts shown in the table above as "Continuation of Medical / Welfare Benefits" are explained below
- distributions of plan balances under the 401(k) Plan, the nonqualified savings plan, and the Deferred Compensation Plan. See the narrative following the Nonqualified Deferred Compensation in 2019 table for information about these plans.

Death and Disability: A termination of employment due to death or disability does not entitle named executive officers to any payments or benefits that are not available to U.S. salaried employees generally.

Termination for Cause: Executives terminated for cause receive no severance or enhanced benefits and forfeit any unvested equity grants.

Change-in-Control Severance Pay Plan: As described in the CD&A under "Other Compensation Practices and Information - Severance Benefits," the company maintains a change-in-control severance pay plan for nearly all employees, including the named executive officers. The change-in-control plan for executive officers defines a change in control very specifically, but generally the terms include the occurrence of one of the following: (i) acquisition of 20 percent or more of the company's stock; (ii) replacement by the shareholders of one half or more of the board; (iii) consummation of a merger, share exchange, or consolidation of the company (other than a transaction that results in the Lilly shareholders prior to the transaction continuing to hold more than 60 percent of the voting stock of the combined entity); or (iv) liquidation of the company or sale or disposition of all or substantially all of its assets. The amounts shown in the table for "involuntary or good-reason termination after change in control" are based on the following assumptions and plan provisions:

- **Covered terminations.** The table assumes a termination of employment that is eligible for severance under the terms of the plan, based on the named executive officer's compensation, benefits, age, and service credit at December 31, 2019. Eligible terminations include an involuntary termination for reasons other than for cause or a voluntary termination by the executive for good reason, within two years following the change in control.
  - A termination of an executive officer by the company is for cause if it is for any of the following reasons: (i) the employee's willful and continued refusal to perform, without legal cause, his or her material duties, resulting in demonstrable economic harm to the company; (ii) any act of fraud, dishonesty, or gross misconduct resulting in significant economic harm or other significant harm to the business reputation of the company; or (iii) conviction of or the entering of a plea of guilty or *nolo contendere* to a felony.
  - A termination by the executive officer is for good reason if it results from: (i) a material diminution in the nature or status of the executive's position, title, reporting relationship, duties, responsibilities, or authority, or the assignment to him or her of additional responsibilities that materially increase his or her workload; (ii) any reduction in the executive's then-current base salary; (iii) a material reduction in the executive's opportunities to earn incentive bonuses below those in effect for the year prior to the change in control; (iv) a material reduction in the executive's employee benefits from the benefit levels in effect immediately prior to the change in control; (v) the failure to grant to the executive stock options, stock units, performance shares, or similar incentive rights during each 12-month period following the change in control on the basis of a number of shares or units and all other material terms at least as favorable to the executive as those rights granted to him or her on an annualized average basis for the three-year period immediately prior to the change in control; or (vi) relocation of the executive by more than 50 miles.

- **Cash severance payment.** The cash severance payment amounts to two times the executive officer's annual base salary plus two times the executive officer's bonus target for that year under the Bonus Plan.

- **Continuation of medical and welfare benefits.** This amount represents the present value of the change-in-control plan's provision, following a covered termination, of 18 months of continued coverage equivalent to the company's current active employee medical, dental, life, and long-term disability insurance. Similar actuarial assumptions to those used to calculate incremental pension benefits apply to the calculation for continuation of medical and welfare benefits, with the addition of actual COBRA rates based on current benefit elections.

- **Acceleration of equity awards.** Upon a covered termination, any unvested equity awards would convert into restricted stock units of the new company, with the number of shares earned under the awards based on accrued performance at the time of the transaction. The restricted stock units will continue to vest and pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the award. The amount in this column represents the value of the acceleration of unvested equity grants had a qualifying termination occurred on December 31, 2019.

- **Excise taxes.** Upon a change in control, employees may be subject to certain excise taxes under Section 280G of the Internal Revenue Code. The company does not reimburse the affected employees for those excise taxes or any income taxes payable by the employee. To reduce the employee's exposure to excise taxes, the employee's change-in-control benefit may be decreased to maximize the after-tax benefit to the individual.

Payments Upon Change in Control Alone. In general, the change-in-control plan is a "double trigger" plan, meaning payments are made only if the employee suffers a covered termination of employment within two years following the change in control, or in the case of equity awards, if the successor entity does not assume, substitute, or otherwise replace the awards.

CEO Pay Ratio

Lilly's compensation and benefits philosophy across the organization is to encourage and reward all employees who contribute to our success. We strive to ensure the pay of every Lilly employee reflects the level of their job impact and responsibilities and is competitive within our peer group. Compensation rates are benchmarked and set to be market-competitive in the country in which the jobs are performed. Lilly's ongoing commitment to pay equity is critical to our success in supporting a diverse workforce with opportunities for all employees to grow, develop, and contribute.

The paragraphs that follow describe our calculation methodology and the resulting CEO pay ratio in accordance with the Dodd-Frank Act of 2010.

Measurement Date

We identified the median employee using our employee population on November 1, 2019. On this date, Lilly employed approximately 36,000 people, with approximately 15,000 members of our workforce located in the U.S. and approximately 21,000 members of our workforce located outside of the U.S.

Consistently Applied Compensation Measure (CACM)

Under the relevant rules, we identified the median employee by use of a "consistently applied compensation measure," or CACM. Specifically, we identified the median employee by looking at annual base pay, bonus opportunity at target, and the grant date fair value for standard equity awards. We did not adjust the compensation paid to part-time employees to calculate what they would have been paid on a full-time basis.

De Minimis Exception

Lilly has employees in 79 countries. In identifying the median employee, we excluded 370 workers in the following 8 countries, which represent approximately one percent of our workforce: Bahrain, Greece, Indonesia, Kuwait, Oman, Pakistan, Qatar, and United Arab Emirates. We excluded these employees because they are affiliated with joint ventures or third-party distributors, and Lilly does not set their compensation philosophy.

Methodology and Pay Ratio

After applying our CACM and excluding the employees listed above, we identified the median employee. Once the median employee was identified, we calculated the median employee's total annual compensation in accordance with the requirements of the Summary Compensation Table.

Our median employee compensation as calculated using Summary Compensation Table requirements was $96,290. Our CEO's compensation as reported in the Summary Compensation Table was $21,283,242. Therefore, our CEO to median employee pay ratio is 221:1.

Audit Matters

Item 3. Ratification of the Appointment of Independent Auditor

Audit Committee Oversight of Independent Auditor

The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor, and oversees the process for selecting, reviewing, and evaluating the lead audit partner. Further information regarding the committee's oversight of the independent auditor can be found in the Audit Committee charter, available online at lilly.com/who-we-are/governance or upon request to the company's corporate secretary.

In connection with the decision regarding whether to reappoint the independent auditor each year (subject to shareholder ratification), the committee assesses the independent auditor's performance. This assessment examines three primary criteria: (1) the independent auditor's qualifications and experience; (2) the communication and interactions with the auditor over the course of the year; and (3) the auditor's independence, objectivity, and professional skepticism. These criteria are assessed against an internal and an external scorecard, and are discussed with management during a private session, as well as in executive session. The committee also periodically considers whether a rotation of the company's independent auditor is advisable.

Ernst & Young LLP (EY) has served as the independent auditor for the company since 1940. Based on the Audit Committee's assessment of EY's performance during 2019, the Audit Committee believes that the continued retention of EY to serve as the company's independent auditor is in the best interests of the company and its shareholders, and has therefore reappointed EY as the company's independent auditor for 2020. In addition to this year's favorable assessment of EY's performance, we recognize that there are several benefits of retaining a longer-tenured independent auditor. EY has gained institutional knowledge and expertise regarding the company's global operations, accounting policies and practices, and internal controls over financial reporting. Audit and other fees are also competitive with peer companies because of EY's familiarity with the company and its operations. In accordance with the bylaws, this appointment is being submitted to the shareholders for ratification.

Representatives of EY are expected to be present at the 2020 annual meeting and will be available to respond to questions. Those representatives will have the opportunity to make a statement if they wish to do so.

Board Recommendation on Item 3

The board recommends that you vote FOR ratifying the appointment of Ernst & Young LLP as independent auditor for 2020.

Audit Committee Report

The Audit Committee reviews the company's financial reporting process on behalf of the board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and disclosure controls. In this context, the Audit Committee has met and held discussions with management and the independent auditor. Management represented to the Audit Committee that the company's consolidated financial statements for the year ended December 31, 2019, were prepared in accordance with generally accepted accounting principles (GAAP), and the committee has reviewed and discussed the audited financial statements and related disclosures with management and the independent auditor, including a review of the significant management judgments underlying the financial statements and disclosures.

The independent auditor reports to the Audit Committee, which has sole authority to appoint and to replace the independent auditor (subject to shareholder ratification).

The Audit Committee has discussed with the independent auditor matters required to be discussed with the Audit Committee by the standards of the Public Company Accounting Oversight Board (PCAOB) and the NYSE, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditor required by applicable PCAOB rules regarding communications with the Audit Committee concerning independence, and has discussed with the independent auditor the auditor's independence from the company and its management. In concluding that the auditor is independent, the Audit Committee determined, among other things, that the nonaudit services provided by EY (as described below) were compatible with its independence. Consistent with the requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the Audit Committee has

adopted policies to ensure the independence of the independent auditor, such as prior committee approval of non-audit services and required audit partner rotation.

The Audit Committee discussed with the company's internal and independent auditors the overall scope and plans for their respective audits, including internal control testing under Section 404 of the Sarbanes-Oxley Act. The Audit Committee periodically meets with the internal and independent auditors, with and without management present, and in private sessions with members of senior management (such as the chief financial officer and the chief accounting officer) to discuss the results of their examinations, their evaluations of the company's internal controls, and the overall quality of the company's financial reporting. The Audit Committee also periodically meets in executive session.

In reliance on the reviews and discussions referred to above, the committee recommended to the board (and the board subsequently approved the recommendation) that the audited consolidated financial statements be included in the company's annual report on Form 10-K for the year ended December 31, 2019, for filing with the SEC. The Audit Committee has also appointed EY as the company's independent auditor, subject to shareholder ratification, for 2020.

Audit Committee

Jamere Jackson, Chair
Katherine Baicker, Ph.D.
Michael L. Eskew
Jackson P. Tai
Karen Walker

Services Performed by the Independent Auditor

The Audit Committee pre-approves all services performed by the independent auditor, in part to assess whether the provision of such services might impair the auditor's independence. The Audit Committee's policy and procedures are as follows:

- **Audit services:** The Audit Committee approves the annual audit services engagement and, if necessary, any changes in terms, conditions, and fees resulting from changes in audit scope, company structure, or other matters. Audit services include internal controls attestation work under Section 404 of the Sarbanes-Oxley Act. The Audit Committee may also pre-approve other audit services, which are those services that only the independent auditor reasonably can provide.

- **Audit-related services:** Audit-related services are assurance and related services that are reasonably related to the performance of the audit or reviews of the financial statements, and that are traditionally performed by the independent auditor. The Audit Committee believes that the provision of these services does not impair the independence of the auditor.

- **Tax services:** The Audit Committee believes that, in appropriate cases, the independent auditor can provide tax compliance services, tax planning, and tax advice without impairing the auditor's independence.

- **Other services:** The Audit Committee may approve other services to be provided by the independent auditor if (i) the services are permissible under SEC and PCAOB rules, (ii) the Audit Committee believes the provision of the services would not impair the independence of the auditor, and (iii) management believes that the auditor is the best choice to provide the services.

- **Approval process:** At the beginning of each audit year, management requests pre-approval from the Audit Committee of the annual audit, statutory audits, and quarterly reviews for the upcoming audit year as well as any other services known at that time. Management will also present at that time an estimate of all fees for the upcoming audit year and known services. As specific engagements are identified thereafter that were not initially approved, they are brought forward to the Audit Committee for approval. To the extent approvals are required between regularly scheduled Audit Committee meetings, pre-approval authority is delegated to the committee chair.

For each engagement, management provides the Audit Committee with information about the services and fees, sufficiently detailed to allow the committee to make an informed judgment about the nature and scope of the services and the potential for the services to impair the independence of the auditor.

After the end of the audit year, management provides the committee with a summary of the actual fees incurred for the completed audit year.

Independent Auditor Fees

The following table shows the fees incurred for services rendered on a worldwide basis by EY in 2019 and 2018. All such services were pre-approved by the Audit Committee in accordance with the pre-approval policy.

		2019 ($ millions)	2018 ($ millions)
Audit Fees		$14.2	$28.7
	Annual audit of consolidated and subsidiary financial statements, including Sarbanes-Oxley 404 attestation, as well as the 2018 audit of consolidated Elanco financial statements for its initial public offering		
	Reviews of quarterly financial statements		
Audit-Related Fees		$0.7	$0.9
	Primarily related to assurance and related services reasonably related to the performance of the audit or reviews of the financial statements primarily related to employee benefit plan and other ancillary audits, and due diligence services on potential acquisitions		
Tax Fees		$2.7	$3.0
	Tax compliance services, tax planning, tax advice Primarily related to consulting and compliance services		
Total		$17.6	$32.6

Numbers may not add due to rounding

Management Proposals

Item 4. Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure

The company's articles of incorporation provide that the board is divided into three classes, with each class elected every three years. On the recommendation of the Directors and Corporate Governance Committee, the board has approved, and recommends that the shareholders approve, amendments to eliminate the classified board structure in order to provide for the annual election of all directors. This proposal was brought before shareholders at each of the company's annual meetings from 2007 through 2012 and in 2018 and 2019, receiving the vote of a strong majority of the outstanding shares at each meeting; however, the proposal requires the vote of 80 percent of the outstanding shares to pass.

If approved, this proposal would become effective upon the filing of amended and restated articles of incorporation with the Secretary of State of Indiana, which the company would do promptly after shareholder approval is obtained. Directors elected prior to the effectiveness of the amendments would stand for election for one-year terms once their then-current terms expire. This means that directors whose terms expire at the 2021 and 2022 annual meetings of shareholders would be presented for election for one-year terms at each respective meeting, and beginning with the 2023 annual meeting, all directors would be elected for one-year terms at each annual meeting. In the case of any vacancy on the board occurring after the 2020 annual meeting created by an increase in the number of directors, the vacancy would be filled through an interim appointment by the board, with the new director to serve a term ending at the next annual meeting. Vacancies created by resignation, removal, or death would be filled by appointment by the board of a new director to serve until the end of the term of the director being replaced. This proposal would not change the present number of directors or the board's authority to change that number and to fill any vacancies or newly created directorships.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, assisted by the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the classified board structure and eliminating the supermajority voting provisions in the company's articles of incorporation (see Item 5 below). The board considered the view of certain shareholders who believe that classified boards have the effect of reducing the accountability of directors to shareholders because shareholders are unable to evaluate and consider all directors for election on an annual basis. The board gave considerable weight to the approval at the 2006 annual meeting of a shareholder proposal requesting that the board take all necessary steps to elect the directors annually, and to the favorable votes of a strong majority of the outstanding shares for management's proposals in the following six years and again in 2018 and 2019.

The board also considered benefits of retaining the classified board structure. A classified structure may provide continuity and stability in the management of the business and affairs of the company because a majority of the board always has prior experience as directors of the company. In some circumstances classified boards may enhance shareholder value by forcing an entity seeking control of the company to initiate discussions at arm's-length with the board of the company, because the entity cannot replace the entire board in a single election. The board also considered that even without a classified board (and without the supermajority voting requirements, which the board also recommends eliminating), the company has appropriate safeguards to discourage a would-be acquirer from proceeding with a proposal that undervalues the company and to assist the board in responding to such proposals. These include other provisions of the company's articles of incorporation and bylaws as well as certain provisions of Indiana corporation law.

The board believes it is important to maintain appropriate defenses to inadequate takeover bids, but also important to retain shareholder confidence by demonstrating that it is accountable and responsive to shareholders. After balancing these interests, the board has decided to resubmit this proposal to eliminate the classified board structure.

Text of Amendments

Article 9(b) of the company's articles of incorporation contains the provisions that will be affected if this proposal is adopted. This article, set forth in Appendix B to this proxy statement, shows the proposed changes, with deletions indicated by strike-outs and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon the effectiveness of the amendments to the articles of incorporation.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to pass this proposal.

Board Recommendation on Item 4

The board recommends that you vote FOR amending the company's articles of incorporation to eliminate the classified board structure.

Item 5. Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions

Under the company's articles of incorporation, nearly all matters submitted to a vote of shareholders can be adopted by a majority of the votes cast. However, our articles require a few fundamental corporate actions to be approved by the holders of 80 percent of the outstanding shares of common stock (a "supermajority vote"). Those actions are:

- amending certain provisions of the articles of incorporation that relate to the number and terms of office of directors:
  - the company's classified board structure (as described under Item 4)
  - a provision that the number of directors shall be specified solely by resolution of the board
- removing directors prior to the end of their elected term
- entering into mergers, consolidations, recapitalizations, or certain other business combinations with a "related person"—a party who has acquired at least five percent of the company's stock (other than the Endowment or a company benefit plan) without the prior approval of the board
- modifying or eliminating any of the above supermajority voting requirements.

Background of Proposal

This proposal is the result of the board's ongoing review of corporate governance matters. From 2007 through 2009, shareholder proposals requesting that the board take action to eliminate the supermajority voting provisions were supported by a majority of votes cast. From 2010 through 2012 and in 2018 and 2019, the board submitted proposals seeking shareholder approval to eliminate these supermajority provisions. In all four years, the proposal received a strong majority of the outstanding shares, but fell short of the required 80 percent vote.

Assisted by the Directors and Corporate Governance Committee, the board considered the advantages and disadvantages of maintaining the supermajority voting requirements. The board considered that under certain circumstances, supermajority voting provisions can provide benefits to the company. The provisions can make it more difficult for one or a few large shareholders to take over or restructure the company without negotiating with the board. In the event of an unsolicited bid to take over or restructure the company, supermajority voting provisions may encourage bidders to

negotiate with the board and increase the board's negotiating leverage on behalf of the shareholders. They can also give the board time to consider alternatives that might provide greater value for all shareholders.

The board also considered the potential adverse consequences of opposing elimination of the supermajority voting requirements. While it is important to the company's long-term success for the board to maintain appropriate defenses against inadequate takeover bids, it is also important for the board to maintain shareholder confidence by demonstrating that it is responsive and accountable to shareholders and committed to strong corporate governance. This requires the board to carefully balance sometimes competing interests. In this regard, the board gave considerable weight to the fact that a substantial majority of shares voted have supported eliminating the supermajority voting provisions. Many shareholders believe that supermajority voting provisions impede accountability to shareholders and contribute to board and management entrenchment.

The board also considered that even without the supermajority vote (and without the classified board, which the board also recommends eliminating), the company has appropriate safeguards to discourage a would-be acquirer from proceeding with a proposal that undervalues the company and to assist the board in responding to such proposals. These include other provisions of the company's articles of incorporation and bylaws as well as certain provisions of Indiana corporation law.

Therefore, the board believes the balance of interests is best served by recommending to shareholders that the articles of incorporation be amended to eliminate the supermajority voting provisions. By recommending these amendments, the board is reaffirming its accountability and willingness to take steps that address shareholder-expressed concerns.

Text of Amendments

Articles 9(c), 9(d), and 13 of the company's articles of incorporation contain the provisions that will be affected if this proposal is adopted. These articles, set forth in Appendix B to this proxy statement, show the proposed changes with deletions indicated by strike-outs and additions indicated by underlining.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to pass this proposal.

Board Recommendation on Item 5

The board recommends that you vote FOR amending the company's articles of incorporation to eliminate supermajority voting provisions.

Shareholder Proposals

Item 6. Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures

Service Employees International Union Pension Plans Master Trust, 1800 Massachusetts Ave NW, Suite 301, Washington DC 20036-1202, beneficial owner of 28,586 shares of our common stock, has submitted the following proposal:

WHEREAS, we believe in full disclosure of Lilly's direct and indirect lobbying activities and expenditures to assess whether Lilly's lobbying is consistent with its expressed goals and in the best interests of shareholders.

RESOLVED, the shareholders of Lilly request the preparation of a report, updated annually, disclosing:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.

2. Payments by Lilly used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.

3. Lilly's membership in and payments to any tax-exempt organization that writes and endorses model legislation.

4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which Lilly is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Public Policy and Compliance Committee and posted on Lilly's website.

Supporting Statement

Lilly spent $75,472,000 from 2010 - 2018 on federal lobbying.[1] This does not include state lobbying expenditures in the 48 states where Lilly lobbies[2] but disclosure is uneven or absent. Lilly also lobbies abroad, spending between €700,000-799,000 on lobbying in Europe for 2018.[3]

Lilly sits on the board of the Pharmaceutical Research and Manufacturers of America (PhRMA) and belongs to the Chamber of Commerce, which together have spent over $1.9 billion on lobbying since 1998.[4] Lilly does not disclose its payments to trade associations, or the amounts used for lobbying. And Lilly does not disclose its contributions to tax-exempt organizations that write and endorse model legislation, such as its membership in the American Legislative Exchange Council (ALEC).

We believe the reputational damage stemming from this misalignment between general policy positions and actual direct and indirect lobbying efforts harms long-term value creation by Lilly. Thus, we urge Lilly to expand its lobbying disclosure.

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[1] https://www.opensecrets.org/lobby/clientsum.php?id=D000000166&year=2019
[2] https://publicintegrity.org/federal-politics/state-politics/here-are-the-interests-lobbying-in-every-statehouse/
[3] https://lobbyfacts.eu/representative/f98e6e3980944c0f9171355ef137d799
[4] https://www.opensecrets.org/lobby/clientsum.php?id=D000019798; https://www.opensecrets.org/lobby/clientsum.php?id=d000000504

Statement in Opposition to the Shareholder Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures

The board, through its Public Policy and Compliance Committee, has reviewed this proposal and recommends a vote against it, as we currently publish a substantial amount of the information requested by the shareholder. Requiring us to prepare a separate report with this information would place an undue administrative burden on the company and would not add value, given our transparency with respect to lobbying activities and the governance and risk mitigation procedures we have in place regarding such activities.

Since 2005, the company has published the following information on our website (lilly.com/LillyPAC) for both direct company contributions and employee political action committee (PAC) contributions to support candidates for political office, political parties, officials, or committees in the U.S.:

- policies and procedures for company and PAC contributions
- contributions to candidates, including information about the candidate's office (for example, state, local, or federal; House or Senate) and party affiliation
- contributions to political organizations and Section 527 organizations reported by state.

This information is updated annually. In addition to the information available on our website, detailed corporate contributions, PAC contribution data, and the company's direct lobbying expenses are available to the public on the Federal Election Committee website (fec.gov/data/) and through individual state agencies. The company's direct lobbying expenses are also available to the public on the Lobbying Disclosure page of the U.S. House website (disclosures.house.gov/ld/ldsearch.aspx) and through individual state agencies.

In addition to direct political contributions, Lilly maintains memberships in certain 501(c)(6)s-trade associations that report lobbying activity to the U.S. government. We maintain memberships in trade associations and other tax-exempt organizations specific to business and pharmaceutical industry interests, such as PhRMA (Pharmaceutical Research and Manufacturers Association), BIO (Biotechnology Association), and the National Association of Manufacturers. We support organizations that champion public policies that contribute to pharmaceutical innovation, healthy patients, and a healthy business climate. Information relating to Lilly's memberships in trade associations to which we contribute $50,000 per year or more, and any such organizations where Lilly has a board seat can be found on our website. These tax-exempt organizations are also required to disclose their lobbying expenditures under the Lobbying Act of 1995; they report their lobbying expenditures to the U.S. Senate. Because the company does not direct the lobbying of trade associations or other groups, attempting to quantify indirect lobbying would be difficult to estimate and potentially misleading to shareholders.

The board, through its Public Policy and Compliance Committee, also exercises oversight of Lilly's political expenditures and lobbying activities. We believe that engaging with policymakers is in the best interest of our shareholders and other long-term stakeholders. We believe this approach reflects our commitment to stewardship of corporate funds and risk minimization with respect to such activities.

As a result, the board does not believe any value provided by the requested additional disclosures merits the resources required to produce the report requested by the proposal.

Board Recommendation on Item 6

The board recommends that you vote AGAINST this proposal.

Item 7. Proposal to Publish a Report on the Effectiveness of the Forced Swim Test

People for the Ethical Treatment of Animals (PETA), 1536 16th Street N.W., Washington, D.C., beneficial owner of 41 shares of our common stock, has submitted the following proposal:

RESOLVED, given the cruelty inherent in the "Forced Swim Test" (FST), its questionable scientific validity, and the fact that none of the compounds tested by our Company since 1993 using the FST are marketed as antidepressants, our Company should assess its effectiveness, and report the findings to shareholders.

Supporting Statement

In the FST, which the government does not require, animals are dropped into water. They swim trying to escape and avoid drowning. Eventually they stop struggling.

Authors affiliated with our Company described the FST as a model or test of behavioral despair[1] and published papers between 1993 and 2018 describing FST experiments in which 3,201 mice and 234 rats were used. None of the compounds tested are currently approved to treat depression. This represents a loss of time and resources to our Company, and animal suffering.

Our Company uses the FST to purportedly test the antidepressant qualities of compounds[2] on the assumption that the sooner the animal stops swimming, the more depressed the animal is. However, there is evidence that floating is an adaptive behavior that saves energy and benefits survival,[3] and not a sign of depression.

The FST's ability to accurately predict human antidepressants is further undermined since it yields positive results for compounds that are not prescribed as human antidepressants,[4] and negative results for compounds that are.[5] Therefore, antidepressant compounds may be abandoned if they do not produce desired results in the FST. The applicability of the FST to human depression has been refuted by experts,[6] who cite the use of animal experiments such as the FST as a major reason for lack of effective treatments.[7]

Given the animal suffering inherent in the test and the 26 years of failure to produce human-relevant results, our Company has the ethical, fiscal, and scientific obligation to assess the FST and report its findings to shareholders.

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[1] Benvenga (1993) https://doi.org/10.1016/0014-2999(93)91005-8; O'Neill (2001) https://doi.org/10.1177/026988110101500104; Li (2001) https://doi.org/10.1016/S0028-3908(00)00194-5; Skolnick (2003) https://patents.google.com/patent/US7973043B2/ko; Li (2003) https://link.springer.com/article/10.1023/A:1023648923447; Li (2006) https://doi.org/10.1124/jpet.106.103143; Benito Collado (2010) https://patents.google.com/patent/WO2011060035A1

[2] Bai (2001) https://doi.org/10.1016/S0091-3057(01)00599-8; Li (2003); Witkin (2014) https://doi.org/10.1124/jpet.114.216804; Chappell (2016) https://pubs.acs.org/doi/10.1021/acs.jmedchem.6b01119; Dressman (2016) https://doi.org/10.1016/j.bmcl.2016.10.067; Bruns (2018) https://doi.org/10.1016/j.neuropharm.2017.10.032; Witkin (2018) https://doi.org/10.1016/j.bcp.2018.06.022

[3] Molendijk (2015) Immobility in the forced swim test is adaptive and does not reflect depression. https://doi.org/10.1016/j.psyneuen.2015.08.028

[4] Schechter (1979) Non-specificity of "behavioral despair" as an animal model of depression. https://doi.org/10.1016/0014-2999(79)90212-7

[5] Suman (2018) Failure to detect the action of antidepressants in the forced swim test in Swiss mice. https://doi.org/10.1017/neu.2017.33; Cryan (2002) https://doi.org/10.1016/S0165-6147(02)02017-5

[6] Hendrie (2013) The failure of the antidepressant drug discovery process is systemic. https://doi.org/10.1177%2F0269881112466185; Garner (2014) The significance of meaning: Why do over 90% of behavioral neuroscience results fail to translate to humans, and what can we do to fix it? https://doi.org/10.1093/ilar/ilu047; Molendijk (2015); Commons (2017) The rodent forced swim test measures stress-coping strategy, not depression-like behavior. https://pubs.acs.org/doi/10.1021/acschemneuro.7b00042

[7] Hendrie (2013); Garner (2014)

Statement in Opposition to the Shareholder Proposal Seeking a Report on the Effectiveness of the Forced Swim Test

The board, through its Public Policy and Compliance Committee, has reviewed this shareholder proposal and shares the concerns raised in it. We abhor mistreatment of animals, and we are committed to the humane treatment of animals in research. However, as explained below, we do not believe the requested report would further this commitment in any meaningful way or be a productive use of our resources. Accordingly, the board recommends a vote against the proposal.

For safe and effective medicines to be available to patients, U.S. and foreign regulatory agencies have mandated that a defined amount of research be performed in animals. Where animals must be used, we strive to take every measure to assure that the lowest number of animals is used and that discomfort and distress are either eliminated or minimized, including through adherence to standards set forth in the U.S. Animal Welfare Act. We have been accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC). AAALAC accreditation rules and standards can be found on the AAALAC website. This accreditation is a voluntary process that includes a detailed, comprehensive review of our research-animal program, including animal care and use policies and procedures, animal environment, housing and management, veterinary medical care, and physical plant operations. We consider our policies

and practices to be in line with leading industry standards as evidenced by our engagement in industry consortia and professional societies focused on the use of animals in biomedical research (National Association of Biomedical Research, IQ Consortium, Foundation of Biomedical Research). We currently publish information detailing our commitment to responsible animal research as well as an overview of our policies and procedures on our website. With respect to our contractual relationships with select laboratory-animal research and animal-supply companies, we seek to do business only with organizations that share our commitment to animal welfare.

We do not condone, in any form, the mistreatment of research animals, and we recognize our fundamental ethical and scientific obligation to ensure the appropriate treatment of animals used in research. We have processes and procedures in place to ensure humane treatment of animals, including programs for oversight by an internal corporate Animal Welfare Board, Institutional Animal Care and Use Committees, or an equivalent ethical review board, as well as veterinary oversight at every site—both ours and contract laboratories. We are committed to quality research-animal care and use, the responsible use of animals in medical research, and the use of alternative methods whenever possible and appropriate.

As a result, the board does not believe any value provided by the requested report merits the resources required to produce the report requested by the proposal.

Board Recommendation on Item 7

The board recommends that you vote AGAINST this proposal.

Item 8. Proposal to Amend the Bylaws to Require an Independent Board Chair

Daughters of Charity, Inc., 4330 Olive Street, St. Louis, Missouri 63108-2622, beneficial owner of 45 shares of our common stock, has submitted the following proposal:

RESOLVED, Eli Lilly ("Lilly" or the "Company") shareholders request the Board of Directors adopt as policy (the "Policy"), and amend the bylaws as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, be an independent member of the board. The Policy shall apply prospectively so as not to violate any contractual obligations. If the board determines that a Chair who was independent when selected is no longer independent, the board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair.

Supporting Statement

We believe:

- The role of the CEO and management is to run the company.
- The role of the Board is to provide independent oversight of management and the CEO.
- There is a potential conflict of interest for a CEO to have a non-independent director act as Chair.

In 2018, the Minnesota Attorney General sued three makers of synthetic insulin, including Lilly, alleging that the companies' publication of "deceptive and misleading" list prices for insulin violates federal and state law. According to the complaint, substantial list price increases for insulin have imposed financial burdens on patients because list prices are used to determine the amount some patients and institutional purchasers must pay. Congressional hearings have been held on the rising cost of insulin, and candidates for the Democratic presidential nomination are campaigning on promises to lower drug prices. Media attention continues to focus on the effects of high insulin prices, including patient deaths.

Concerns about these risks have led to growing investor interest in the Company's governance practices. In our view, shareholders are best served by an independent board Chair who can provide a balance of power between the CEO and the board. The board is responsible for overseeing management, and conflicts of interest may arise when one person holds both the Chair and CEO positions. We believe that Lilly's board should adopt best practice governance policies, including having an independent board chair.

As of October 2018, 50% of companies in the S&P 500 have separated the CEO and Chair roles. Numerous institutional investors recommend such a separation. For example, California's Retirement System CalPERS' Principles & Guidelines encourage separation, even with a lead director in place. The Council of Institutional Investors' corporate governance policies favor independent board chairs.

In order to ensure that our board can provide rigorous oversight for our Company and management with greater independence and accountability, we urge a vote FOR this shareholder proposal.

Statement in Opposition to the Shareholder Proposal to Amend the Bylaws to Require an Independent Board Chair

The board, through its Directors and Corporate Governance Committee and its Public Policy and Compliance Committee, has reviewed this proposal and recommends a vote against it.

Lilly's current board leadership structure and corporate governance practices provide effective, independent oversight of management.

Lilly has a strong, independent board that operates under sound principles of corporate governance. (See pages P4-P5 for a description of the board's governance principles.) We believe that combining the roles of board chair and CEO generally provides the most efficient and effective leadership model for Lilly. Although the chair and CEO roles are combined, we ensure independent oversight of the company through a counterbalancing governance structure, including a lead independent director. The board has appointed either a lead independent director or presiding director annually since 2006. Our principles require that at least 75 percent of the board be comprised of independent directors. Other than the CEO, each of our board members is currently independent (12 out of 13 directors), and all standing board committees are made up of independent directors and led by independent committee chairs.

Our board has instituted a number of governance best practices to ensure effective independent oversight, including:

- executive sessions of the independent directors held after every regular board meeting
- an annual performance evaluation of the chairman and CEO conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee in establishing the CEO's compensation for the next year
- a strong, independent, clearly defined lead independent director role
- independent director access to management whenever deemed necessary by the independent directors
- ability of independent directors and all committees to retain their own independent advisors, at the company's expense, whenever they deem it desirable to do so.

Among other duties, the lead independent director's responsibilities include:

- leading the board's processes for selecting and evaluating the CEO
- presiding at all meetings of the board at which the chairman is not present
- serving as a liaison between the chairman and the independent directors
- if requested by major shareholders, ensuring that he or she is available for consultation and direct communication
- approving information sent to the board, including meeting agendas and schedules
- conducting executive sessions of the independent directors
- overseeing the independent directors' annual performance evaluation of the chairman and CEO
- together with the board chair and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process
- together with the Directors and Corporate Governance Committee, leading the director recruitment process.

The lead independent director also has authority to call meetings of the independent directors and to retain advisors for the independent directors. The lead independent director is appointed annually by the board, which conducts an assessment of his or her performance as part of the annual board assessment process.

Lilly's current governance structure and practices provide accountability to our stakeholders.

The board is deeply involved in overseeing and managing material risks facing Lilly, including drug pricing and access. The Public Policy and Compliance Committee of the board, which is composed solely of independent directors, was established to provide oversight of public policy issues, including access to medicines. Guided by the active oversight of our independent directors and the Public Policy and Compliance committee, Lilly has taken numerous steps to address drug pricing concerns, including by making lower-priced insulin available in May 2019 and working to introduce two additional lower-priced versions of branded insulin by mid-April 2020. Our company plans to continue to be a strong advocate for reforms that improve access to needed medicines, while balancing the ability to invest in innovation for the next generation of groundbreaking medicines.

Our board of directors believes that our shareholders are best served by preserving the flexibility to determine the appropriate leadership structure for the company in light of the circumstances at the time.

We believe the proposal would unnecessarily restrict the board's ability to exercise its fiduciary duty to determine the board leadership structure most appropriate for the company given the specific circumstances and leadership needs at any particular point in time. The company's robust governance framework ensures that board leadership is balanced with independent participation given the extensive involvement of the lead independent director and his oversight. Our independent directors also collectively bring to the board vast leadership experience, industry expertise, and other critical skills, and individually have demonstrated the willingness to think and act independently on behalf of shareholders. Therefore, adopting a proposal that would limit the board's ability to exercise decision making on the appropriate leadership is not in shareholders' best interests.

We believe independence is essential to strong corporate governance. The dual roles of an executive chair and a strong, lead independent director are important in balancing inputs to the board. Having one individual serve as both chair and CEO provides the board with deep insights to drive long-term strategy and execution and allows consistent communication throughout the company. This is vital to our innovative research and development business with prolonged product development cycles. Further, the lead independent director, currently a sitting CEO, drives an outside analysis of company decisions and performance and leads our independent directors in their important oversight function.

Lilly's independent directors have determined that Mr. Ricks remains eminently qualified to serve as both chair and CEO, and the board believes that having him fill that combined role, complemented by Mr. Luciano, a strong lead independent director, strikes an appropriate balance between consistent leadership and independent and effective oversight that is optimal for the company and our shareholders. For additional information on the particular qualities of Mr. Ricks and why he is best suited to serve as chair at this time, as well as information on the leadership provided by Mr. Luciano, the lead independent director, please see "Leadership Structure; Oversight of Chairman, CEO, and Senior Management" on pages P28-P31. Accordingly, the board believes that the safeguards described above ensure that the board provides independent and effective oversight of management and the company.

Board Recommendation on Item 8

The board recommends that you vote AGAINST this proposal.

Item 9. Proposal on Board Diversity Requesting Disclosures of Specific Minimum Qualifications and Board Nominee Skills, Experience, and Ideological Perspective

The National Center for Public Policy Research, 20 F Street, NW Suite 700, Washington, DC., 20001, beneficial owner of 44 shares of our common stock, has submitted the following proposal:

RESOLVED, that the shareholders of the Eli Lilly & Company (the "Company") request the Board adopt a policy to disclose to shareholders the following:

1. A description of the specific minimum qualifications that the Board's nominating committee believes must be met by a nominee to be on the board of directors; and
2. Each nominee's skills, ideological perspectives, and experience presented in a chart or matrix form.

The disclosure shall be presented to the shareholders through the annual proxy statement and the Company's website within six (6) months of the date of the annual meeting and updated on an annual basis.

Supporting Statement

We believe that boards that incorporate diverse perspectives can think more critically and oversee corporate managers more effectively. By providing a meaningful disclosure about potential Board members, shareholders will be better able to judge how well-suited individual board nominees are for the Company and whether their listed skills, experience and attributes are appropriate in light of the Company's overall business strategy.

The Company's compliance with Item 407(c)(2)(v) of SEC Regulation S-K requires it to identify the minimum skills, experience, and attributes that all board candidates are expected to possess.

Ideological diversity contemplates differences in political/policy beliefs.

True diversity comes from diversity of thought. There is ample evidence that many companies operate in ideological hegemony that eschews conservative people, thoughts, and values. This ideological echo chamber can result in groupthink that is the antithesis of diversity. This can be a major risk factor for shareholders.

We believe a diverse board is a good indicator of sound corporate governance and a well- functioning boad. Diversity in board composition is best achieved through highly qualified candidates with a wide range of skills, experience, beliefs, and board independence from management.

We are requesting comprehensive disclosures about board composition and what qualifications the Company seeks for its Board, therefore we urge shareholders to vote FOR this proposal.

Statement in Opposition to the Shareholder Proposal on Board Diversity Requesting Disclosures of Specific Minimum Qualifications and Board Nominee Skills, Experience, and Ideological Perspective

The board, through its Directors and Corporate Governance Committee and its Public Policy and Compliance Committee, has reviewed this proposal and recommends a vote against it. Our directors are responsible for overseeing the company's business consistent with their fiduciary duties. This significant responsibility requires highly skilled individuals with various qualities, attributes, and professional experience. We believe the board is a well-rounded, highly qualified, diverse group of leaders in various fields, and the caliber of our board members reflects the board's rigorous process for evaluating and recommending potential nominees for election to the Board. The "Board Operations and Governance" section of this proxy statement includes a discussion of the specific skills, qualities, attributes, and experience that led the board, based upon the recommendation of the Directors and Corporate Governance Committee, to nominate each director for election to the board.

The board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, race, ethnicity, age, and experiences. Although the board does not establish specific diversity goals or have a standalone diversity policy, the board's overall diversity is an important consideration in the director selection and nomination process. The Directors and Corporate Governance Committee assesses the effectiveness of board diversity efforts in connection with the annual nomination process as well as in new director searches. The company's 13 directors range in age from 48 to 71 and include four women and five members of underrepresented groups.

The Directors and Corporate Governance Committee performs periodic assessments of the overall composition and skills of the board to ensure that the board and management are actively engaged in succession planning for directors, and that our board reflects the viewpoints, diversity, and expertise necessary to support our complex and evolving business. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors. The results of these assessments inform the board's recommendations on nominations for directors at the annual meeting each year and help provide us with insight on the types of experiences, skills, and other characteristics we should be seeking for future director candidates.

The skills, qualities, attributes, and experience that the board evaluates when considering a potential nominee do not include "ideological perspectives." The board considers a wide range of factors in assessing whether each nominee has the background, experiences, and attributes necessary to effectively perform the board's oversight function; however, the board does not seek to determine any nominee's ideological perspectives. The board believes that the additional disclosure requested by this proposal would not be relevant to the board's process for identifying director candidates or useful to shareholders in assessing the diversity of backgrounds, experiences, and attributes that should be, and are, represented on the board.

For these reasons, the board believes that the additional disclosures requested by the proposal would not provide meaningful information to shareholders.

Board Recommendation on Item 9

The board recommends that you vote AGAINST this proposal.

Item 10. Proposal to Publish Feasibility Report on Incorporating Public Concern Over Drug Prices into Senior Executive Compensation Arrangements

Mercy Investment Services, Inc., 2039 North Geyer Road, St. Louis, Missouri 63131, beneficial owner of 73 shares of our common stock, has submitted the following proposal:

RESOLVED, Eli Lilly and Company ("Lilly") shareholders request that the Compensation Committee of the board of directors (the "Committee") publish a report (at reasonable expense, within a reasonable time, and omitting confidential or proprietary information) assessing the feasibility of incorporating public concern over high drug prices into the senior executive compensation arrangements described in Lilly's annual proxy materials.

Supporting Statement

To reward the creation of long-term value, incentive compensation arrangements for senior executives of pharmaceutical companies should promote responsible risk management. A key strategic risk now facing pharmaceutical firms is backlash against the high price of medicines. The effects of high drug prices on patient access, government payer budgets and the broader health care system have kept drug prices in the public spotlight, especially as campaigning for 2020 presidential and congressional elections intensifies. A 2019 Credit Suisse analyst report stated that US drug price rises contributed 33% of industry net income growth in 2018 and noted "strong political pressure to reduce absolute drug prices." (Global Pharmaceuticals, "Future of US Drug Rebates Under Review," Apr. 29, 2019, at 4)

Lilly has faced intense scrutiny over pricing of its insulin: The Senate Finance Committee launched an investigation in early 2019, requesting extensive information on pricing, marketing costs and research and development,[1] and Attorneys General from eight states and the District of Columbia have formally or informally sought information from Lilly about insulin pricing.[2] Media reports regularly highlight increases in the cost of Lilly's Humalog alongside stories of patients rationing or going without insulin due to cost.[3]

We are concerned that Lilly's senior executive incentive compensation arrangements may not encourage consideration of risks created by high prices. For example, Lilly uses revenue and earnings per share (EPS) as metrics for the annual bonus, and EPS growth as the metric for performance awards. (2019 Proxy Statement, at 43-46) Income/EPS and especially revenue are sensitive to price increases: In 2016, price increases accounted for at least 100% of Lilly's EPS growth, according to Credit Suisse. (Global Pharma and Biotech Sector Review: Exploring Future US Pricing Pressure, Apr. 18, 2017, at 1) Dependence on drug price increases create significant risks, which may be exacerbated when price hikes drive large senior executive payouts.

Accordingly, we believe it is advisable for the Committee to explore incorporating measures that relate to the financial and strategic risks created by high drug prices into senior executive compensation arrangements. This Proposal gives the Committee total discretion in selecting potential measures and in analyzing the feasibility of incorporating them. By way of illustration, though, such measures could reward executives for increasing access or limit the extent to which price increases can be used to meet revenue and income targets.

We urge shareholders to vote FOR this proposal.

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[1] See https://www.finance.senate.gov/imo/media/doc/2019-02-22%20CEG%20RW%20to%20Eli%20Lilly%20(Insulin%20Prices).pdf

[2] https://www.cnbc.com/2019/08/02/eli-lilly-subpoenaed-by-new-yorks-ag-over-insulin-prices.html

[3] See, e.g., https://www.desmoinesregister.com/story/opinion/editorials/2019/01/31/high-price-insulin-killing-americans-diabetes/2695313002/;
https://www.washingtonpost.com/news/magazine/wp/2019/01/07/feature/insulin-is-a-lifesaving-drug-but-it-has-become-intolerably-expensive-and-the-consequences-can-be-tragic/

Statement in Opposition to the Shareholder Proposal to Publish Feasibility Report on Incorporating Public Concern Over Drug Prices into Senior Executive Compensation Arrangements

The board, through its Public Policy and Compliance Committee and its Compensation Committee, has reviewed this proposal and recommends against it. As explained below, Lilly has taken actions to demonstrate its commitment to responsible drug pricing and executive compensation programs. The preparation of the proposed report would not provide meaningful information to shareholders and would not be a good use of company resources.

Our management, the Public Policy and Compliance Committee, and the full board regularly review and discuss the company's pricing strategy. As a result of these reviews, we have taken a number of measures to address concerns over drug pricing, including the introduction of multiple cost-saving options to enhance insulin affordability for patients.

With respect to our executive compensation program, the Compensation Committee and the board evaluate executive officers using a variety of factors, including individual and company performance objectives relating to company strategy, implementation, and performance as described in the "Compensation Discussion and Analysis" section above. These objectives are established at the beginning of each year and reviewed to ensure they are consistent with our company values. By establishing and measuring performance through key short- and long-term objectives and approving any adjustments to financial results that affect executive compensation payouts, we have sought to mitigate the risk of short-term tactics being used to inappropriately satisfy performance goals at the expense of long-term value creation. In fact, our compensation program is designed to encourage strategies that create long-term value aligned with shareholder returns and provides the Compensation Committee with the discretion to lower incentive payments, where appropriate.

As part of the company's overall enterprise risk management program, the Compensation Committee, which is composed entirely of independent directors, also regularly evaluates our compensation policies and practices as part of a risk-assessment process. During this process, which is described more fully in the "Compensation Committee Matters" section of the proxy statement, the Compensation Committee considers features of our compensation programs to determine the likelihood of inappropriate risk-taking.

In light of our drug pricing strategy reviews and compensation program design, including a risk-assessment process, the feasibility report requested by the proposal is not a productive use of company resources, nor would it create or increase shareholder value.

Board Recommendation on Item 10

The board recommends that you vote AGAINST this proposal.

Item 11. Proposal to Implement a Bonus Deferral Policy

UAW Retiree Medical Benefits Trust, 777 East Eisenhower Parkway, Suite 800, Ann Arbor, Michigan, 48108, beneficial owner of 325,663 shares of our common stock, has submitted the following proposal:

RESOLVED, that shareholders of Eli Lilly and Company ("Lilly") urge the Compensation Committee (the "Committee") of the board to change any annual cash incentive program ("Bonus Program") to provide that an award (a "Bonus") to a senior executive that is based on one or more financial measurements (a "Financial Metric") whose performance measurement period ("PMP") is one year or shorter shall not be paid in full for a period (the "Deferral Period") following the award, including developing a methodology for determining the length of the Deferral Period and adjusting the remainder of the Bonus over the Deferral Period.

The methodology described above should allow accurate assessment of risks taken during the PMP that could have affected performance on the Financial Metric(s) and allow Lilly to recoup Bonus compensation pursuant to its clawback policy. The changes should be implemented in a way that does not violate any existing contractual obligation or the terms of any compensation or benefit plan currently in effect.

Supporting Statement

As long-term shareholders, we support compensation policies that align senior executives' incentives with the company's long-term success. We are concerned that short-term incentive plans can encourage senior executives to take on excessive risk.

In our view, reliance on price increases and anticompetitive practices can create significant risks for pharmaceutical firms. Lilly has come under fire for repeated increases in the price of its insulin products: Congress has held hearings on insulin pricing, and media attention has focused on the impact on patient access. The Minnesota and Kentucky Attorneys General have sued Lilly, claiming that it published "deceptive and misleading" list prices for insulin in order to pay larger rebates to pharmacy benefit managers. Congressional committees and other states have opened investigations into Lilly's insulin pricing and sale.

To foster a longer-term orientation and sounder risk management, this proposal asks that the Committee develop a

methodology for withholding some portion of Bonuses to allow adjustment of the unpaid portion during the Deferral Period. The Committee would have discretion to set the terms and mechanics of this process.

Bonus deferral is widely used in the banking industry, where overly risky behavior was widely viewed as contributing to the financial crisis. In 2009, the Financial Stability Board, which coordinates national financial authorities in developing strong financial sector policies, adopted Principles for Sound Compensation Practices and implementation standards for those principles, including bonus deferral. Deferral is "particularly important" because it allows "late-arriving information about risk-taking and outcomes" to alter payouts and reduces the need to claw back compensation already paid out, which may "fac[e] legal barriers," in the event of misconduct. Banking supervisors in 16 jurisdictions, including the US, have requirements or expectations regarding bonus deferral. (https://www.fsb.org/wp-content/uploads/P170619-1.pdf)

We urge shareholders to vote FOR this proposal.

Statement in Opposition to the Shareholder Proposal to Implement a Bonus Deferral Policy

The board, through its Compensation Committee, has reviewed this shareholder proposal and understands and appreciates shareholder and customer concerns regarding drug pricing. Lilly is committed to making medicines accessible to patients. For some, drug prices can be an access barrier, and our company is proud to have taken steps to reduce this barrier. While our efforts have been received positively, we believe there is additional opportunity for change within the complicated medicine delivery model in the U.S.

Our Compensation Committee has structured Lilly's executive officer compensation with a view toward appropriately focusing its executive officers on making decisions that are in the best interest of the company. For this reason, a majority of each executive officer's compensation, which is reviewed annually by our Compensation Committee, is already aligned with long-term shareholder growth to promote the delivery of sustainable business results and discourage excessive risk-taking or other adverse behaviors. Notably, Lilly's chief executive officer, Mr. Ricks, has a total target pay mix of 75 percent equity, 15 percent bonus, and 10 percent base pay. Lilly's remaining executive officers have a pay mix target of 62 percent equity, 19 percent bonus, and 19 percent base pay. The annual equity awards for all executive officers have a three-year restriction period.

Further, deferring annual bonus payments to our executive officers does not materially impact our ability to recoup for clawback purposes. Under our current executive compensation recovery policy, Lilly can recoup payments for up to three years, and the majority of executive officer pay is already deferred in the form of equity that could be withheld prior to payment if there were a need to do so. Lastly, while the deferral of the annual bonus payment may mechanically make it easier to recoup in the unlikely event it were to become necessary, our existing executive compensation recovery policy provides an avenue for the company to recoup payments while also maintaining a competitive executive compensation program that enables the company to recruit and retain talent.

For these reasons, we believe implementing a bonus deferral policy is not necessary and not in the best interests of the company and its shareholders.

Board Recommendation on Item 11

The board recommends that you vote AGAINST this proposal.

Item 12. Proposal to Disclose Clawbacks on Executive Incentive Compensation Due to Misconduct

Trinity Health, Sixteenth Floor, 766 Brady Avenue, Apt 635, Bronx, New York, 10462, beneficial owner of 50,264 shares of our common stock, has submitted the following proposal:

RESOLVED, that shareholders of Eli Lilly and Company ("Lilly") urge the board of directors ("Board") to adopt a policy (the "Policy") that Lilly will disclose annually whether it, in the previous fiscal year, recouped any incentive compensation from any senior executive or caused a senior executive to forfeit all or part of an incentive compensation award (each, a "clawback") as a result of applying Lilly's clawback provisions. "Senior executive" includes a former senior executive. The Policy should provide that the general circumstances of the clawback will be described and that if no clawback of the kind described above occurred in the previous fiscal year, a statement to that effect will be made. The disclosure requested in this proposal is intended to supplement, not supplant, any disclosure required by law, regulation or agreement and the Policy should not apply if disclosure would violate any law, regulation or agreement.

Supporting Statement

As long-term shareholders, we believe compensation practices should promote sustainable value creation. Lilly has mechanisms in place to claw back incentive compensation from senior executives in the event of misconduct causing significant harm to Lilly, a supervisory failure to prevent such misconduct by others, and in the event of materially inaccurate financial statements or performance calculations.

In 2018, the Minnesota Attorney General accused Lilly of publishing "deceptive and misleading" list prices for insulin. The complaint urges that artificially high list prices were used to offer higher rebates to pharmacy benefit managers, increasing costs for patients whose out-of-pocket costs are based on the list price. A similar complaint was filed in 2019 by the Kentucky Attorney General.

Lilly's most recent 10-K discloses that its insulin pricing and sale are the subject of civil investigative demands from the Attorneys General of Washington and New Mexico and information requests from the Attorneys General of five states and the District of Columbia. As well, Congressional committees have requested information about Lilly's insulin pricing. Lilly has not made any proxy statement disclosure regarding the application of its clawback provisions. Such disclosure would allow shareholders to evaluate the Compensation Committee's use of those provisions and reinforce behavioral expectations. Disclosure of recoupment from senior executives below the named executive officer level, recoupment from whom is already required to be disclosed under SEC rules, would be useful for shareholders because these executives may have business unit responsibilities or otherwise be in a position to take substantial risk or affect company policies.

We are sensitive to privacy concerns and recommend that Policy provide for disclosure that does not violate privacy expectations (subject to laws requiring fuller disclosure).

We urge shareholders to vote for this proposal.

Statement in Opposition to the Shareholder Proposal to Adopt Policy to Annually Disclose Clawback of Executive Incentive Compensation

The board, through its Compensation Committee, has reviewed this shareholder proposal and recommends a vote against it. The board believes our current executive compensation structure, including our executive compensation recovery policy, strikes an appropriate balance in motivating our executive officers to deliver long-term results for our shareholders, while simultaneously holding the senior leadership team accountable and discouraging unreasonable risk-taking. In addition, the board believes the broad disclosure requested by the proposal extends beyond what is required under existing legal requirements.

Our core values of integrity, excellence, and respect for people guided the creation and implementation of the company's existing executive compensation recovery policy, which was adopted in 2013. We hold all employees accountable to these core values, but we strongly believe that our executive officers carry an even higher burden in ensuring our values are upheld. To that end, all executives' incentive compensation is subject to the terms of our clawback policy. Executives may be subject to the forfeiture or clawback of cash or equity in the event of misconduct that results in disciplinary action, a material violation of law or company policy, or financial restatements. The board believes that the company's current ability to recoup employee compensation for up to three years discourages unreasonable risk-taking and reflects our strong commitment to ethics and integrity.

The company is already subject to U.S. Securities and Exchange Commission's requirements to disclose in its annual proxy statement when compensation has been recouped, and the amount recouped, from the chief executive officer, chief financial officer, and other current and former named executive officers who served during the prior fiscal year. If necessary to understand the company's executive compensation structure, the company is required to disclose in its annual proxy statement the reasons for recoupment and how the company determined the amount to be recovered. The board does not believe that expanding the disclosure requirements to all current and former "senior executives" is warranted.

Further, the recoupment of incentive compensation is not the only action that is available to address misconduct of our senior executives. In response to senior executive misconduct or violation of company policy, the company may institute reasonable and appropriate corrective actions to address misconduct, such as termination or change in job responsibility, further training, disciplinary action, or material alterations to compensation plans in future years. None of these actions would be disclosed in an annual report requested by the proposal. As a result, the board believes the annual report contemplated by the proposal could present a misleading picture of how instances of misconduct are addressed by the company.

In summary, the board believes that adopting a policy requiring an annual report of compensation clawbacks is unnecessary given the company's existing executive compensation recovery policy and the U.S. Securities and Exchange Commission's disclosure requirements discussed above; as a result, the board believes the proposal is not in the best interests of the company and its shareholders.

Board Recommendation on Item 12

The board recommends that you vote AGAINST this proposal.

Other Information

Meeting and Voting Logistics

Additional Items of Business

We do not expect any items of business other than those set forth above because the deadline for shareholder proposals and nominations has passed. Nonetheless, if necessary, the accompanying proxy gives discretionary authority to the persons named on the proxy with respect to any other matters that might be brought before the meeting. Those persons intend to vote that proxy in accordance with their best judgment.

Voting

Shareholders as of the close of business on March 9, 2020 (the record date) may vote at the 2020 annual meeting. You have one vote for each share of common stock you held on the record date, including shares:

- held directly in your name as the shareholder of record
- held for you in an account with a broker, bank, or other nominee
- attributed to your account in the company's 401(k) plan.

You may vote your shares in person at the meeting. However, we encourage you to vote by mail, by telephone, or online even if you plan to attend the meeting.

Required Vote

Below are the vote requirements for the various proposals:

- The five nominees for director will be elected if the votes cast for the nominee exceed the votes cast against the nominee. Abstentions will not count as votes cast either for or against a nominee.
- The following items of business will be approved if the votes cast for the proposal exceed those cast against the proposal:
    - advisory approval of executive compensation of the named executive officers presented in this proxy statement
    - ratification of the appointment of independent auditor
    - seven shareholder proposals.

  Abstentions will not be counted either for or against these proposals.
- The proposals to amend the articles of incorporation to eliminate the classified board structure and to eliminate supermajority voting provisions require the vote of 80 percent of the outstanding shares of our common stock. For these items, abstentions and broker non-votes have the same effect as a vote against the proposals.

Quorum

A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the annual meeting. As of March 9, 2020, 957,038,447 shares of company common stock were issued and outstanding.

Voting by Proxy

If you are a shareholder of record, you may vote your proxy by any one of the following methods:

Online. You may vote online at proxyvote.com. Follow the instructions on your proxy card or notice. If you received these materials electronically, follow the instructions in the email message that notified you of their availability. Voting online has the same effect as voting by mail. If you vote online, do not return your proxy card.

By telephone. Shareholders in the U.S., Puerto Rico, and Canada may vote by telephone by following the instructions on your proxy card or notice. If you received these materials electronically, follow the instructions in the email message that notified you of their availability. Voting by telephone has the same effect as voting by mail. If you vote by telephone, do not return your proxy card.

By mail. Sign and date each proxy card you receive and return it in the prepaid envelope. Sign your name exactly as it appears on the proxy. If you are signing in a representative capacity (for example, as an attorney-in-fact, executor, administrator, guardian, trustee, or the officer or agent of a corporation or partnership), please indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners. If you return your signed proxy but do not indicate your voting preferences, the proxy holder will vote on your behalf based upon the board's recommendations.

You have the right to revoke your proxy at any time before the meeting by (i) notifying the company's secretary in writing, or (ii) delivering a later-dated proxy online, by mail, or by telephone. If you are a shareholder of record, you may also revoke your proxy by voting in person at the meeting.

Voting Shares Held by a Broker

If your shares are held by a broker, the broker will ask you how you want your shares to be voted. You may instruct your broker or other nominee to vote your shares by following instructions that the broker or nominee provides to you. Most brokers offer voting by mail, by telephone, and online.

If you give the broker instructions, your shares will be voted as you direct. If you do not give instructions, one of two things can happen, depending on the type of proposal. For the ratification of the independent auditor, the broker may vote your shares in its discretion. For all other proposals, the broker may not vote your shares at all.

Voting Shares Held in the Company 401(k) Plan

You may instruct the plan trustee on how to vote your shares in the 401(k) plan online, by mail, or by telephone as described above, except that, if you vote by mail, the card that you use will be a voting instruction form rather than a proxy card.

In addition, unless you decline, your vote will apply to a proportionate number of other shares held by participants in the 401(k) plan for which voting directions are not received (except for a small number of shares from a prior stock ownership plan, which can be voted only on the directions of the participants to whose accounts the shares are credited).

All participants are named fiduciaries under the terms of the 401(k) plan and under the Employee Retirement Income Security Act (ERISA) for the limited purpose of voting shares credited to their accounts and the portion of undirected shares to which their vote applies. Under ERISA, fiduciaries are required to act prudently in making voting decisions.

If you do not want to have your vote applied to the undirected shares, you must so indicate when you vote. Otherwise, the trustee will automatically apply your voting preferences to the undirected shares proportionally with all other participants who elected to have their votes applied in this manner.

If you do not vote, your shares will be voted in accordance with instructions received from other plan participants who have elected to have their voting preferences applied proportionally to all shares for which voting instructions are not otherwise received.

Proxy Cards and Notices

If you received more than one proxy card, notice, or email related to proxy materials, you hold shares in more than one account. To ensure that all your shares are voted, sign and return each card. Alternatively, if you vote by telephone or

online, you will need to cast a vote for each proxy card, notice, or email you receive. If you do not receive a proxy card, you may have elected to receive your proxy statement electronically, in which case you should have received an email with directions on how to access the proxy statement and how to vote your shares. If you wish to request a paper copy of these materials and a proxy card, please call 800-579-1639.

Vote Tabulation

Votes are tabulated by an independent inspector of election, Broadridge Financial Solutions, Inc.

Attending the Annual Meeting - *Admission Procedure*

The meeting will be held at the Lilly Center Auditorium at Lilly Corporate Center.

All shareholders as of close of business on March 9, 2020, may attend the annual meeting. To gain admission, you must request an admission ticket as described below and present it along with valid, government-issued photo identification, such as a driver's license or passport. **Your request for an admission ticket must be received before 5:00 p.m. EDT on April 28, 2020.**

Admission tickets are available for registered and beneficial shareholders and for one guest accompanying each shareholder. If you are attending the meeting as a proxy for or qualified representative of a shareholder, you will need your legal proxy or authorization letter in addition to your admission ticket and photo identification.

To obtain an admission ticket for you and your guest online, please access "Register for Meeting" at proxyvote.com and follow the instructions provided. You will need to enter your 16-digit voting control number found in your proxy materials. **You must print a ticket for you and your guest and bring each ticket to the meeting. Each person attending must provide the admission ticket and photo identification.** If you are unable to print the ticket, please call Shareholder Meeting Support, Broadridge Financial Solutions, Inc. at 844-318-0137 for assistance. Failure to follow these admission procedures may delay your entry into, or prevent you from being admitted to, our annual meeting.

You can also register to attend the meeting by calling Shareholder Meeting Support, Broadridge Financial Solutions, Inc., at 844-318-0137. When registering via phone, you will be placed on the attendee list but will not receive an admission ticket. You will need to present photo identification to enter the meeting.

To ensure your safety, all attendees and their belongings will pass through a metal detector upon arrival at the annual meeting. Attendees may also be subject to further security inspections. No photography, videography, or audio recording is allowed inside Lilly buildings.

Parking will be available on a first-come, first-served basis in the garage indicated on the map at the end of this report. If you have questions about admittance or parking, please call 855-731-6026 (toll free) or 317-433-5112 (prior to the annual meeting).

As part of our precautions regarding the coronavirus or COVID-19, we are planning for the possibility that the annual meeting may be held by means of remote communication. If we take this step, we will announce the decision to do so in advance, and details on how to participate will be available at investor.lilly.com/proxy.

The 2021 Annual Meeting

The company's 2021 annual meeting is currently scheduled for May 3, 2021.

Other Matters

Householding

We have adopted a procedure approved by the SEC called "householding." Under the householding procedure, certain shareholders, whether they own registered shares or shares in street name, who have the same address will receive only one set of proxy materials, unless one or more of the shareholders at that address has previously notified us that they want to receive separate copies. Each 401(k) Plan participant will continue to receive a copy of all of the proxy materials. Regardless of how you own your shares, if you received a single set of proxy materials as a result of householding, and one or more shareholders at your address would like to have separate copies of these materials with respect to the 2020 annual meeting or in the future, or if you would like to request that only a single set of proxy materials be sent to the household, please contact Broadridge Financial Solutions, Inc., at 866-540-7095 or 51 Mercedes Way, Edgewood, NY 11717.

Other Information Regarding the Company's Proxy Solicitation

The board is soliciting proxies for the 2020 annual meeting. We will pay all expenses in connection with our solicitation of proxies. We will pay brokers, nominees, fiduciaries, or other custodians their reasonable expenses for sending proxy material to and obtaining instructions from persons for whom they hold stock of the company. We expect to solicit proxies primarily by mail and email, but directors, officers, and other employees of the company may also solicit in person or by telephone, fax, or email. We have retained Georgeson LLC to assist in the distribution and solicitation of proxies. Georgeson may solicit proxies by personal interview, telephone, fax, mail, and email. We expect that the fee for those services will not exceed $17,500 plus reimbursement of customary out-of-pocket expenses.

Delinquent Section 16(a) Reports

Under SEC rules, our directors and executive officers are required to file with the SEC reports of holdings and changes in beneficial ownership of company stock. We have reviewed copies of reports provided to the company, as well as other records and information. Based on that review, we concluded that all reports were timely filed, except that, due to administrative errors, Myles O'Neill was late in reporting an equity grant payout that was received by his spouse and then vested. Each filing was made promptly after the issue was discovered.

By order of the Board of Directors,

Bronwen L. Mantlo
Secretary

March 20, 2020

Appendix A - Summary of Adjustments Related to the Annual Cash Bonus and Performance Award

Consistent with past practice, the Compensation Committee adjusted the reported financial results on which the 2019 annual cash bonus and the 2018-2020 performance awards were determined to eliminate the distorting effect of certain unusual items on incentive compensation performance measures. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items in the award year, and, where relevant, the previous (comparator) year
- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

To ensure the integrity of the adjustments, the Compensation Committee establishes adjustment guidelines in the first 90 days of the performance period. These guidelines are generally consistent with the company guidelines for reporting non-GAAP financial measures to the investment community, which are reviewed by the Audit Committee. The adjustments apply equally to income and expense items. The Compensation Committee reviews all adjustments and retains downward discretion, i.e., discretion to reduce compensation below the amounts that are yielded by the adjustment guidelines.

Adjustments for 2019 Bonus Plan

For 2019 bonus calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our external reporting of non-GAAP financial measures:

- Eliminated the impact of the divestiture of Elanco Animal Health, Inc., (Elanco)
- Eliminated the impact of asset impairments, restructuring, and other special charges
- Eliminated the impact of the gain on sale of the China antibiotics business
- Eliminated the impact of the charge related to the repurchase of debt
- Eliminated the impact of the charges recognized for acquired in-process research development
- Eliminated the impact of amortization of intangible assets
- Eliminated the impact of the Lartruvo charges
- Eliminated the impact of certain income tax items

Reconciliations of these adjustments to our reported EPS are below:

	2019
EPS as reported	$8.89
Eliminate Elanco discontinued operations	(3.93)
EPS as reported from continuing operations	$4.96
Eliminate asset impairments, restructuring, and other special charges	$0.58
Eliminate the gain on sale of the China antibiotics business	(0.26)
Eliminate the charge related to the repurchase of debt	$0.22
Eliminate acquired in-process research and development charges	$0.21
Eliminate amortization of intangible assets	$0.18
Eliminate Lartruvo charges	$0.14
Eliminate impact of reduced shares outstanding for non-GAAP reporting[a]	$0.07
Eliminate the impact of certain tax items[b]	(0.05)
Non-GAAP EPS	$6.04

*Numbers may not add due to rounding

[a] Non-GAAP earnings per share assume that the disposition of Elanco occurred at the beginning of all periods presented and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer.

[b] Amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock.

Adjustments for 2018-2020 Performance Award

For the 2018-2020 performance award payout calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our reporting of non-GAAP financial measures:

- 2019: Eliminated the impact of the divestiture of the Elanco
- 2019, 2018, and 2017: Eliminated the impact of asset impairments, restructuring, and other special charges
- 2019: Eliminated the impact of the gain on sale of the China antibiotics business
- 2019: Eliminated the charge related to the repurchase of debt
- 2019, 2018, and 2017: Eliminated the impact of the charges recognized for acquired in-process research and development
- 2019, 2018, and 2017: Eliminated the impact of amortization of intangible assets
- 2019: Eliminated the impact of Lartruvo charges
- 2019, 2018, and 2017: Eliminated the impact of certain income tax items
- 2018 and 2017: Eliminated the impact of other specified items

In addition to the adjustments consistent with our reporting of non-GAAP financial measures, the Compensation Committee made the following adjustments:

- When the Compensation Committee set 2018-2020 performance award targets, the divestiture of Elanco (which occurred in March 2019) was not contemplated and targets were set based on the consolidated financial results of Lilly and Elanco. Accordingly, the Compensation Committee adjusted the 2019 results to neutralize the EPS impact of the divestiture reflecting our expected results as if the divestiture never occurred. Amounts presented in the reconciliation table below for 2018 and 2017 (and related percent growth) include the consolidated results of Lilly and Elanco as originally reported in our 2018 annual report, prior to the divestiture.
- When the Compensation Committee set 2018-2020 performance award targets, the acquisition of Loxo Oncology, Inc. (Loxo) (which occurred in February 2019) was not contemplated. Accordingly, the Compensation Committee adjusted the 2019 results to neutralize the expected EPS impact of the acquisition.

Reconciliations of these adjustments to our reported EPS are below:

	2019	2018	% Growth 2019 vs. 2018	2017	% Growth 2018 vs. 2017
EPS as reported	$8.89	$3.13	NM	$(0.19)	NM
Eliminate Elanco discontinued operations	$(3.93)	NA		NA	
EPS as reported from continuing operations	$4.96	NA		NA	
Eliminate asset impairments, restructuring, and other special charges	$0.58	$0.41		$1.23	
Eliminate the gain on sale of the China antibiotics	$(0.26)	—		—	
Eliminate the charge related to the repurchase of debt	$0.22	—		—	
Eliminate acquired in-process research and development charges	$0.21	$1.83		$0.97	
Eliminate amortization of intangible assets	$0.18	$0.43		$0.44	
Eliminate Lartruvo charges	$0.14	—		—	
Eliminate impact of reduced shares outstanding for non-GAAP reporting[a]	$0.07	—		—	
Eliminate the impact of certain tax items[b]	$(0.05)	$(0.25)		$1.81	
Eliminate other specified items	—	$0.01		$0.03	
Non-GAAP EPS	$6.04	$5.55	8.8%	$4.28	29.7%
Loxo acquisition adjustment	$0.36	—		—	
Elanco divestiture adjustment	$(0.01)	—		—	
Adjusted Non-GAAP EPS	$6.39	$5.55	15.1%	$4.28	29.7%

*Numbers may not add due to rounding

[a] For 2019, Non-GAAP earnings per share assume that the disposition of Elanco occurred at the beginning of all periods presented and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer.

[b] For 2019, amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock. For 2018 and 2017, amounts relate to U.S. tax reform and tax expenses associated with the separation of Elanco.

Appendix B - Proposed Amendments to the Company's Articles of Incorporation

Proposed changes to the company's articles of incorporation are shown below related to Items 4 and 5, "Items of Business To Be Acted Upon at the Meeting." The changes shown to Article 9(b) will be effective if Item 4, "Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure," receives the vote of at least 80 percent of the outstanding shares. The changes to Articles 9(c), 9(d), and 13 will be effective if Item 5, "Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions," receives the vote of at least 80 percent of the outstanding shares. Additions are indicated by underlining and deletions are indicated by strike-outs. The full text of the company's Articles of Incorporation can be found on our website at: lilly.com/who-we-are/governance.

9. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(a) The number of directors of the Corporation, exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock pursuant to Article 7(b) (the "Preferred Stock Directors"), shall not be less than nine, the exact number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office.

(b) Prior to the 2021 annual meeting of directors, the Board of Directors (exclusive of Preferred Stock Directors) shall be divided into three classes, with the term of office of one class expiring each year. ~~At the annual meeting of shareholders in 1985, five directors of the first class shall be elected to hold office for a term expiring at the 1986 annual meeting, five directors of the second class shall be elected to hold office for a term expiring at the 1987 annual meeting, and six directors of the third class shall be elected to hold office for a term expiring at the 1988 annual meeting.~~ Commencing with the annual meeting of shareholders in ~~1986~~2021, each class of directors whose term shall then expire shall be elected to hold office for a ~~three~~one-year term expiring at the next annual meeting of shareholders. In the case of any vacancy on the Board ~~of Directors including a vacancy created by an increase in the number~~ of Directors, the vacancy shall be filled by election of the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, ~~for the remainder of the term of the class to which the director has been assigned.~~ until the next annual meeting of shareholders. All directors shall continue in office until the election and qualification of their respective successors in office. ~~When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible.~~ No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Election of directors need not be by written ballot unless the By-laws so provide.

(c) Any director or directors (exclusive of Preferred Stock Directors) may be removed from office at any time, but only for cause and only by the affirmative vote of at least ~~80%~~a majority of the votes ~~entitled to be~~ cast by holders of all the outstanding shared of Voting Stock (as defined in Article 13 hereof), voting together as a single class.

(d) ~~Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 9.~~

***

13. In addition to all other requirements imposed by law and these Amended Articles and except as otherwise expressly provided in paragraph (c) of this Article 13, none of the actions or transactions listed below shall be effected by the Corporation, or approved by the Corporation as a shareholder of any majority-owned subsidiary of the Corporation if,

as of the record date for the determination of the shareholders entitled to vote thereon, any Related Person (as hereinafter defined) exists, unless the applicable requirements of paragraphs (b), (c), (d), (e), and (f) of this Article 13 are satisfied.

(a) The actions or transactions within the scope of this Article 13 are as follows:

(i) any merger or consolidation of ~~the Corporation or~~ any of ~~its~~the Corporation's subsidiaries into or with such Related Person;

(ii) any sale, lease, exchange, or other disposition of all or any substantial part of the assets of ~~the Corporation or~~ any of ~~its~~the Corporation's majority-owned subsidiaries to or with such Related Person;

(iii) the issuance or delivery of any Voting Stock (as hereinafter defined) or of voting securities of any of the Corporation's majority-owned subsidiaries to such Related Person in exchange for cash, other assets or securities, or a combination thereof;

~~(iv) any voluntary dissolution or liquidation of the Corporation;~~

(iv) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries, or any other transaction (whether or not with or otherwise involving a Related Person) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of capital stock of the Corporation, or any securities convertible into capital stock of the Corporation or into equity securities of any subsidiary, that is beneficially owned by any Related Person; or

(v) any agreement, contract, or other arrangement providing for any one or more of the actions specified in the foregoing clauses (i) through (v).

(b) The actions and transactions described in paragraph (a) of this Article 13 shall have been authorized by the affirmative vote of ~~at least 80% of all~~a majority of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class.

(c) Notwithstanding paragraph (b) of this Article 13, the ~~80% voting~~ special shareholder approval requirement set forth in paragraph (b) shall not be applicable if any action or transaction specified in paragraph (a) is approved by the Corporation's Board of Directors and by a majority of the Continuing Directors (as hereinafter defined).

(d) Unless approved by a majority of the Continuing Directors, after becoming a Related Person and prior to consummation of such action or transaction.:

(i) the Related Person shall not have acquired from the Corporation or any of its subsidiaries any newly issued or treasury shares of capital stock or any newly issued securities convertible into capital stock of the Corporation or any of its majority-owned subsidiaries, directly or indirectly (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata stock dividend or stock split or other distribution of stock to all shareholders pro rata);

(ii) such Related Person shall not have received the benefit directly or indirectly (except proportionately as a shareholder) of any loans, advances, guarantees, pledges, or other financial assistance or tax credits provided by the Corporation or any of its majority-owned subsidiaries, or made any major changes in the Corporation's or any of its majority-owned subsidiaries' businesses or Corporation's capital stock below the rate in effect immediately prior to the time such Related Person became a Related Person; and

(iii) such Related Person shall have taken all required actions within its power to ensure that the Corporation's Board of Directors included representation by Continuing Directors at least proportionate to the voting power of the shareholdings of Voting Stock of the Corporation's Remaining Public Shareholders (as hereinafter defined), with a Continuing Director to occupy an additional Board position if a fractional right to a director results and, in any event, with at least one Continuing Director to serve on the Board so long as there are any Remaining Public Shareholders.

(e) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, as amended, whether or not the Corporation is then subject to such requirements, shall be mailed to the shareholders of the Corporation for the purpose of soliciting shareholder approval of such action or transaction and shall contain at the front thereof, in a prominent place, any recommendations as to the advisability or inadvisability of the action or transaction which the Continuing Directors may choose to state and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the action or transaction from a financial point of view to the Remaining Public Shareholders, such investment banking firm to be paid a reasonable fee for its services by the Corporation. The requirements of this paragraph (~~e~~d) shall not apply to any such action or transaction which is approved by a majority of the Continuing Directors.

(f) For the purpose of this Article 13

(i) the term "Related Person" shall mean any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the outstanding shares of Voting Stock, and any Affiliate or Associate (as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934) of a Related Person; provided, however, that the term Related Person shall not include (a) the Corporation or any of its subsidiaries, (b) any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or (c) Lilly Endowment, Inc.; and further provided, that no corporation, person, or entity shall be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly Endowment, Inc.;

(ii) a Related Person shall be deemed to own or control, directly or indirectly, any outstanding shares of Voting Stock owned by it or any Affiliate or Associate of record or beneficially, including without limitation shares

a. which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants, or options, or otherwise or

b. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause a. above), by any other corporation, person, or other entity with which it or its Affiliate or Associate has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Voting Stock, or which is its Affiliate (other than the Corporation) or Associate (other than the Corporation);

(iii) the term "Voting Stock" shall mean all shares of any class of capital stock of the Corporation which are entitled to vote generally in the election of directors;

(iv) the term "Continuing Director" shall mean a director who is not an Affiliate or Associate or representative of a Related Person and who was a member of the Board of Directors of the Corporation immediately prior to the time that any Related Person involved in the proposed action or transaction became a Related Person or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors; and

(v) the term "Remaining Public Shareholders" shall mean the holders of the Corporation's capital stock other than the Related Person.

(g) A majority of the Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article 13, on the basis of information then known to the Continuing Directors, whether (i) any Related Person exists or is an Affiliate or an Associate of another and (ii) any proposed sale, lease, exchange, or other disposition of part of the assets of the Corporation or any majority-owned subsidiary involves a substantial part of the assets of the Corporation or any of its subsidiaries. Any such determination by the Continuing Directors shall be conclusive and binding for all purposes.

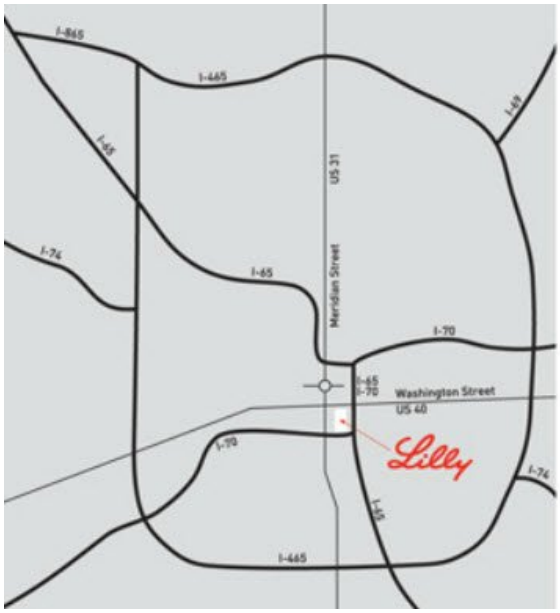
(h) Nothing contained in this Article 13 shall be construed to relieve any Related Person or any Affiliate or Associate of any Related Person from any fiduciary obligation imposed by law.

(i) The fact that any action or transaction complies with the provisions of this Article 13 shall not be construed to waive or satisfy any other requirement of law or these Amended Articles of Incorporation or to impose any fiduciary duty, obligation, or responsibility on the Board of Directors or any member thereof, to approve such action or transaction or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit, or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such action or transaction. The Board of Directors of the Corporation, when evaluating any actions or transactions described in paragraph (a) of this Article 13, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including without limitation the social and economic effects on the employees, customers, suppliers, and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

~~(j) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of the holders of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 13.~~

Directions and Parking

From I-70 take Exit 79B; follow signs to McCarty Street. Turn right (east) on McCarty Street; go straight into Lilly Corporate Center. You will be directed to parking. Parking will be available on a first-come, first-served basis in the garage. Entrance to the Lilly Center Auditorium is adjacent to the parking garage.



Corporate Information

ANNUAL MEETING

The annual meeting of shareholders will be held at the **Lilly Center Auditorium, Lilly Corporate Center, Indianapolis, Indiana, on Monday, May 4, 2020, at 11:00 a.m. EDT.** For more information, see the proxy statement section of this report.

10-K AND 10-Q REPORTS

Paper copies of the company's annual report to the Securities and Exchange Commission on Form 10-K and quarterly reports on Form 10-Q are available upon written request to:

ELI LILLY AND COMPANY
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, Indiana 46285

To access these reports more quickly, you can find all of our SEC filings online at: **investor.lilly.com/sec.cfm.**

STOCK LISTINGS

Eli Lilly and Company common stock is listed on the New York Stock Exchange. NYSE ticker symbol: LLY.

CEO AND CFO CERTIFICATES

The company's chief executive officer and chief financial officer have provided all certifications required under Securities and Exchange Commission regulations with respect to the financial information and disclosures in this report. The certifications are available as exhibits to the company's Form 10-K and 10-Q reports.

In addition, the company's chief executive officer has filed with the New York Stock Exchange a certification to the effect that, to the best of his knowledge, the company is in compliance with all corporate governance listing standards of the Exchange.

TRANSFER AGENT AND REGISTRAR

EQ SHAREOWNER SERVICES

Mailing Address:

EQ SHAREOWNER SERVICES
P.O. Box 64854
St. Paul, Minnesota 55164-0854

Overnight Address:

EQ SHAREOWNER SERVICES
1110 Centre Pointe Curve, Suite 101
Mendota Heights, Minnesota 55120-4100

Telephone: 1-800-833-8699
E-mail: stocktransfer@eq-us.com
Internet: www.shareowneronline.com

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

EQ Shareowner Services administers the Shareowner Service Plus Plan, which allows registered shareholders to purchase additional shares of Lilly common stock through the automatic investment of dividends. The plan also allows registered shareholders and new investors to purchase shares with cash payments, either by check or by automatic deductions from checking or savings accounts. The minimum initial investment for new investors is $1,000. Subsequent investments must be at least $50. The maximum cash investment during any calendar year is $150,000. Please direct inquiries concerning the Shareowner Service Plus Plan to:

EQ SHAREOWNER SERVICES
P.O. Box 64856
St. Paul, Minnesota 55164-0856
Telephone: 1-800-833-8699

ONLINE DELIVERY OF PROXY MATERIALS

Shareholders may elect to receive annual reports and proxy materials online. This reduces paper mailed to the shareholder's home and saves the company printing and mailing costs. To enroll, go to **investor.lilly.com/services.cfm** and follow the directions provided.

Eli Lilly and Company LILLY CORPORATE CENTER, INDIANAPOLIS, IN 46285 USA | 317.276.2000 | LILLY.COM