Determination Leads to Discovery

ELI LILLY AND COMPANY
2013 ANNUAL REPORT
NOTICE OF 2014 ANNUAL MEETING
PROXY STATEMENT

DETERMINATION LEADS TO DISCOVERY

In 2013, Lilly demonstrated the determination that has been a hallmark of our company since its founding. We continued to meet the performance goals we set for the current period of patent expirations for some of our major products, while setting the stage to resume growth, submitting four potential medicines for regulatory approval.

These potential treatments for diabetes and cancer reflect our determination to discover new medicines that make a difference for people's lives, and our unwavering resolve to make the investment necessary to sustain that work.

This is our heritage. Lilly was founded for the unique purpose of making trusted medicines of the highest possible quality, based on the best science of the day, and for 137 years we have worked hard to honor our founders' commitment to quality and integrity.

With the expiration of U.S. patents on Cymbalta® in December 2013 and Evista® in March 2014, we face the most challenging year in Lilly's history. But it is also one of the most exciting, with the prospect of launching as many as three new medicines. And even as we focus on bringing our medicines to the people who need them, Lilly scientists continue to carry out the difficult work of discovery that will lead to new and better therapies in the future.

From our research laboratories, to our manufacturing plants, to our relationships with payers, physicians, and the people they serve, our determination to make life better shines through every aspect of our work. The pages that follow highlight stories of this singular determination, as well as the progress we've made.

THE LILLY PROMISE

Lilly unites caring with discovery to make life better for people around the world.

Our Mission
Lilly makes medicines that help people live longer, healthier, more active lives.

Our Values
Integrity, excellence, respect for people

Our Vision
To make a significant contribution to humanity by improving global health in the 21st century

2013 Financial Highlights

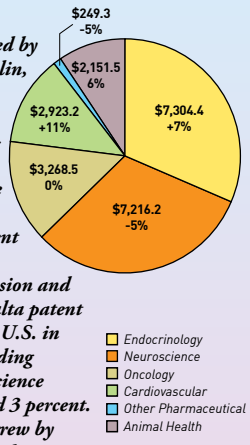
ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except per-share data) Year Ended December 31	2013	2012	Change %
Revenue	**$23,113.1**	$22,603.4	2
Research and development	**5,531.3**	5,278.1	5
Research and development as a percent of revenue	**23.9%**	23.4%	
Net income	**$4,684.8**	$4,088.6	15
Earnings per share—diluted	**4.32**	3.66	18
Reconciling items[1]:			
Acquired in-process research and development (IPR&D)	**0.03**	—	
Asset impairment, restructuring, and other special charges	**0.08**	0.16	
Income related to termination of the exenatide collaboration with Amylin	**(0.29)**	(0.43)	
Non-GAAP earnings per share—diluted	**4.15**[2]	3.39	22
Dividends paid per share	**1.96**	1.96	
Capital expenditures	**1,012.1**	905.4	12
Employees	**37,925**	38,350	(1)

[1] For more information on these reconciling items, see the Financial Results section of the Executive Overview on page 19 of the Financials.

[2] Numbers in the 2013 column do not add due to rounding.

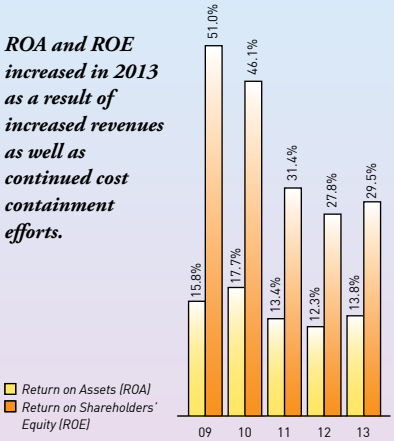
Revenue Growth Across Therapeutic Areas ($ millions, percent growth)

Endocrinology, led by Humalog, Humulin, and Forteo, grew 7 percent and represents 32 percent of total revenue. Revenue in Neuroscience decreased 5 percent due to continued Zyprexa sales erosion and the loss of Cymbalta patent protection in the U.S. in December. Excluding Zyprexa, Neuroscience revenue increased 3 percent. Cardiovascular grew by 11 percent driven by strong global growth of Cialis.



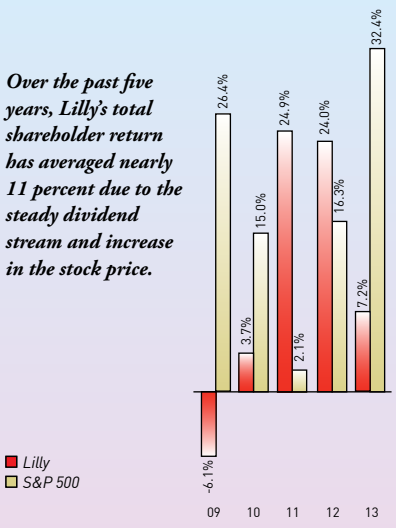
Return on Assets and Shareholders' Equity

ROA and ROE increased in 2013 as a result of increased revenues as well as continued cost containment efforts.



Total Shareholder Return

Over the past five years, Lilly's total shareholder return has averaged nearly 11 percent due to the steady dividend stream and increase in the stock price.



To Our Shareholders

For Eli Lilly and Company, 2013 was a year of transition and achievement. Once again, we confronted the challenges of a major patent expiration—in this instance, our U.S. Cymbalta® patent in December. At the same time, we completed four major regulatory filings for new products, a record for our company.

Looking ahead, 2014 represents the most challenging year of this period—which we've called "YZ"—when we lose patent protection on several of our largest products, culminating with Evista® in March. But we have prepared for this challenge and are positioned to return to growth and expanding margins in 2015 and beyond.

Indeed, we view 2014 as a new beginning for Lilly when we start to emerge from YZ with the anticipated launch of three new medicines. The prospect of these launches—with more to follow in 2015—represents the fruit of our innovation-based strategy and is a testament to the thousands of Lilly people who have performed so well through this challenging period.

Since I became CEO in 2008, I've been candid about both our challenges and our opportunities, as we have reaffirmed Lilly's commitment to innovation as our best path forward to create value for patients, physicians, payers—and for shareholders.

We've undertaken extensive efforts to transform our company to address not only the challenge of patent expirations, but also the demands of patients and payers alike for greater value from medicine. We've delivered on our commitments, we've adjusted to complications encountered along the way, and we've positioned the company to bridge one of the most significant patent cliffs in the industry—while remaining independent.

We've also successfully rebuilt our late-stage pipeline. The four potential medicines we submitted this past year for regulatory review include three to treat diabetes—dulaglutide, empagliflozin, and our new insulin glargine product—as well as ramucirumab as a single-agent treatment in advanced gastric cancer. In 2014, we expect to submit necitumumab for squamous non-small cell lung cancer, as well as additional indications for ramucirumab.

After a brief review of 2013 results, I'll focus on the two therapeutic areas where we expect to launch new medicines this year—diabetes and oncology—which represent key areas of growth for Lilly in the years ahead. And I'll review our broad research efforts to sustain progress in our pipeline.

2013 Results

In 2013, revenue increased 2 percent to $23.1 billion—following the loss of U.S. exclusivity for Cymbalta in the fourth quarter. Even while we increased R&D spending by 5 percent, total operating expenses decreased 1 percent due to lower selling and marketing expenses. Reported net income increased 15 percent, and earnings per share increased 18 percent.

Eight of our products and our Elanco animal health business exceeded $1 billion in annual sales. Japan and China delivered double-digit volume increases, and Elanco continued to exceed overall industry growth. This strong performance, combined with our discipline in managing costs, generated $5.7 billion of operating cash flow, covering capital expenditures of $1 billion and allowing the company to return approximately $3.8 billion in cash to shareholders through the dividend and our share repurchase program.

Creating an Unmatched Portfolio of Diabetes Medicines

In 2013, Lilly took important steps to further address the growing global epidemic of diabetes. A long-time leader in insulins with Humulin® and Humalog®, Lilly is developing a portfolio of diabetes medicines with unmatched breadth, including insulins, other injectable treatments, and oral

(continued on page 4)

Determination Leads to Growth in China

Lilly's first office outside the United States was opened in Shanghai almost a century ago in 1918. Lilly renewed its commitment to China in 1993, establishing our affiliate with 13 employees. Today, the number of Lilly employees in China is about 4,000—more than in any other country outside the U.S. We've tripled our sales force since 2008, while expanding our investment in manufacturing and research.

We opened our first manufacturing facility in Suzhou in 1998 and a second in 2011. In late 2013, we announced a $350 million expansion of our second site in Suzhou to manufacture insulin for the Chinese market. In 2011, we established our China R&D head office in Shanghai, and the following year we opened the Lilly China Research and Development Center to focus specifically on type 2 diabetes in China. In addition, our Elanco animal health business invested $100 million in China Animal Healthcare Ltd. in 2013.

Lilly sales in China grew 12 percent in 2013, driven entirely by volume growth, and we have tripled revenues there since 2008. We expect strong revenue growth to continue this year in China—projected to become the world's second-largest market for pharmaceuticals by 2016.

Gathered with leaders from Lilly China outside its headquarters in Shanghai, John C. Lechleiter, Ph.D., Chairman, President, and Chief Executive Officer (center), displays a similar photograph that was taken in the 1920s at a location not far from the current site. J. K. Lilly, Sr., is at the center.

medicines. We believe no other company will be better positioned to meet the needs of people with diabetes across the treatment spectrum. (*See page 8.*)

In January 2011, Lilly entered into a global alliance with Boehringer Ingelheim to jointly develop and commercialize two new oral diabetes therapies: Trajenta®, the oral DPP-4 inhibitor we launched in 2011—now approved in more than 60 countries—and empagliflozin, an SGLT-2 inhibitor. The Lilly-BI partnership also includes Lilly's new insulin glargine product.

In addition to the products in the alliance, Lilly is advancing our basal insulin peglispro and our GLP-1 receptor agonist, dulaglutide—further expanding the potential reach of our portfolio.

Even as we continue to deliver solid performance with our marketed products, we can take full advantage of our existing commercial footprint as we launch as many as four new diabetes medicines in the next two to three years.

Empagliflozin was submitted for regulatory approval in the U.S., Europe, and Japan in 2013. We're encouraged by the data from three Phase III studies which all met their primary objectives. We observed statistically significant reductions in HbA1c, a measure of average blood glucose, and we also saw decreases in body weight and reductions in systolic blood pressure.

Dulaglutide was submitted in late 2013 in the U.S. and Europe. We've completed six Phase III trials; dulaglutide 1.5 mg was superior to comparator drugs in lowering HbA1c in five trials, and met the primary endpoint of non-inferiority in the sixth. Further, in the three trials presented to date, we've shown that the percent of patients achieving the American Diabetes Association goal for HbA1c was significantly greater than the comparators. Patients taking dulaglutide 1.5 mg also showed weight loss for the duration of those trials.

In combination with our ready-to-use pen delivery device, we believe once-a-week dulaglutide will be a very competitive entry in the GLP-1 market.

In addition to empagliflozin and dulaglutide, we have two basal insulins in late-stage development.

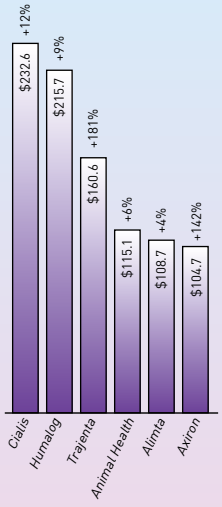
In partnership with Boehringer Ingelheim, we submitted our new insulin glargine product in the U.S., Europe, and Japan in 2013. In addition, Lilly's next-generation basal insulin, basal insulin peglispro, is currently in Phase III trials. If the studies are successful, we could submit basal insulin peglispro to regulatory authorities as early as this year.

While we believe each of our potential new diabetes medicines will offer important benefits, it is our comprehensive portfolio that gives Lilly a unique opportunity to help people with diabetes meet their needs, while contributing significantly to Lilly's return to growth post-2014.

Key Contributors to 2013 Revenue Growth

($ in millions represent growth in revenue, percent growth)

Five products and a product line—Cialis, Humalog, Trajenta, Alimta, Axiron, and Animal Health—together generated revenue growth of $937 million during 2013 over 2012. This growth was driven primarily by volume increases.



Building on Lilly Leadership in Oncology

We also reached key milestones last year in oncology, an important area of focus for our company. The unmet need is huge: It's estimated that, over a lifetime, cancer will strike one of every two men and one of every three women in the United States. We believe that, with our existing products Alimta® and Erbitux®, our late-stage molecules ramucirumab and necitumumab—both of which came from our acquisition of ImClone in 2008—and our early- to mid-phase pipeline, we are well-positioned to continue to be a leader in oncology for many years to come.

Ramucirumab, which could launch this year, has shown positive results in two Phase III trials in patients with advanced gastric cancer. This is a devastating disease with no approved standard of care in the U.S. or Europe.

In 2013, based on data from the REGARD trial, we completed regulatory submissions in the U.S. and Europe for ramucirumab as a single-agent biologic therapy in patients with advanced gastric cancer. Based upon the results of the RAINBOW trial, we also intend to submit an application for ramucirumab in combination with chemotherapy in the first half of 2014.

We recently announced that ramucirumab improved overall survival in patients with non-small cell lung cancer (NSCLC) when combined with chemotherapy in a Phase III trial. We intend to submit the first regulatory application for ramucirumab in NSCLC later this year.

In addition, we have ongoing Phase III ramucirumab trials, expected to read out this year, in liver and colorectal cancer. Depending on the trial data, we could submit the liver cancer indication to regulators before the end of 2014. It's important to note that a Phase III study of ramucirumab in breast cancer did not meet its primary endpoint.

Along with ramucirumab, we announced positive Phase III results in 2013 for necitumumab, a fully-human monoclonal antibody. Necitumumab demonstrated increased overall survival as a first-line treatment when patients with stage IV metastatic squamous NSCLC were administered necitumumab in combination with chemotherapy, versus chemotherapy alone.

We believe that necitumumab represents an important milestone for patients with squamous NSCLC—30 percent of all NSCLC patients. This is a difficult-to-treat disease for which there have been very limited advances in the last two decades.

We anticipate submitting necitumumab to regulatory authorities before the end of 2014. If approved, necitumumab would be the first biologic agent approved to treat squamous NSCLC—adding to Lilly's leadership in lung cancer treatment. (*See page 10.*)

Sustaining Discovery and Growth

Although I've highlighted late-stage progress in diabetes and oncology, our commitment to innovation extends to all phases of pharmaceutical development, and to every facet of our efforts to bring better medicines to people who need them.

While it might have been easier to slash research and development going into YZ, we stayed the course. And even though our R&D spending is declining in 2014 as the result of our winding down a number of Phase III programs, we still maintain a ratio of R&D to sales that ranks among the highest in the industry.

And for good reason: these investments are paying off. As recently as 2004, we had a total of seven molecules in Phases II and III combined. Today, we have 12 molecules in Phase III or submission stage, and 25 more in Phase II. (*See page 12.*) This year we have the potential to initiate Phase III studies for two new molecules: our CDK 4/6 inhibitor for cancer and blosozumab for osteoporosis.

We anticipate internal Phase III data readouts in 2014 on three potential medicines in autoimmune disease—ixekizumab in psoriasis, tabalumab in lupus, and baricitinib in rheumatoid arthritis.

In another addition to our biotech pipeline, Lilly entered into a collaboration with Pfizer Inc. to co-develop and jointly commercialize tanezumab, a monoclonal antibody being investigated to treat moderate-to-severe chronic osteoarthritis pain, chronic low back pain, and cancer-related bone pain.

And at year-end, we acquired all development and commercial rights from Arteaus Therapeutics for a CGRP antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches.

Our agreement with Arteaus is a product of the Capital Funds Portfolio—an alternative R&D model pioneered by Lilly and our venture capital partners to facilitate early-stage development. The Capital Funds Portfolio is an outgrowth of the FIPNet model we've pursued for over a decade to expand innovation beyond our own walls.

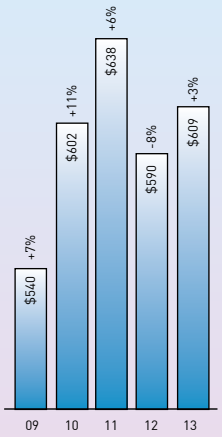
The portfolio includes virtual "Project Focused Companies" (PFCs) such as Arteaus, created through partnerships with VC firms. Each PFC is formed around a particular molecule, which may have come from Lilly (as did the CGRP antibody), another pharma company, a biotech firm, or academia. The PFC is a vehicle for critical funding that enables molecules to advance through clinical proof of concept.

This strategy provides a unique way to access molecules, share risks, and expand funding to develop potential new medicines. We're leaving no stone unturned in our efforts to discover innovative medicines and bring them to patients.

Revenue Per Employee

($ thousands, percent growth)

In 2013, we improved productivity as revenue per employee increased 3 percent to $609,000.



Determination—Our Past and Our Future

Over four years ago we laid out clear goals to address the challenging YZ period, and we put a plan in place to achieve them. We're executing on that plan—and we've delivered results.

In the process, we've transformed our company. Today, we are stronger, more resilient, and more effective—better positioned to succeed in an ever-more-challenging global environment. And we intend to build on our momentum.

Advancing our pipeline will continue to be our top priority. And even as we deploy the resources necessary to launch a series of new medicines in the years ahead, we are determined to sustain the flow of innovation through our pipeline.

The progress we've made through the YZ period, and the opportunity we have to turn the corner starting this year, are all thanks to the hard work of my Lilly colleagues and their determination to bring important new medicines to patients. I particularly want to recognize Jacques Tapiero and Liz Klimes—members of our leadership team who each served Lilly for 31 years and retired at the end of 2013—and Chito Zulueta, who succeeds Jacques to lead our Emerging Markets business.

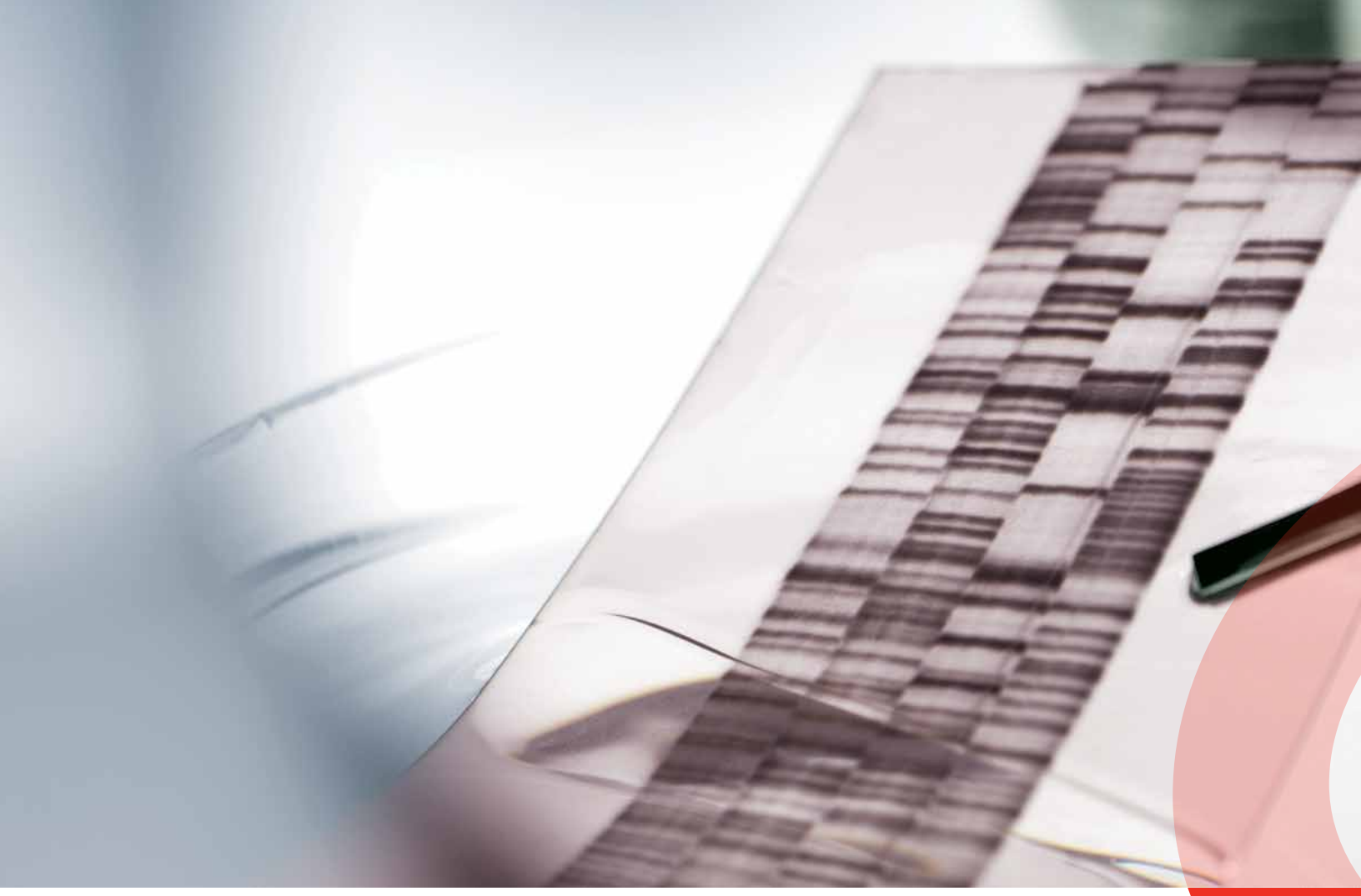
And let me offer special thanks to our CFO, Derica Rice, who served as acting CEO during my absence for surgery in the spring, and to Ellen Marram, the board's lead independent director, who served as acting chairperson of the board of directors during that time.

Through the course of my surgery and the recovery that followed, I personally experienced the importance of the work we do at Lilly. I received literally dozens of medications, each of which played an important role in reducing the risk of potential complications following surgery and helping me recover and regain the full health that I enjoy today.

The people of Eli Lilly and Company are proving that determination does indeed lead to discovery—and to growth. We intend to seize the compelling opportunities before us to realize our mission of improving people's lives and to grow our business for the benefit of all of our stakeholders. We are grateful for your support.

For the Board of Directors,

John C. Lechleiter, Ph.D.
Chairman, President, and Chief Executive Officer



Determination Leads to Discovery

Eli Lilly and Company was founded more than a century ago by a man committed to creating high-quality medicines based on the best science of the day, and today we remain true to that mission in all our work.

In recent years, while other pharmaceutical companies were cutting R&D, Lilly stuck to our innovation-based strategy. Despite the financial pressures during the YZ period of patent expiries on a number of major products, we sustained investment in R&D and—as a result of that determined effort—we successfully rebuilt our late-stage pipeline of potential new medicines.

This is our heritage: the world's first commercially available insulin product...the first mass production of penicillin and, later, of the polio vaccine…important new classes of antibiotics in the 1950s through 1980s…Humulin®, the world's first human health care product created using recombinant DNA technology …Prozac®, which revolutionized the treatment of depression…further advances in neuroscience—Zyprexa® and Cymbalta®, both among only 20 medicines ever to reach $5 billion in annual sales…new treatments for cancer, from Velban® in the 1960s, to Gemzar® in the 1990s, to Alimta® in the 2000s …and more—making life better for people around the world.

On the following pages, we highlight how the determined efforts of Lilly people have led to advances against two devastating diseases—diabetes and cancer—and how we're building on this legacy of discovery as we prepare to launch potential new medicines in these key therapeutic areas over the coming year.

"Research is the heart of the business, the soul of the enterprise."

These are the words of Eli Lilly, president of Eli Lilly and Company, 1932–1948, and grandson of the founder. What "Mr. Eli" recognized in 1946 is still true today.

Eli Lilly Keeps the Faith on R&D, Spending More as Rivals Pull Back

By Peter Loftus

INDIANAPOLIS–As his competitors scale back their research-and-development spending ... Chief Execu-

Drug Trends

Eli Lilly's annual sales and research-and-development expenses since 2008

your revenue," says Les Funtleyder, health-care strategist at Poliwog, a New York investment firm.

Other big drug makers have ... response to

The Wall Street Journal, October 21, 2013

Expanding Our Portfolio to Help People Manage Their Diabetes

At the beginning of the last century, diabetes was as deadly as it had been throughout human history. In 1922, Eli Lilly and Company entered into a collaboration with the University of Toronto, where the now-famous research of Banting and Best had demonstrated that diabetes could be effectively treated with insulin. Lilly technical advances led to large-scale insulin production, and we introduced Iletin, the world's first commercially available insulin product, in 1923.

The most significant advance in diabetes care since that time was marked by Lilly's 1982 introduction of Humulin, an insulin identical to that produced by the human body. The first insulin analog, Humalog®, followed in 1995.

While insulin was a medical breakthrough, today diabetes is a worldwide epidemic. If current trends persist in the United States, by 2050 an astonishing one in three adults will develop diabetes. Adding to the problem is the challenge of controlling the disease. Currently, only about one in seven U.S. adults with diabetes is meeting the combined goals set by the American Diabetes Association for blood sugar, blood pressure, and cholesterol.

Today, Lilly is building a broad portfolio of diabetes medicines, including oral medicines, GLP-1 receptor agonists, and insulins. By offering options in each of these areas, Lilly will be uniquely positioned to help with one of the key challenges facing people with diabetes—changing or adding medicine as the disease progresses.

Our partnership with Boehringer Ingelheim allows us to expand our portfolio into oral therapies. Trajenta®, an oral DPP-4 inhibitor, was launched in 2011, and empagliflozin, an SGLT-2 inhibitor, was submitted for regulatory review in 2013.

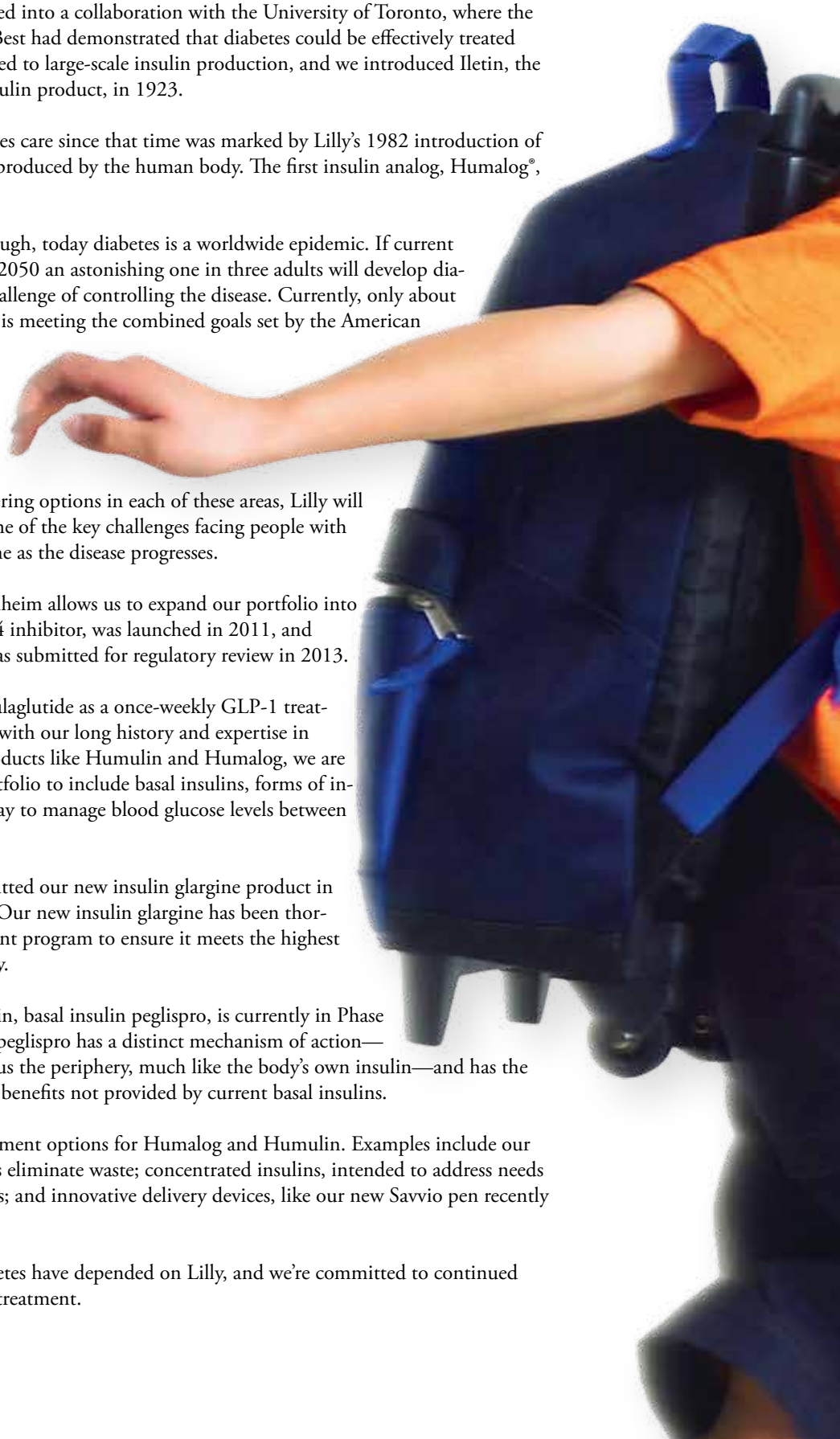
We anticipate approval this year for dulaglutide as a once-weekly GLP-1 treatment for type 2 diabetes. In addition, with our long history and expertise in insulins, and with groundbreaking products like Humulin and Humalog, we are looking forward to expanding our portfolio to include basal insulins, forms of insulin present in the body 24 hours a day to manage blood glucose levels between meals, including overnight.

With Boehringer Ingelheim, we submitted our new insulin glargine product in the U.S., Europe, and Japan in 2013. Our new insulin glargine has been thoroughly studied in a clinical development program to ensure it meets the highest standards of efficacy, safety, and quality.

And Lilly's next-generation basal insulin, basal insulin peglispro, is currently in Phase III trials. We believe our basal insulin peglispro has a distinct mechanism of action—working preferentially in the liver versus the periphery, much like the body's own insulin—and has the potential to offer people with diabetes benefits not provided by current basal insulins.

We also continue to develop new treatment options for Humalog and Humulin. Examples include our small vials, which are helping hospitals eliminate waste; concentrated insulins, intended to address needs of patients requiring high insulin doses; and innovative delivery devices, like our new Savvio pen recently launched in Europe.

For nearly a century, people with diabetes have depended on Lilly, and we're committed to continued leadership in diabetes innovation and treatment.



Summer camps for children with type 1 diabetes can help them discover that they are not alone while learning critical diabetes self-management skills—and having fun. For many years, Lilly has provided camps with insulin, supplies, and camper backpacks, as well as scholarships, motivational speakers, and educational resources for kids and parents.

An individual with diabetes will average more than six medication changes over a lifetime as the disease progresses. Lilly scientists are working to provide a full spectrum of options—from insulins, to other injectable treatments, to oral medicines—to help people manage their diabetes.

The inspiration for the sculpture in Lilly's headquarters lobby (below, left) is the 1922 photo of a mother and her three-year-old who weighed just 15 pounds before he took Lilly insulin. The same child—who weighed 29 pounds after two months of treatment—is pictured on the right.

An Evolving Effort Against a Tenacious and Deadly Foe—Cancer

In the early 1960s, Lilly played a key role in one of the first cancer chemotherapies: the vinca alkaloids.

Lilly researcher Gordon Svoboda found that an extract of the periwinkle plant could prolong the life of mice infected with leukemia. Svoboda's team isolated four of the plant's alkaloid molecules—out of 90—that had active antitumor properties. In 1958, the Lilly team began a collaboration with researchers at the University of Western Ontario who had crystallized a particular vinca alkaloid that seemed to have pronounced anticancer qualities.

The result was Velban®, which Lilly introduced commercially in 1961 as a treatment for Hodgkin's disease and choriocarcinoma. In 1963, Lilly introduced yet another periwinkle alkaloid-derived product, Oncovin®—a breakthrough in treating acute childhood leukemia.

The vinca alkaloids are still used as components of important cancer treatment regimens that have proven to be curative in some forms of the disease.

Today, we continue our work to find new cancer treatments. In late 2008, we acquired ImClone, which enhanced our oncology pipeline and complemented our ongoing oncology research efforts.

In 2013, we reported positive results in Phase III trials of two molecules that came from the ImClone acquisition. We submitted ramucirumab for approval in the U.S. and Europe for patients with advanced gastric cancer, commonly known as stomach cancer. And we announced results of a Phase III study in which necitumumab demonstrated increased overall survival in combination with chemotherapy, as a first-line treatment for metastatic squamous non-small cell lung cancer (NSCLC).

The global incidence of cancer will increase from an estimated 14 million new cases in 2012 to 22 million new cases a year within the next two decades, according to the World Health Organization. Lilly's ongoing clinical efforts seek to address tumors with high unmet needs, including lung, stomach, and colorectal cancers.

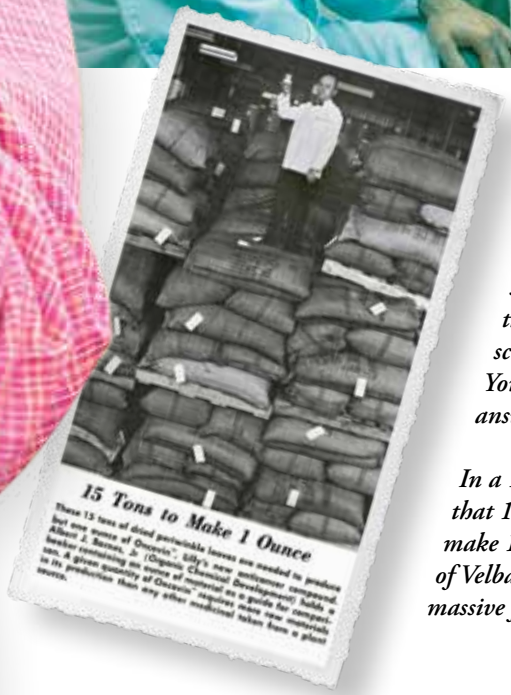
Across tumor types, lung cancer—the most prevalent cancer and biggest killer—continues to be a key area of focus for Lilly. Our efforts in lung cancer date from the ’90s with Gemzar, which is approved for treatment of NSCLC as well as other tumor types.

With Alimta, first approved in 2004 for the treatment of mesothelioma, we’ve changed the way NSCLC is treated. Alimta was the first chemotherapy agent approved specifically for nonsquamous NSCLC—and the first to be approved for maintenance treatment after initial chemotherapy. Today, Alimta is the leading product for the treatment of first-line advanced nonsquamous NSCLC, with shares ranging from nearly 40 percent to over 70 percent in the countries around the world.

Data from Phase III trials of necitumumab—announced last year—and ramucirumab—announced in early 2014—underscore Lilly’s continued leadership in thoracic oncology.

Based on these results, we anticipate submissions this year for review of necitumumab as a first-line treatment for squamous NSCLC, and ramucirumab in second-line NSCLC, including squamous and nonsquamous histologies.

In the half-century since Lilly introduced Velban, we’ve seen significant progress in cancer treatment, and today we’re taking advantage of an explosion of scientific knowledge to fight this complex and tenacious foe.



15 Tons to Make 1 Ounce

There 15 tons of dried periwinkle leaves are needed to produce just one ounce of Oncovin®, Lilly's new antitumor compound. Robert J. Barnes, Jr. (Organic Chemical Development) holds a beaker containing an ounce of material as a guide for comparison. A green quality of Oncovin® requires more raw material in its production than any other medicinal taken from a plant source.

Progress in treating lung cancer has been incremental, but steady, amounting to an additional nine months in mean overall survival since the 1980s for patients with the nonsquamous form of the disease. Lilly scientists at our labs in Indianapolis, New York, and San Diego continue to seek new answers to this devastating disease.

In a 1963 photo, a Lilly scientist demonstrates that 15 tons of periwinkle plants were required to make 1 ounce of Velban. To ensure a steady supply of Velban, Lilly cultivated periwinkle plants on massive farms in Texas.

PIPELINE OF MOLECULES IN CLINICAL DEVELOPMENT

New Chemical Entity

New Biotech Entity

Diagnostic

*Commercial collaboration

REGULATORY REVIEW

***Empagliflozin** diabetes	***New insulin glargine product** diabetes	**Ramucirumab** solid tumors	**Dulaglutide** diabetes

PHASE III

Baricitinib rheumatoid arthritis	**Tabalumab** lupus	**Evacetrapib** high-risk vascular disease	**Basal insulin peglispro** diabetes	**Ixekizumab** psoriasis/PsA	**Necitumumab** squamous NSCLC
Solanezumab Alzheimer's disease	***Tanezumab** pain				

PHASE II

PCSK9 MAb cardiovascular disease	**TGF-α/ epiregulin MAb** chronic kidney disease	**Glucagon-R antagonist** diabetes	**Florbenazine imaging agent** Parkinson's disease	**TGF-ß MAb** chronic kidney disease	**CGRP MAb** migraine prevention
Blosozumab osteoporosis	**Myostatin MAb** disuse atrophy	**NOC-1 antagonist** depression	**DKK-1 MAb** cancer	**Tau imaging agent** Alzheimer's disease	**Chk1 inhibitor** cancer
JAK2 inhibitor cancer	**c-Met inhibitor** cancer	**c-Met MAb** cancer	**GSK3ß inhibitor** cancer	**CDK 4/6 dual inhibitor** cancer	**Icrucumab** cancer
TGF-ßR1 inhibitor cancer	**Olaratumab** cancer	**FGF receptor inhibitor** cancer	**Edivoxetine** CNS disorder	**Hedgehog/SMO antagonist** cancer	**CXCR4 peptide antagonist** cancer
p38 MAP kinase inhibitor cancer					

PHASE I

chronic kidney disease	**Ferroportin MAb** anemia	diabetes	**mGlu2 agonist** CNS disorder	**N3pG-Aß MAb** Alzheimer's disease	diabetes
diabetes	diabetes	**Oxyntomodulin peptide** diabetes	**NOTCH inhibitor** cancer	**P13 kinase/mTOR dual inhibitor** cancer	**Pomaglumetad** CNS disorder
CSF-1R MAb cancer	lupus	**Hepcidin MAb** anemia	Crohn's disease	**mGlu2/3 agonist** chronic pain	**VEGFR-3 MAb** cancer
p70S6/AKT dual inhbitor cancer	muscle atrophy	**TGF-ßR2 MAb** cancer	hypertension	**Pan-Raf inhibitor** cancer	**EP4-R antagonist** osteoarthritic pain

The Lilly pipeline currently includes 61 molecules in clinical development. In 2004, we had a total of seven assets in Phase II and Phase III combined. Today, we have 12 molecules in Phase III or submission stage, and 25 more in Phase II. In 2013, we saw positive Phase III results for five potential new medicines, and we submitted four—a record for Lilly—for regulatory approval. We could launch as many as three new medicines this year, and we anticipate additional regulatory submissions this year as well.

Since our last annual report, ten new molecules advanced into Phase I testing, seven advanced into Phase II testing, and one, tanezumab, entered Phase III in our portfolio, as a result of our agreement with Pfizer to co-develop and commercialize this molecule. We terminated development of 17 molecules and discontinued Phase III trials in depression for edivoxetine, which is still being investigated in Phase II for multiple central nervous system disorders. Additional information and updates are available on the Lilly Interactive Pipeline at www.lilly.com.

In 2013, Elanco delivered 134 country level approvals. This included important advancements in new geographies and new areas of focus for Elanco, including Western Europe, emerging markets, dairy, diagnostics, and vaccines. Other products augmented the company's companion animal parasiticide franchise while continued food animal innovation assures our ability to meet rapidly growing demand for animal protein.

Information is current as of February 14, 2014. The search for new medicines is risky and uncertain, and there are no guarantees. Remaining scientific and regulatory hurdles may cause pipeline compounds to be delaed or to fail to reach the market.

Forward-Looking Statements

This Annual Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). 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 Financial Condition and Results of Operations” 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:

- the timing of anticipated regulatory approvals and launches of new products;
- market uptake of recently launched products;
- competitive developments affecting current products;
- 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 governmental actions regarding pricing, importation, and reimbursement for pharmaceuticals, including U.S. health care reform;
- 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 involving current or future products as we are self-insured;
- unauthorized disclosure of trade secrets or other confidential data stored in our information systems and networks;
- changes in tax law;
- changes in inflation, interest rates, and foreign currency exchange rates;
- asset impairments and restructuring charges;
- changes in accounting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC);
- acquisitions and business development transactions; and
- the impact of exchange rates and 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 two business segments—human pharmaceutical products and animal health products.

The mission of our human pharmaceutical business is to make medicines that help people live longer, healthier, more active lives. Our strategy is to create value for all our stakeholders by accelerating the flow of innovative new medicines that provide improved outcomes for individual patients. 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, develop, and bring to market innovative new medicines.

Our animal health business, operating through our Elanco division, develops, manufactures, and markets products for both food animals and companion animals.

We manufacture and distribute our products through facilities in the United States, Puerto Rico, and 11 other countries. Our products are sold in approximately 120 countries.

Human Pharmaceutical Products

Our human pharmaceutical products include:

Endocrinology products, including:

- *Humalog*®, *Humalog Mix 75/25*™, and *Humalog Mix 50/50*™, insulin analogs for the treatment of diabetes
- *Humulin*®, human insulin of recombinant DNA origin for the treatment of diabetes
- *Trajenta*®, an oral medication for the treatment of type 2 diabetes
- *Jentadueto*®, a combination tablet of Trajenta and metformin hydrochloride for use in the treatment of type 2 diabetes
- *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
- *Evista*®, for the prevention and treatment of osteoporosis in postmenopausal women and for the reduction of the risk of invasive breast cancer in postmenopausal women with osteoporosis and postmenopausal women at high risk for invasive breast cancer
- *Humatrope*®, for the treatment of human growth hormone deficiency and certain pediatric growth conditions
- *Axiron*®, a topical solution of testosterone, applied by underarm applicator, for replacement therapy in men for certain conditions associated with a deficiency or absence of testosterone.

Neuroscience products, including:

- *Cymbalta*®, for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and in the U.S. for the management of fibromyalgia and of chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis
- *Zyprexa*®, for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance
- *Strattera*®, for the treatment of attention-deficit hyperactivity disorder
- *Prozac*®, for the treatment of major depressive disorder, obsessive-compulsive disorder, bulimia nervosa, and panic disorder
- *Amyvid*®, a radioactive diagnostic agent approved in 2012 in the U.S. and 2013 in the European Union (EU) for positron emission tomography (PET) imaging of beta-amyloid neuritic plaques in the

brains of adult patients with cognitive impairment who are being evaluated for Alzheimer's disease and other causes of cognitive decline.

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
- *Erbitux®,* indicated both as a single agent and with another chemotherapy agent for the treatment of certain types of colorectal cancers; and as a single agent or in combination with radiation therapy for the treatment of certain types of head and neck cancers
- *Gemzar®,* for the treatment of pancreatic cancer; in combination with other agents, for the treatment of metastatic breast cancer, NSCLC, and advanced or recurrent ovarian cancer; and in the EU for the treatment of bladder cancer.

Cardiovascular products, including:

- *Cialis®,* for the treatment of erectile dysfunction and benign prostatic hyperplasia (BPH)
- *Effient®*, for the reduction of thrombotic cardiovascular events (including stent thrombosis) in patients with acute coronary syndrome who are managed with an artery-opening procedure known as percutaneous coronary intervention (PCI), including patients undergoing angioplasty, atherectomy, or stent placement
- *ReoPro®,* for use as an adjunct to PCI for the prevention of cardiac ischemic complications
- *Adcirca®,* for the treatment of pulmonary arterial hypertension.

Animal Health Products

Our products for food animals include:

- *Rumensin®,* a cattle feed additive that improves feed efficiency and growth and also controls and prevents coccidiosis
- *Posilac®*, a protein supplement to improve milk productivity in dairy cows
- *Paylean®* and *Optaflexx®,* leanness and performance enhancers for swine and cattle, respectively
- *Tylan®,* an antibiotic used to control certain diseases in cattle, swine, and poultry
- *Micotil®*, *Pulmotil®,* and *Pulmotil AC™,* antibiotics used to treat respiratory disease in cattle, swine, and poultry, respectively
- *Coban®, Monteban®,* and *Maxiban®*, anticoccidial agents for use in poultry
- *Surmax™* (sold as *Maxus™* in some countries), a performance enhancer for swine and poultry.

Our products for companion animals include:

- *Trifexis®,* a monthly chewable tablet for dogs that kills fleas, prevents flea infestations, prevents heartworm disease, and controls intestinal parasite infections
- *Comfortis®*, a chewable tablet that kills fleas and prevents flea infestations on dogs.

Marketing

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

Human Pharmaceuticals—United States

In the U.S., we distribute human pharmaceutical products principally through independent wholesale distributors, with some sales directly to pharmacies. In 2013, 2012, and 2011, three wholesale distributors in the U.S.—AmerisourceBergen Corporation, McKesson Corporation, and Cardinal Health, Inc.—each accounted for between 10 percent and 19 percent of our consolidated total revenue. No other distributor accounted for more than 10 percent of consolidated total revenue in any of those years.

We promote our major human pharmaceutical products in the U.S. through sales representatives who call upon physicians and other health care professionals. We advertise in medical journals, distribute literature and samples of certain products to physicians, and exhibit at medical meetings. In addition, we advertise certain products directly to consumers in the U.S., and we maintain websites with information about our major products. We supplement our employee sales force with contract sales organizations as appropriate to leverage our own resources and the strengths of our partners in various markets.

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

Human Pharmaceuticals—Outside the United States

Outside the U.S, we promote our human pharmaceutical products primarily through sales representatives. While the products marketed vary from country to country, endocrinology products constitute the largest single group in total revenue. Distribution patterns vary from country to country. In most countries, we maintain our own sales organizations, but in some smaller countries we market our products through independent distributors.

Human Pharmaceutical Marketing Collaborations

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

- We co-market Cymbalta in Japan with Shionogi & Co. Ltd.
- Evista is marketed in major European markets by Daiichi Sankyo Europe GmbH, a subsidiary of Daiichi Sankyo Co., Ltd. (Daiichi Sankyo).
- Erbitux is marketed in the U.S. and Canada by Bristol-Myers Squibb. We have the option to co-promote Erbitux in the U.S. and Canada. Outside the U.S. and Canada, Erbitux is commercialized by Merck KGaA. We receive royalties from Bristol-Myers Squibb and Merck KGaA.
- Effient is co-promoted with us by Daiichi Sankyo or affiliated companies in the U.S., major European markets, Brazil, Mexico, and certain other countries. We retain sole marketing rights in Canada, Australia, Russia, and certain other countries. Daiichi Sankyo retains sole marketing rights in Japan and certain other countries.
- Trajenta and Jentadueto are being jointly developed and commercialized with us by Boehringer Ingelheim pursuant to a collaboration agreement under which both parties contributed certain potential diabetes treatments in mid- and late-stage development to be jointly developed and commercialized by the parties.

Animal Health Products

Our Elanco animal health business unit employs field salespeople throughout the U.S. and has an extensive sales force outside the U.S. Elanco sells its products primarily to wholesale distributors. Elanco promotes its products primarily to producers and veterinarians for food animal products and to veterinarians for companion animal products. Elanco also advertises certain companion animal products directly to pet owners.

Competition

Our human pharmaceutical products compete globally with products of many other companies in highly competitive markets. Our animal health products compete globally with products of animal health care companies as well as pharmaceutical, chemical, and other companies that operate animal health businesses.

Important competitive factors for both human pharmaceutical and animal health products include effectiveness, safety, and ease of use; price and demonstrated cost-effectiveness; marketing effectiveness; and research and development of new products and processes. 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 human pharmaceutical and animal health products that provide improved outcomes and deliver value to payers, together with our ability to continuously improve the productivity of our operations in a highly competitive environment. There can be no assurance that our research and development efforts will result in commercially successful products, and it is possible that our products will 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 the EU, the regulatory approval process for human 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 human pharmaceutical loses its market exclusivity, it normally faces intense price competition from generic forms of the product. In many countries outside the U.S., intellectual property protection is weak and we must compete with generic or counterfeit versions of our products. Many of our animal health products also compete with generics.

Biosimilars

Some of our current products, including Humalog, Humulin, Erbitux, and ReoPro, and many of the new molecular entities 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 biologic for which marketing approval would be granted based on less than a full safety and efficacy package due to the physical/structural similarity of the biosimilar to an already-approved biologic as well as reliance on the finding of safety and efficacy of the already-approved product. Globally, governments have or are developing regulatory pathways to approve biosimilars as alternatives to innovator-developed biologics, but the patent for the existing, branded product 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.

Managed Care Organizations

The growth of MCOs in the U.S. is also a major factor in the competitive marketplace for human pharmaceuticals. It is estimated that approximately two-thirds of the U.S. population now participates in some version of managed care. MCOs can include medical insurance companies, medical plan administrators, health-maintenance organizations, Medicare Part D prescription drug plans, alliances of hospitals and physicians and other physician organizations. MCOs have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance to us.

To successfully compete for business with MCOs, we must often demonstrate that our products offer not only medical benefits but also cost advantages as compared with other medicines or other forms of care. As noted above, generic drugs are exempt from costly and time-consuming clinical trials to demonstrate their safety and efficacy and, as such, typically have lower costs than brand-name drugs. MCOs that focus primarily on the immediate cost of drugs often favor generics for this reason. Many governments also 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. The substitution must be made unless the prescribing physician expressly forbids it.

MCOs typically maintain formularies specifying which drugs are covered under their plans. Exclusion of a drug from a formulary can lead to its sharply reduced usage in the MCO patient population. Consequently, pharmaceutical companies compete aggressively to have their products included. Where possible, companies compete for inclusion based upon unique features of their products, such as greater efficacy, fewer side effects, or greater patient ease of use. A lower overall cost of therapy is also an important factor. Products that demonstrate fewer therapeutic advantages must compete for inclusion based primarily on price. We have been generally, although not always, successful in having our major products included on MCO formularies.

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 additional effective intellectual property protection in the form of data protection under pharmaceutical regulatory laws.

The patent protection anticipated to be of most relevance to human 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 the compounds are generally filed during the Discovery Research Phase of the drug discovery process, which is described in the "Research and Development" section of "Business." 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 is delayed during examination by the U.S. Patent and Trademark Office.
- Patent term restoration is a statutory right provided to U.S. patents that claim inventions subject to review by the U.S. Food and Drug Administration (FDA). A single patent for a human pharmaceutical product may be eligible for patent term restoration to make up for a portion of the time invested in clinical trials and the FDA review process. 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 may be extended for more than 14 years beyond FDA approval. Some countries outside the U.S. also offer forms of patent term restoration. For example, Supplementary Protection Certificates are sometimes available to extend the life of a European patent up to an additional five years. Similarly, in Japan, 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 human pharmaceuticals typically results in the loss of effective market exclusivity for the product, which can result in severe and rapid decline in sales of the product. However, in some cases the innovator company may be protected from approval of generic or other follow-on versions of a new medicine beyond the expiration of the compound patent through manufacturing trade secrets, later-expiring patents on methods of use or formulations, or data protection that may be available under pharmaceutical regulatory laws. 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 is five years in the U.S. (12 years for new biologics as described below), ten years in the EU, 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 (enacted in the U.S. in 2010), the FDA has the authority to approve similar versions (biosimilars) of innovative biologics. A competitor seeking

approval of a biosimilar must file an application to show its molecule is highly similar to an approved innovator biologic, address the challenges of biologics manufacturing, and include a certain amount of safety and efficacy data which the FDA will determine 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.

- 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. If granted, this “pediatric exclusivity” provides an additional six months, which are 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.
- Under the U.S. orphan drug law, a specific use of a drug or biological product 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 human pharmaceuticals varies widely. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization (WTO), more than 140 countries have now agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to patent owners. Because of TRIPs transition provisions, dispute resolution mechanisms, substantive limitations, and ineffectual implementation, it is difficult to assess when and how much we will benefit commercially from this protection.

Certain of our Elanco animal health products are covered by patents or other forms of intellectual property protection. In general, upon loss of effective market exclusivity for our animal health products, we have not experienced the rapid and severe declines in revenues that are common in the human pharmaceutical segment.

There is no assurance that the patents we are seeking will be granted or that the patents we hold would 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 sometimes 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.

Our Intellectual Property Portfolio

We consider intellectual property protection for certain products, processes, and uses—particularly those products discussed below—to be important to our operations. For many of our products, in addition to the compound patent, we hold other patents on manufacturing processes, formulations, or uses that may extend exclusivity beyond the expiration of the compound patent.

The most relevant U.S. patent protection or data protection for our larger or recently launched patent-protected marketed products is as follows:

- Alimta is protected by a compound patent (2016) plus pediatric exclusivity (2017), and a vitamin dosage regimen patent (2021) plus pediatric exclusivity (2022).
- Cialis is protected by compound and use patents (2017).
- Cymbalta was protected by a compound patent plus pediatric exclusivity until December 2013.
- Effient is protected by a compound patent (2017).
- Evista is protected by patents on the treatment and prevention of osteoporosis (March 2014).

- Humalog was protected by a compound patent until May 2013.
- Strattera is protected by a patent covering its use in treating attention deficit-hyperactivity disorder (2016) plus pediatric exclusivity (2017).
- Trajenta and Jentadueto are protected by a compound patent (2023), and Boehringer Ingelheim has applied for a patent extension to 2025 under the patent restoration laws.

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

- Alimta in major European countries (compound patent 2015, vitamin dosage regimen patent 2021) and Japan (compound patent 2015, patent covering use to treat cancer concomitantly with vitamins 2021)
- Cialis in major European countries (compound patent 2017)
- Cymbalta in major European countries (data package protection second half of 2014) and Japan (data package protection 2018)
- Zyprexa in Japan (compound patent 2015).

U.S. patent protection or data protection for our new molecular entities that have been submitted for regulatory review is as follows (additional information about these molecules is provided in "Management's Discussion and Analysis—Late-Stage Pipeline"):

- Dulaglutide - compound patent 2024 (not including possible patent extension)
- Empagliflozin - compound patent 2025 (not including possible patent extension)
- Ramucirumab - data package protection 12 years following approval
- Our new insulin glargine product has the same amino acid sequence as Sanofi-Aventis' Lantus ® and is not covered by any patent protection.

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

Patent Licenses

Most of our major products were discovered in our own laboratories and are not subject to significant license agreements. Two of our largest products, Cialis and Alimta, are subject to patent assignments or licenses granted to us by others.

- The compound patent for Cialis is the subject of a license agreement with GlaxoSmithKline (Glaxo), which assigns to us exclusively all rights in the compound. The agreement calls for royalties of a single-digit percentage of net sales. The agreement is not subject to termination by Glaxo for any reason other than a material breach by Lilly of the royalty obligation, after a substantial cure period.
- The compound patent for Alimta is the subject of a license agreement with Princeton University, granting us an irrevocable exclusive worldwide license to the compound patents for the lives of the patents in the respective territories. The agreement calls for royalties of a single-digit percentage of net sales. The agreement is not subject to termination by Princeton for any reason other than a material breach by Lilly of the royalty obligation, after a substantial cure period. Alimta is also the subject of a worldwide, nonexclusive license to certain patents owned by Takeda Pharmaceutical Company Limited. The agreement calls for royalties of a single-digit percentage of net sales in countries covered by a relevant patent. The agreement is subject to termination for material default and failure to cure by Lilly and in the event that Lilly becomes bankrupt or insolvent.

Patent Challenges

In the U.S., the Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch-Waxman Act, made a complex set of changes to both patent and new-drug-approval laws for human pharmaceuticals. Before the Hatch-Waxman Act, no drug could be approved without providing the FDA

complete safety and efficacy studies, i.e., a complete New Drug Application (NDA). The Hatch-Waxman Act authorizes the FDA to approve generic versions of innovative human pharmaceuticals (other than biologics) without such information by filing an Abbreviated New Drug Application (ANDA). In an ANDA, the generic manufacturer must demonstrate only "bioequivalence" between the generic version and the NDA-approved drug—not safety and efficacy.

Absent a patent challenge, the FDA cannot approve an ANDA until after 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 of the patents listed in the innovator's NDA are invalid or not infringed. This allegation is commonly known as a "Paragraph IV certification." The innovator must then file suit against the generic manufacturer to protect its patents. The FDA is then prohibited from approving the generic company's application for a 30- to 42-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 human pharmaceuticals. In addition, generic companies have shown an increasing willingness to launch "at risk," i.e., after receiving ANDA approval but before final resolution of their patent challenge. We are currently in litigation with numerous generic manufacturers arising from their Paragraph IV certifications challenging the vitamin dosage regimen patent for Alimta. For more information on this litigation, see "Financial Statements and Supplementary Data—Note 16, Contingencies."

Outside the United States, 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., and we expect this trend to continue. For more information on administrative challenges and litigation involving our Alimta vitamin dosage regimen patents in Europe, see "Financial Statements and Supplementary Data—Note 16, Contingencies."

Government Regulation

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 human pharmaceutical and animal health products are extensively regulated in all major world markets. We are required to 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. Animal health product regulations address the administration of the product in or on the animal, and in the case of food animal products, the impact on humans who consume the food as well as the impact on the environment at the production site. 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 is the FDA in the United States. Pursuant to the Federal Food, Drug, and Cosmetic Act, the FDA has jurisdiction over all of our human pharmaceutical products and certain animal health products 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 U.S. Department of Agriculture (USDA) and the U.S. Environmental Protection Agency also regulate some animal health products.

The FDA extensively regulates all aspects of manufacturing quality for human 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 European Medicines Agency (EMA) in the EU and the Ministry of Health, Labor and Welfare (MHLW) 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 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 human pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers and prescribers, 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, the FDA, the DOJ, and many of these other agencies have increased their enforcement activities with respect to pharmaceutical companies and increased the inter-agency coordination of enforcement activities. Several claims brought by these agencies against Lilly 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 human pharmaceuticals are employed by the government and the purchasers of human pharmaceuticals are government entities; therefore, our interactions with these prescribers and purchasers are subject to regulation under the FCPA. The SEC and the DOJ have increased their FCPA enforcement activities with respect to pharmaceutical companies.

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 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.

It is possible that we could become subject to additional 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 Affecting Human Pharmaceutical Pricing, Reimbursement, and Access

In the United States, government and government-funded healthcare programs often impose direct and indirect price controls. We are required to provide rebates to the federal government and respective state governments on their purchases of our human 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. Drug manufacturers are required to provide a discount of 50 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). Additionally, an annual fee is imposed on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs.

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 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 human pharmaceuticals based on the payers' assessments of comparative effectiveness and value. The U.S. has established the Patient Centered Outcomes Research Institute (PCORI), a federally-funded, private, non-profit corporation empowered to fund and disseminate comparative effectiveness research and build infrastructure for improved outcomes analysis. While PCORI has no authority to impose formulary changes directly in government-funded health programs, they are expected to drive an increase in CER studies which payers can use for formulary decisions and/or medical societies can use to inform medical guidelines development. Many countries outside of the U.S. use formal health technology assessment (HTA) processes to determine formulary placement and purchase price.

We cannot predict the extent to which our business may be affected by these or other potential future legislative or regulatory 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 human pharmaceutical products.

Research and Development

Our commitment to research and development dates back more than 100 years. Our research and development activities are responsible for the discovery and development of most of the products we offer today. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2013, we employed approximately 7,850 people in human pharmaceutical and animal health research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel. Our research and development expenses were $5.53 billion in 2013, $5.28 billion in 2012, and $5.02 billion in 2011.

Our human pharmaceutical research and development focuses on five therapeutic categories: cancer; endocrine diseases, including diabetes and musculoskeletal disorders; central nervous system and related diseases; autoimmune diseases; and cardiovascular diseases. However, we remain opportunistic, selectively pursuing promising leads in other therapeutic areas. We are also investing in molecules with multi-pathway pharmacological efficacy to expand the potential of our therapeutic portfolio. We have a strong biotechnology research program, with approximately half of our clinical-stage pipeline, and more than half of our late-stage pipeline, currently consisting of biotechnology molecules. In addition to discovering and developing new molecular entities, we seek to expand the value of existing products through new uses, formulations, and therapeutic approaches that provide additional value to patients. Across all our therapeutic areas, we are increasingly focusing our efforts on tailored therapeutics, seeking to identify and use advanced diagnostic tools and other information to identify specific subgroups of patients for whom our medicines—or those of other companies—will be the best treatment option.

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 human pharmaceutical products. We actively seek out external investments in research and technologies that hold the promise to 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.

Our Elanco animal health innovation strategy is focused on identifying and developing promising technologies and potential products from internal and external sources to meet unmet veterinary needs. Our animal health scientists also leverage discoveries from our human health laboratories to develop products to enhance the health and wellbeing of livestock and pets.

Human 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 12 to 15 years or longer. 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. After approval and launch of a product, we expend considerable resources on post-marketing surveillance and additional clinical studies to collect and understand the benefits and potential risks of medicines as they are used as therapeutics. The following describes in more detail the research and development process for human pharmaceutical products:

Phases of New Drug Development

- **Discovery Research 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. Molecules that have the desired effect on the target and meet other design criteria become "lead" molecules and move to the next phase of development. The probability of any one such lead molecule becoming a commercial product is extremely low.

- **Early Development Phase**

  The early development phase involves refining lead 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. The first human tests (often referred to as Phase I) are normally conducted in small groups of healthy volunteers to assess safety and find the potential dosing range. After a safe dose has been established, the drug is administered to small populations of patients (Phase II) to look for initial signs of efficacy in treating the targeted 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, typically less than 10 percent move on to the product phase. The early development phase normally takes several years to complete.

- **Product Phase**

  Product phase (Phase III) molecules have already demonstrated safety 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 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, the time to final marketing approval can vary from six 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 60 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 are potential therapies for diabetes, various cancers, Alzheimer's disease, pain, high-risk vascular disease, rheumatoid arthritis, lupus, psoriasis, and psoriatic arthritis. We are studying many other drug candidates in the earlier stages of development, including

molecules targeting various cancers, diabetes, Alzheimer's disease, depression, pain, migraine, bipolar disorder, anemia, cardiovascular disease, musculoskeletal disorders, renal diseases, lupus, and Crohn's disease. We are also developing new uses, formulations, or delivery methods for many of these molecules as well as several currently marketed products, including Axiron, Cialis, Effient, Humalog, and Trajenta. See "Management's Discussion and Analysis--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 materials principally from only one source. In the event one of these suppliers was unable to provide the materials or product, we generally have sufficient inventory to supply the market until an alternative source of supply can be implemented. 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.

We produce most of our products in our own facilities. Our principal active ingredient manufacturing occurs at four owned sites in the U.S. as well as owned sites in Ireland, Puerto Rico, and the United Kingdom. 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 should 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 take a variety of actions including a company-wide, comprehensive quality system, inventory management, and back-up sites.

However, human pharmaceutical and animal health 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 extended plant shutdowns at one of our own facilities, extended failure of a contract supplier, or extraordinary unplanned 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 to assure that the product meets all regulatory requirements and Lilly standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination. Additional assurance of quality is provided by a corporate quality-assurance group that audits and monitors all aspects of quality related to human pharmaceutical and animal health manufacturing procedures and systems in the parent company, subsidiaries and affiliates, and 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, or results of operations could be materially adversely affected by any of these risks.

- **Pharmaceutical research and development is very costly and highly uncertain; we may not succeed in developing or acquiring commercially successful products to replace revenues of products losing intellectual property protection.**

  There are many difficulties and uncertainties inherent in human 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 typically takes a decade or more and often costs well in excess of $1 billion. Failure can occur at any point in the process, including late in the process 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 necessary regulatory approvals and payer reimbursement, limited scope of approved uses, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies are establishing increasingly high hurdles for the efficacy and safety of new products; delays and uncertainties in the FDA approval process and the approval processes in other countries can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict sales growth rates of new products.

  We cannot state with certainty when or whether our products now under development will be approved or launched; 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 sales 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, financial position and prospects.

- **We face intense competition from multinational pharmaceutical companies, biotechnology companies, and lower-cost generic manufacturers.**

  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 versions of other products in the same therapeutic class as our branded products. See “Business—Competition,” 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 may result in rapid and severe declines in revenues.**

  A number of our top-selling human pharmaceutical products recently have 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 United States, as illustrated in the tables below:

Product	U.S. Revenues (2013) ($ in millions)	Percent of Worldwide Revenues (2013)	U.S. Patent / Data Protection
Cymbalta	$ 3,960.8	17%	Compound patent plus pediatric exclusivity December 2013
Humalog	1,521.4	7%	Compound patent May 2013
Alimta	1,209.1	5%	Compound patent plus pediatric exclusivity 2017; Vitamin dosage regimen patent plus pediatric exclusivity 2022
Cialis	942.8	4%	Compound patent 2017
Evista	772.0	3%	Use patents March 2014
Strattera	446.3	2%	Compound patent plus pediatric exclusivity 2017
Effient	376.9	2%	Compound patent 2017

Product	Revenues Outside U.S. (2013) ($ in millions)	Percent of Worldwide Revenues (2013)	Patent / Data Protection - Major Europe / Japan
Alimta	$ 1,493.9	6%	Major European countries: compound patent 2015, vitamin dosage regimen patent 2021 Japan: compound patent 2015, use patent to treat cancer concomitantly with vitamins 2021
Cialis	1,216.6	5%	Major European countries: compound patent 2017
Cymbalta	1,123.6	5%	Major European countries: data package protection 2014 Japan: data package protection 2018
Zyprexa	1,071.2	5%	Japan: Compound patent 2015

  For non-biological products, loss of exclusivity (whether by expiration or 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. For biological products (such as Humalog, Humulin, and Erbitux), loss of exclusivity may or may not result in the near-term entry of competitor versions (i.e., biosimilars) due to development timelines, manufacturing challenges, and/or uncertainties in the regulatory pathways for approval of the competitor versions. See “Management’s Discussion and Analysis—Executive Overview—Legal, Regulatory, and Other 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 or circumvented, our business will be adversely affected.**

  Our long-term success depends on our ability to continually discover, 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. In the U.S., the Hatch-Waxman Act provides generic companies powerful incentives to seek to invalidate our human pharmaceutical patents; as a result, we expect that our U.S. patents on major pharmaceutical products will be routinely challenged, and there can be no assurance that our patents will be upheld. We face

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 sales. 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 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 human pharmaceutical business is subject to increasing government price controls and other restrictions on pricing, reimbursement, and access for our drugs.**

  The continuing prominence of U.S. budget deficits as both a policy and political issue increases the risk that taxes, fees, rebates, or other federal measures that would further reduce pharmaceutical companies’ revenue or increase expenses may be enacted. Certain federal and state health care proposals, including state price controls, continue to be debated, and could place downward pressure on pharmaceutical industry sales or prices. The Medicare Independent Payment Advisory Board established under the Affordable Care and Patient Protection Act is empowered to recommend cost reduction policies under certain circumstances. These proposals, if implemented, could negatively affect revenues.

  International operations also are generally subject to extensive price and market regulations. Proposals for cost-containment measures are pending in a number of countries, including proposals that would directly or indirectly impose additional price controls, limit access to or reimbursement for our products, or reduce the value of our intellectual-property protection. Such proposals are expected to increase in both frequency and impact, given the pressures on national and regional health care budgets as a result of continued austerity measures being pursued in a number of countries and the desire to manage health expenses carefully even as economies recover. In addition, governments in many emerging markets are becoming increasingly active in expanding the country’s health care system offerings. Some governments may adopt a generics-only policy which reduces current and future access to our human pharmaceutical products. Others may use some of the approaches to restrict pricing, reimbursement and access outlined above.

  We expect pricing, reimbursement, and access pressures from both governments and private payers inside and outside the U.S. to become more severe. See “Business—Regulations Affecting Human Pharmaceutical Pricing, Reimbursement, and Access,” for more details.

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

  The marketing, promotional, and pricing practices of human pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to extensive regulation. Many companies, including Lilly, 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. It is possible that we could become subject to such investigations and that the outcome 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 pharmaceutical products can lead to product recalls and seizures, interruption of production leading to product shortages, and delays in the approvals of new products pending resolution of the issues. We are now operating under a Corporate Integrity Agreement with the Office of Inspector General of the U.S. Department of Health and Human Services that requires us to maintain comprehensive compliance programs governing our research, manufacturing, and sales and marketing of pharmaceuticals. A material failure to comply with the agreement could result in severe sanctions to the company. See “Business—Regulation of our Operations,” for more details.

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

  Human 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. 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 these sources may result in product label changes that could reduce the product's market acceptance and result in declining sales. Serious safety or efficacy issues that arise after approval for marketing 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 many product liability claims 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 primarily Byetta®, Darvon™, Prozac, and Actos®. See "Financial Statements and Supplementary Data—Note 16, Contingencies," for more information on our current product liability litigation. Because of the nature of pharmaceutical products, we could become subject to large numbers of product liability claims for these or other products in the future, which could require substantial expenditures to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for product liability insurance, we are self-insured for product liability losses for all our currently marketed products.

- **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 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 of pharmaceutical manufacturing capacity, it is possible that we could have difficulty meeting demand for new products. See "Business—Raw Materials and Product Supply," for more details.

- **We depend on information technology systems and infrastructure to operate our business; system inadequacies or operating failures could harm our business.**

  We rely to a large extent on the efficient and uninterrupted operation of complex information technology systems and networks, some of which are within the company and some of which are outsourced. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources, including energy or telecommunications failures, breakdowns, natural disasters, terrorism, war, computer malware or other malicious intrusions, and random attacks. To date, system interruptions have been infrequent and have not had a material impact on our consolidated results of operations. We have implemented extensive measures to prevent, respond to, and minimize the impact of system interruptions. However, there can be no assurance that these efforts will prevent future interruptions that would have a material adverse effect on our business.

- **Unauthorized disclosures of our trade secrets and other confidential data could impair our valuable intellectual property, harm our competitive position, and expose us to regulatory penalties.**

  A great deal of sensitive, confidential data is stored in our information systems and networks, including valuable trade secrets and intellectual property, corporate strategic plans, marketing plans, customer information, and personally identifiable information (such as employee and patient information). Some of this information is created, accessed, and/or maintained by third parties. The confidentiality of this information may be breached through malicious intrusions by private or governmental actors through human or electronic means, including "hacking" or "cyber-attacks," or through negligent or wrongful conduct by employees or others with permitted access to our systems and data. The rapid growth of social media exacerbates the risk of confidentiality breaches. Unauthorized disclosure of trade secret information could impair our ability to secure and maintain patent rights and cause us to lose other competitive advantages. Unauthorized disclosure of personally identifiable information could expose us to sanctions for violations of data privacy laws and regulations and could damage the public trust in our company. Breaches of our data security may be very difficult to detect, and once detected, their impact may be very difficult to assess. To date, the data security breaches of which we have become aware have been infrequent in occurrence and, to the extent we have been able to measure their financial impact on our consolidated results of operations, such impact has not been material. We have invested and

continue to invest to prevent, monitor, detect, and respond to data security breaches by strengthening our information technology systems, business processes, and training, and strengthening data protection requirements for third parties that hold our confidential information. However, despite these efforts, we expect data security breaches to continue, and there can be no assurance that these efforts will prevent data security breaches that would have a material adverse effect on our business.

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

  We utilize third parties, including suppliers, alliances with other pharmaceutical and biotechnology companies, and third-party service providers, for selected aspects of product development, the manufacture and commercialization of certain products, support for information technology systems, and certain financial transactional processes. Outsourcing these functions involves the risk that the third parties may not perform to our standards or legal requirements, may not produce results in a timely manner, may not maintain the confidentiality of our proprietary information, or may fail to perform at all. Failure of these third parties to meet their contractual, regulatory, confidentiality, or other obligations to us could have a material adverse effect on our business.

- **Our animal health segment faces risks related to generic competition, food and animal safety concerns, factors affecting global agricultural markets, and other risks.**

  The animal health operating segment may be impacted by, among other things, increased generic competition; emerging restrictions and bans on the use of antibacterials in food-producing animals; perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products; increased regulation or decreased governmental support relating to the raising, processing, or consumption of food-producing animals; an outbreak of infectious disease carried by animals; adverse weather conditions and the availability of natural resources; adverse global economic conditions affecting agricultural markets; and failure of the research and development, acquisition, and licensing efforts to generate new products. The failure to manage these risks could have a material adverse effect on our revenues.

- **Worsening economic conditions could adversely affect our business and operating results.**

  While human pharmaceuticals have not generally been sensitive to overall economic cycles, prolonged economic slowdowns could lead to decreased utilization of drugs, 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.

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

  Changes in tax laws, including laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates, and settlements of federal, state, and foreign tax audits, can affect our results of operations. The Obama administration has proposed changes to the manner in which the U.S. would tax the international income of U.S.-based companies. There have also been tax proposals under discussion or introduced in the U.S. Congress that could change the manner in which, and rate at which, income of U.S. companies would be taxed. While it is uncertain how the U.S. Congress may address U.S. tax policy matters in the future, reform of U.S. taxation, including taxation of international income, will continue to be a topic of discussion for the U.S. Congress and the Obama administration. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material adverse effect on our results of operations.

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

RESULTS OF OPERATIONS

Executive Overview

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

Financial Results

Worldwide total revenue increased 2 percent to $23.11 billion in 2013, driven by growth in several products, including Cialis®, Humalog®, Trajenta®, Alimta®, Forteo®, and animal health products, partially offset by the continued erosion of Zyprexa® sales following the loss of patent exclusivity in the U.S. and most major markets outside Japan. In 2013, net income increased 15 percent to $4.68 billion and EPS increased 18 percent to $4.32, compared to 2012 net income and EPS of $4.09 billion and $3.66, respectively. The increases were due to higher gross margin, lower marketing, selling, and administrative expenses, and, to a lesser extent, a lower effective tax rate, partially offset by higher research and development expenses and lower other income. EPS in 2013 also benefited from a lower number of shares outstanding compared to 2012 as a result of our share repurchase programs.

The following highlighted items affect comparisons of our 2013 and 2012 financial results:

2013

Collaborations (Note 4 to the consolidated financial statements)

- We recognized income of $495.4 million (pretax), or $0.29 per share, related to the transfer to Amylin Pharmaceuticals, Inc. (Amylin) of exenatide commercial rights in all markets outside the United States.

Acquired In-Process Research & Development (IPR&D) (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $57.1 million (pretax), or $0.03 per share, resulting from our acquisition of all development and commercial rights for a calcitonin gene-related peptide (CGRP) antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches, following a successful Phase II proof-of-concept study.

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

- We recognized charges of $120.6 million (pretax), or $0.08 per share, primarily related to severance costs for actions taken to reduce our cost structure and global workforce, as well as other costs associated with the anticipated closure of a packaging and distribution facility in Germany.

2012

Collaborations (Note 4 to the consolidated financial statements)

- We recognized income of $787.8 million (pretax), or $0.43 per share, related to the early payment of the exenatide revenue-sharing obligation following the completion of Amylin's acquisition by Bristol-Myers Squibb (BMS).

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

- We recognized asset impairment, restructuring, and other special charges of $281.1 million (pretax), or $0.16 per share, consisting of an intangible asset impairment related to liprotamase, restructuring charges related to initiatives to reduce our cost structure and global workforce, charges associated with the decision to stop development of a delivery device platform, and charges related to changes in returns reserve estimates for the withdrawal of Xigris™.

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 currently have approximately 60 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 submitted for regulatory review for potential use in the disease described. The quarter the NME initially was submitted for any indication is shown in parentheses:

Dulaglutide* (Q3 2013)—a long-acting analog of glucagon-like peptide 1 for the treatment of type 2 diabetes.

Empagliflozin (Q1 2013)—a sodium glucose co-transporter-2 (SGLT-2) inhibitor for the treatment of type 2 diabetes (in collaboration with Boehringer Ingelheim).

New insulin glargine product (Q2 2013)—a new insulin glargine product for the treatment of type 1 and type 2 diabetes (in collaboration with Boehringer Ingelheim).

Ramucirumab* (Q3 2013)—an anti-vascular endothelial growth factor receptor-2 (VEGFR-2) monoclonal antibody submitted for regulatory review as a single agent for the treatment of gastric cancer. We intend to submit an application for ramucirumab in combination with paclitaxel for the treatment of gastric cancer to regulatory authorities in 2014. We also intend to submit our first application for ramucirumab in combination with chemotherapy (docetaxel) in patients with second-line non-small cell lung cancer (NSCLC) to regulatory authorities in 2014. In addition, we are currently studying ramucirumab in Phase III studies for the treatment of liver cancer and colorectal cancer.

The following NMEs are currently in Phase III clinical trial testing for potential use in the diseases described. The quarter in which the NME initially entered Phase III for any indication is shown in parentheses:

Baricitinib (Q4 2012)—a Janus tyrosine kinase (JAK 1 and JAK 2) inhibitor for the treatment of rheumatoid arthritis (in collaboration with Incyte Corporation).

Basal insulin peglispro (formerly known as novel basal insulin analog)* (Q4 2011)—a novel basal insulin for the treatment of type 1 and type 2 diabetes.

Evacetrapib (Q4 2012)—a cholesteryl ester transfer protein (CETP) inhibitor for the treatment of high-risk vascular disease.

Ixekizumab* (Q4 2011)—a neutralizing monoclonal antibody to interleukin-17A (IL-17) for the treatment of psoriasis and psoriatic arthritis.

Necitumumab* (Q4 2009)—an anti-epidermal growth factor receptor (EGFR) monoclonal antibody for the treatment of squamous NSCLC.

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

Tabalumab* (Q4 2010)—an anti-B-cell activating factor (BAFF) monoclonal antibody for the treatment of systemic lupus erythematosus (lupus).

Tanezumab* (Q3 2008)—an anti-nerve growth factor monoclonal antibody for the treatment of osteoarthritis pain, chronic low back pain and cancer pain (in collaboration with Pfizer Inc. (Pfizer)). Tanezumab is currently subject to a partial clinical hold by the U.S. Food and Drug Administration (FDA) (see Note 4 to the consolidated financial statements).

* Biologic molecule subject to the U.S. Biologics Price Competition and Innovation Act

The following are late-stage pipeline updates since January 1, 2013:

Basal insulin peglispro—In January 2013, we announced plans for the 2013 and 2014 initiation of the remainder of the pre-planned clinical trials for the molecule. These studies will be conducted to support regulatory submissions and evaluate safety, efficacy, and differentiation of the molecule. These studies are in addition to the five ongoing IMAGINE clinical trials.

Dulaglutide—In April 2013, we announced that the Phase III AWARD-2 and AWARD-4 trials studying dulaglutide as an investigational once-weekly treatment for type 2 diabetes met the primary endpoints related to reduction in hemoglobin A1c (HbA1c) compared to insulin glargine, and that the 1.5 mg dose demonstrated statistically superior reduction in HbA1c from baseline compared to insulin glargine in both trials. In the third quarter of 2013, we filed for regulatory review in both the U.S. and Europe.

Edivoxetine—In December 2013, we announced the decision to stop development of edivoxetine as an add-on treatment for depression due to lack of efficacy in three acute randomized placebo-controlled Phase III studies. The decision was not based on safety concerns.

Empagliflozin—In January 2013, we announced positive top-line results for four completed Phase III clinical trials studying empagliflozin for treatment of patients with type 2 diabetes. In all four studies, the primary efficacy endpoint, defined as significant change in HbA1c from baseline compared to placebo, was met with empagliflozin (10 and 25 mg) taken once daily. The pivotal studies for empagliflozin were completed in 2012. In the first quarter of 2013, Boehringer Ingelheim filed for regulatory review in both the U.S. and Europe. The Boehringer Ingelheim manufacturing facility where empagliflozin is being produced is subject to an FDA warning letter; however, it is not clear if this will impact the timing of FDA action for empagliflozin. In the fourth quarter of 2013, Boehringer Ingelheim filed for regulatory review in Japan.

Enzastaurin—In May 2013, we announced the decision to stop development of enzastaurin as a result of negative clinical trial results from the Phase III PRELUDE study, which explored the molecule as a monotherapy in the prevention of relapse for patients with diffuse large B-cell lymphoma.

Ixekizumab—In January 2013, we initiated Phase III clinical trial testing for ixekizumab as a potential treatment for psoriatic arthritis.

Liprotamase—In December 2013, we made the decision to discontinue further development of liprotamase.

Necitumumab—In August 2013, we announced that the Phase III study, SQUIRE, met its primary endpoint, finding that patients with stage IV metastatic squamous NSCLC experienced increased overall survival when administered necitumumab in combination with gemcitabine and cisplatin as a first-line treatment, as compared to chemotherapy alone. We anticipate filing for regulatory review before the end of 2014.

New insulin glargine product—In July 2013, we and Boehringer Ingelheim announced that the marketing authorization application for our new insulin glargine product, filed in June 2013 through the biosimilar pathway, was accepted for review by the European Medicines Agency. In the fourth quarter of 2013, we filed for regulatory review in the U.S. and Japan.

In January 2014, Sanofi-Aventis U.S. LLC (Sanofi) filed a lawsuit against us in the U.S. District Court for the District of Delaware alleging patent infringement with respect to our insulin glargine product for which we are seeking approval from the FDA. Sanofi asserts infringement of two patents relating to pen injector devices and two patents relating to insulin glargine formulations. Under the Hatch-Waxman Act, the initiation of the lawsuit automatically invokes a stay of FDA approval of the product for a period of 30 months, which may be shortened in the event of an earlier decision in our favor. We believe the lawsuit is without merit, and we are prepared to vigorously defend against the allegations.

Ramucirumab—Our rolling submission to the FDA for ramucirumab as a single-agent biologic therapy in patients with advanced gastric cancer following progression on prior chemotherapy was completed in the third quarter of 2013, and received Priority Review status by the FDA in October 2013. Our regulatory submission in Europe for the same indication was also completed in the third quarter of 2013. In September 2013, we announced that the RAINBOW trial, a global Phase III study of ramucirumab in combination with paclitaxel in patients with advanced gastric cancer, met its primary endpoint of improved overall survival and a secondary endpoint of improved progression-free survival. We intend to submit an application for this indication to regulatory authorities in 2014. In September 2013, we also announced that a separate global Phase III study of ramucirumab in women with locally recurrent or metastatic breast cancer, ROSE, did not meet its primary endpoint of

progression-free survival. We do not plan to submit an application to regulatory authorities for ramucirumab in the first-line treatment of locally recurrent or metastatic HER2-negative breast cancer based on the results from the ROSE study. In February 2014, we announced that the REVEL trial, a global Phase III study of ramucirumab in combination with chemotherapy (docetaxel) in patients with second-line NSCLC, met its primary endpoint of improved overall survival and a secondary endpoint of improved progression-free survival. We intend to submit the first application for this indication to regulatory authorities in 2014.

Tabalumab—In February 2013, we announced our decision to discontinue the Phase III rheumatoid arthritis program for tabalumab due to lack of efficacy. The decision was not based on safety concerns. The tabalumab Phase III program for lupus is continuing as planned.

Tanezumab—In October 2013, we entered into a collaboration agreement with Pfizer to jointly develop and globally commercialize tanezumab for the potential treatment of osteoarthritis pain, chronic low back pain, and cancer pain. Tanezumab is currently in Phase III clinical development and is subject to a partial clinical hold by the FDA pending submission of nonclinical data to the FDA. Pfizer anticipates submitting that data in 2014. See Note 4 to the consolidated financial statements for additional details.

There are many difficulties and uncertainties inherent in pharmaceutical research and development (R&D) and the introduction of new products. A high rate of failure is inherent in new drug discovery and development. The process to bring a drug from the discovery phase to regulatory approval can take 12 to 15 years or longer and cost more than $1 billion. Failure can occur at any point in the process, including late in the process after substantial investment. As a result, most 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. Delays and uncertainties in the regulatory approval processes in the U.S. and other countries can result in delays in product launches and lost market opportunities. Consequently, it is very difficult to predict which products will ultimately be approved and the sales growth of those products.

We manage R&D 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 R&D spending. Due to the risks and uncertainties involved in the R&D process, we cannot reliably estimate the nature, timing, completion dates, and costs of the efforts necessary to complete the development of our R&D projects, nor can we reliably estimate the future potential revenue that will be generated from a successful R&D project. Each project represents only a portion of the overall pipeline, and none is individually material to our consolidated R&D expense. While we do accumulate certain R&D 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 R&D costs by project, by preclinical versus clinical spend, or by therapeutic category.

Legal, Regulatory, and Other Matters

We depend on patents or other forms of intellectual-property protection for most of our revenues, cash flows, and earnings. Cymbalta® lost patent exclusivity in the U.S. in December 2013, resulting in the immediate entry of several generic competitors. We also expect the loss of U.S. patent protection for Evista® in March 2014 to result in immediate generic competition. We will lose our data package protection for Cymbalta in major European countries in 2014; however, we do not anticipate the entry of generic competition in most of these countries until 2015. The entry of generic competition in each of these markets is expected to cause a rapid and severe decline in revenue from the affected products, having a material adverse effect on our consolidated results of operations and cash flows.

The U.S. compound patent for Humalog expired in May 2013. The loss of compound patent protection for Humalog has not resulted in a rapid and severe decline in revenue. To date, no biosimilar version of Humalog has been approved in the U.S. or Europe; however, we are aware that other manufacturers have efforts underway to develop biosimilar forms of Humalog, and it is difficult to predict the likelihood, timing, and impact of biosimilars entering the market.

The continuing prominence of U.S. budget deficits as both a policy and political issue increases the risk that taxes, fees, rebates, or other federal measures that would further reduce pharmaceutical companies' revenue

or increase expenses may be enacted. Certain federal and state health care proposals, including state price controls, continue to be debated, and could place downward pressure on pharmaceutical industry sales or prices. These federal and state proposals, or state price pressures, could have a material adverse effect on our consolidated results of operations.

International operations also are generally subject to extensive price and market regulations. Proposals for cost-containment measures are pending in a number of countries, including proposals that would directly or indirectly impose additional price controls, limit access to or reimbursement for our products, or reduce the value of our intellectual-property protection. Such proposals are expected to increase in both frequency and impact, given the pressures on national and regional health care budgets as a result of continued austerity measures being pursued in a number of countries; the desire to manage health expenses carefully even as economies recover; and the effort in some countries to expand access to health care coverage while seeking savings from the biopharmaceutical sector.

The Obama administration has proposed changes to the manner in which the U.S. would tax the international income of U.S.-based companies. There also have been tax proposals under discussion or introduced in the U.S. Congress that could change the manner in which, and the rate at which, income of U.S. companies would be taxed. While it is uncertain how the U.S. Congress may address U.S. tax policy matters in the future, reform of U.S. taxation, including taxation of international income, will continue to be a topic of discussion for Congress and the Obama administration. A significant change to the U.S. tax system, including changes to the taxation of international income, could have a material adverse effect on our consolidated results of operations. In addition, the Organization for Economic Co-operation and Development recently launched an initiative to analyze and potentially influence international tax policy in the major countries in which we operate. While the outcomes of this initiative are uncertain, significant changes to key elements of the global international tax framework could have a material adverse effect on our consolidated results of operations.

Operating Results—2013

Revenue

Our worldwide revenue for 2013 increased 2 percent, to $23.11 billion, compared with 2012 as an increase of 5 percent due to higher prices was partially offset by a decrease of 2 percent due to the unfavorable impact of foreign exchange rates and a 1 percent decrease due to lower volume. Total revenue in the U.S. increased 5 percent, to $12.89 billion, due to higher prices, partially offset by volume declines for Cymbalta and Zyprexa due to the loss of patent exclusivity. Revenue outside the U.S. decreased 1 percent, to $10.22 billion, due primarily to the unfavorable impact of the continued weakness of the Japanese yen and, to a lesser extent, lower prices, partially offset by increased volume.

The following table summarizes our revenue activity in 2013 compared with 2012:

Product	Year Ended December 31, 2013 U.S.[1]	Outside U.S.	Total	Year Ended December 31, 2012 Total	Percent Change from 2012
	(Dollars in millions)				
Cymbalta	**$ 3,960.8**	**$ 1,123.6**	**$ 5,084.4**	$ 4,994.1	2
Alimta	**1,209.1**	**1,493.9**	**2,703.0**	2,594.3	4
Humalog	**1,521.4**	**1,089.8**	**2,611.2**	2,395.5	9
Cialis	**942.8**	**1,216.6**	**2,159.4**	1,926.8	12
Humulin®	**677.2**	**638.6**	**1,315.8**	1,239.1	6
Forteo	**511.4**	**733.5**	**1,244.9**	1,151.0	8
Zyprexa	**123.6**	**1,071.2**	**1,194.8**	1,701.4	(30)
Evista	**772.0**	**278.4**	**1,050.4**	1,010.1	4
Strattera®	**446.3**	**262.9**	**709.2**	621.4	14
Effient®	**376.9**	**131.8**	**508.7**	457.2	11
Other pharmaceutical products	**639.5**	**1,032.8**	**1,672.3**	1,843.0	(9)
Animal health products	**1,226.6**	**924.9**	**2,151.5**	2,036.5	6
Total net product sales	**12,407.6**	**9,998.0**	**22,405.6**	21,970.4	2
Collaboration and other revenue[2]	**482.1**	**225.4**	**707.5**	633.0	12
Total revenue	**$ 12,889.7**	**$ 10,223.4**	**$ 23,113.1**	$ 22,603.4	2

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

2 Collaboration and other revenue in 2013 consists primarily of royalties for Erbitux® and revenue associated with Trajenta. Collaboration and other revenue in 2012 also includes revenue associated with exenatide in the United States.

Sales of Cymbalta, a product for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and in the U.S. for the treatment of chronic musculoskeletal pain and the management of fibromyalgia, increased 1 percent in the U.S., driven by higher prices, largely offset by lower demand due to the loss of U.S. patent exclusivity in December 2013, which is causing rapid and severe declines in our Cymbalta sales. Sales outside the U.S. increased 4 percent, driven primarily by increased volume, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

We will lose effective exclusivity for Cymbalta in major European countries upon expiration of our data package protection in 2014; however, because generic manufacturers cannot file for regulatory approval until after our data package protection expires, we do not anticipate the entry of generic competition in most of these countries until 2015. While it is difficult to predict the precise impact on Cymbalta sales, we expect the introduction of generics in these markets to result in a rapid and severe decline in our Cymbalta sales, which will have a material adverse effect on our consolidated results of operations and cash flows.

Sales of Alimta, a treatment for various cancers, increased 8 percent in the U.S., due to higher prices and increased demand. Sales outside the U.S. increased 1 percent, driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates and lower prices.

Sales of Humalog, our injectable human insulin analog for the treatment of diabetes, increased 11 percent in the U.S., driven by higher prices, wholesaler buying patterns, and increased demand. Sales outside the U.S. increased 6 percent, driven by increased volume, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Cialis, a treatment for erectile dysfunction and benign prostatic hyperplasia (BPH), increased 21 percent in the U.S., driven by higher prices. Sales outside the U.S. increased 6 percent, driven by higher prices and increased volume, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Humulin, an injectable human insulin for the treatment of diabetes, increased 14 percent in the U.S., driven by higher prices, partially offset by decreased demand. Sales outside the U.S. decreased 1 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased volume.

Sales 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, increased 5 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 11 percent, due to increased volume, primarily in Japan, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Zyprexa, a treatment for schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance, decreased 66 percent in the U.S. due to the continued erosion following patent expiration in 2011. Sales outside the U.S. decreased 20 percent, driven by the unfavorable effect of foreign exchange rates, lower volume in markets outside of Japan, and lower prices. Zyprexa sales in Japan were approximately $510 million in 2013, compared to approximately $585 million in 2012, and were negatively impacted by the continued weakness of the Japanese yen.

Sales of Evista, a product for the prevention and treatment of osteoporosis in postmenopausal women and for reduction of risk of invasive breast cancer in postmenopausal women with osteoporosis and postmenopausal women at high risk for invasive breast cancer, increased 10 percent in the U.S., driven by higher prices, partially offset by decreased demand. Sales outside the U.S. decreased 10 percent, driven by the unfavorable impact of foreign exchange rates and lower prices, partially offset by increased volume in Japan.

We will lose effective patent exclusivity for Evista in the U.S. on March 2, 2014. We expect generic competition immediately following the loss of exclusivity. While it is difficult to predict the precise impact on Evista sales, we expect the introduction of generics to result in a rapid and severe decline in our U.S. Evista sales, which will have a material adverse effect on our consolidated results of operations and cash flows.

Sales of Strattera, a treatment for attention-deficit hyperactivity disorder, increased 16 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 11 percent, driven primarily by increased volume in Japan, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

Sales of Effient, a product for the reduction of thrombotic cardiovascular events (including stent thrombosis) in patients with acute coronary syndrome who are managed with an artery-opening procedure known as percutaneous coronary intervention, including patients undergoing angioplasty, atherectomy, or stent placement, increased 11 percent in the U.S., driven primarily by higher prices. Sales outside the U.S. increased 12 percent, driven primarily by increased volume.

Animal health product sales in the U.S. increased 6 percent driven primarily by increased volume for Trifexis® and, to a lesser extent, higher prices. Sales outside the U.S. increased 6 percent, driven by increased volume and, to a lesser extent, higher prices, partially offset by the unfavorable impact of foreign exchange rates.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue remained at 78.8 percent in 2013 as higher prices were offset by the adverse impact of foreign exchange rates on international inventories sold, which significantly decreased the cost of sales in 2012.

Marketing, selling, and administrative expenses decreased 5 percent to $7.13 billion in 2013, driven primarily by lower selling and marketing expenses resulting from ongoing cost-containment efforts, including the previously announced reduction in U.S. sales and marketing activities in anticipation of the loss of patent exclusivity for Cymbalta and Evista, as well as the impact of foreign exchange rates.

Research and development expenses increased 5 percent to $5.53 billion in 2013, due to higher research and clinical development expenses, including $97.2 million of milestone payments made to Boehringer Ingelheim following regulatory submissions for empagliflozin.

We recognized an acquired IPR&D charge of $57.1 million in 2013 resulting from our acquisition of a CGRP antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches, following a successful Phase II proof-of-concept study. There were no acquired IPR&D charges in 2012. See Note 3 to the consolidated financial statements for additional information.

We recognized asset impairment, restructuring, and other special charges of $120.6 million in 2013. These charges included $30.0 million of asset impairments primarily associated with the anticipated closure of a packaging and distribution facility in Germany, and $90.6 million of severance costs to reduce our cost structure and global workforce. In 2012, we recognized asset impairment, restructuring, and other special charges of $281.1 million. These charges included $122.6 million related to an intangible asset impairment for

liprotamase, $74.5 million related to restructuring to reduce our cost structure and global workforce, $64.0 million related to the asset impairment of a delivery device platform, and $20.0 million related to the withdrawal of Xigris. See Note 5 to the consolidated financial statements for additional information.

Other—net, (income) expense was income of $518.9 million in 2013, compared with income of $674.0 million in 2012. The decrease was driven primarily by lower income related to the termination of the exenatide collaboration with Amylin of $495.4 million in 2013 compared with $787.8 million in 2012, partially offset by milestone payments received from Boehringer Ingelheim for regulatory submissions in the U.S., Europe, and Japan. See Notes 4 and 18 to the consolidated financial statements for additional information.

Our effective tax rate was 20.5 percent in 2013, compared with 24.4 percent in 2012. The 2012 effective tax rate reflected the expiration of the R&D tax credit at the end of 2011 and the tax impact of the payment received from Amylin, partially offset by the tax benefit related to the intangible asset impairment for liprotamase. The decrease in the 2013 effective tax rate reflects the reinstatement of the R&D tax credit in the U.S. effective January 1, 2013 as well as the one-time impact of the reinstatement of the R&D tax credit for 2012 that was recorded in the first quarter of 2013. See Note 14 to the consolidated financial statements for additional information.

Operating Results—2012

Financial Results

Worldwide total revenue decreased 7 percent to $22.60 billion in 2012, driven by steep sales declines for Zyprexa due to the loss of patent exclusivity in most major markets, partially offset by growth in certain other products. Net income and EPS decreased 6 percent to $4.09 billion and $3.66, respectively, in 2012 compared with net income of $4.35 billion and EPS of $3.90 in 2011. The decreases in net income and EPS were due to the loss of patent exclusivity for Zyprexa, partially offset by growth in certain other products and higher other income from the early payment of the exenatide revenue-sharing obligation from Amylin.

The 2012 highlighted items are summarized in the "Executive Overview" section. The 2011 highlighted items are summarized as follows:

Collaborations (Note 4 to the consolidated financial statements)

- We incurred acquired IPR&D charges associated with the diabetes collaboration with Boehringer Ingelheim of $388.0 million (pretax), or $0.23 per share.

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

- We recognized charges of $316.4 million (pretax), or $0.24 per share, primarily related to severance costs from strategic actions to reduce our cost structure and global workforce.
- We incurred a charge of $85.0 million (pretax), or $0.05 per share, primarily for returned product and contractual commitments related to the withdrawal of Xigris.

Revenue

Our worldwide revenue for 2012 decreased 7 percent, to $22.60 billion, driven by the loss of patent exclusivity for Zyprexa in most major markets, partially offset by growth in Cymbalta, Forteo, Effient, Alimta, and our animal health portfolio. Worldwide sales volume decreased 7 percent and the unfavorable impact of foreign exchange rates contributed 2 percent of revenue decline, partially offset by an increase of 2 percent due to higher prices. The decrease in volume was driven by the loss of patent exclusivity for Zyprexa in most major markets, partially offset by volume gains for certain other products. Total revenue in the U.S. decreased 5 percent, to $12.31 billion, due to the loss of patent exclusivity for Zyprexa, partially offset by higher prices and increased demand for certain other products. Revenue outside the U.S. decreased 9 percent, to $10.29 billion, driven by the loss of patent exclusivity for Zyprexa in markets outside of Japan, the unfavorable effect of foreign exchange rates, and lower prices, partially offset by increased demand for certain other products.

The following table summarizes our revenue activity in 2012 compared with 2011:

Product	Year Ended December 31, 2012 U.S.[1]	Outside U.S.	Total	Year Ended December 31, 2011 Total	Percent Change from 2011
	(Dollars in millions)				
Cymbalta	$ 3,917.8	$ 1,076.3	$ 4,994.1	$ 4,161.8	20
Alimta	1,122.4	1,471.9	2,594.3	2,461.1	5
Humalog	1,370.9	1,024.6	2,395.5	2,367.6	1
Cialis	782.2	1,144.6	1,926.8	1,875.6	3
Zyprexa	360.4	1,341.0	1,701.4	4,622.0	(63)
Humulin	592.1	647.0	1,239.1	1,248.8	(1)
Forteo	488.2	662.8	1,151.0	949.8	21
Evista	699.5	310.6	1,010.1	1,066.9	(5)
Strattera	384.1	237.3	621.4	620.1	—
Effient	339.0	118.2	457.2	302.5	51
Other pharmaceutical products	593.4	1,249.6	1,843.0	2,250.0	(18)
Animal health products	1,161.8	874.7	2,036.5	1,678.6	21
Total net product sales	11,811.8	10,158.6	21,970.4	23,604.8	(7)
Collaboration and other revenue[2]	501.3	131.7	633.0	681.7	(7)
Total revenue	$ 12,313.1	$ 10,290.3	$ 22,603.4	$ 24,286.5	(7)

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

2 Collaboration and other revenue consists primarily of royalties for Erbitux and revenue associated with exenatide in the United States.

Sales of Cymbalta increased 23 percent in the U.S., due to higher prices and, to a lesser extent, increased demand. Sales outside the U.S. increased 9 percent, driven by increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Alimta increased 13 percent in the U.S., driven by increased demand and higher prices. Sales outside the U.S. remained flat, as increased demand was offset by lower prices in Japan and the unfavorable impact of foreign exchange rates.

Sales of Humalog decreased 2 percent in the U.S., due to increased government and commercial rebates as well as the product's removal from a large formulary in 2012. Sales outside the U.S. increased 6 percent, due to increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Sales of Cialis increased 11 percent in the U.S., driven by increased demand and higher prices. Sales outside the U.S. decreased 2 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased demand and higher prices.

Sales of Zyprexa decreased 83 percent in the United States. Sales outside the U.S. decreased 45 percent. The decreases were due to the loss of patent exclusivity in the U.S. and most major international markets outside of Japan, partially offset by growth in Japan. Zyprexa sales in Japan were approximately $585 million in 2012, compared to approximately $540 million in 2011.

Sales of Humulin increased 1 percent in the U.S., driven by higher prices, largely offset by decreased demand. U.S. sales of Humulin were negatively affected by the product's removal from a large formulary in 2012, as well as the continued decline in the market for human insulin and the termination of the Humulin ReliOn agreement with Walmart. Sales outside the U.S. decreased 2 percent, driven by the unfavorable impact of foreign exchange rates, partially offset by increased volume.

Sales of Forteo increased 8 percent in the U.S., driven by higher prices, partially offset by decreased volume. Sales outside the U.S. increased 33 percent, primarily due to the increased demand in Japan.

Sales of Evista decreased 1 percent in the U.S., driven by decreased demand, largely offset by higher prices. Sales outside the U.S. decreased 14 percent, driven by decreased volume and, to a lesser extent, the unfavorable impact of foreign exchange rates.

Sales of Strattera decreased 2 percent in the U.S., due to decreased demand, partially offset by higher prices. Sales outside the U.S. increased 4 percent, driven by increased demand in Japan, partially offset by lower prices and the unfavorable impact of foreign exchange rates.

Sales of Effient increased 52 percent in the U.S., driven by increased demand and, to a lesser extent, higher prices. Sales outside the U.S. increased 47 percent, due to increased demand, partially offset by the unfavorable impact of foreign exchange rates.

Animal health product sales in the U.S. increased 30 percent, primarily due to increased demand for companion animal products. Sales outside the U.S. increased 12 percent, driven primarily by the impact of the acquisition of certain Janssen animal health assets in Europe (see Note 3 to the consolidated financial statements), and the growth of other products, partially offset by the unfavorable impact of foreign exchange rates.

Gross Margin, Costs, and Expenses

Gross margin as a percent of total revenue decreased by 0.3 percentage points in 2012 to 78.8 percent. This decrease was primarily due to lower sales of Zyprexa and, to a lesser extent, higher miscellaneous manufacturing costs, partially offset by the impact of foreign exchange rates on international inventories sold, which decreased cost of sales in 2012 and increased cost of sales in 2011.

Marketing, selling, and administrative expenses decreased 5 percent in 2012 to $7.51 billion, driven by lower marketing expense resulting from our cost-containment efforts. Research and development expenses increased 5 percent to $5.28 billion, due to higher late-stage clinical trial costs.

No acquired IPR&D charges were incurred in 2012, compared with $388.0 million in 2011, all of which was associated with the diabetes collaboration with Boehringer Ingelheim. We recognized asset impairment, restructuring, and other special charges of $281.1 million in 2012. These charges comprised $122.6 million related to an intangible asset impairment for liprotamase, $74.5 million related to restructuring to reduce our cost structure and global workforce, $64.0 million related to the asset impairment of a delivery device platform, and $20.0 million related to the withdrawal of Xigris. In 2011, we recognized asset impairment, restructuring, and other special charges of $401.4 million, of which $316.4 million primarily related to severance costs from strategic actions and $85.0 million related to the withdrawal of Xigris. See Notes 4 and 5 to the consolidated financial statements for additional information.

Other—net, (income) expense was income of $674.0 million in 2012, compared with expense of $179.0 million in 2011. The increase was driven by income of $787.8 million recognized from the early payment of the exenatide revenue-sharing obligation by Amylin. See Note 18 to the consolidated financial statements for additional information.

Our effective tax rate was 24.4 percent in 2012, compared with 18.7 percent in 2011. The increase in 2012 reflects the tax impact of the payment received from Amylin and the expiration of the research and development tax credit at the end of 2011, partially offset by the tax benefit related to the intangible asset impairment for liprotamase. The effective tax rate for 2011 was lower due to a tax benefit on the IPR&D charge associated with the diabetes collaboration with Boehringer Ingelheim, as well as a benefit from the resolution in 2011 of the IRS audits of tax years 2005-2007, along with certain matters related to 2008-2009. See Note 14 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

As of December 31, 2013, cash and cash equivalents decreased to $3.83 billion compared with $4.02 billion at December 31, 2012, as cash flow from operations of $5.74 billion was more than offset by dividends paid of $2.12 billion, share repurchases of $1.70 billion, net purchases of investments of $1.02 billion, and purchases of property and equipment of $1.01 billion. In addition to our cash and cash equivalents, we held total investments of $9.19 billion and $7.98 billion as of December 31, 2013 and December 31, 2012, respectively. See Note 7 to the consolidated financial statements for additional details.

As of December 31, 2013, total debt was $5.21 billion, a decrease of $318.4 million compared with $5.53 billion at December 31, 2012. The decrease is due primarily to the decrease in fair value of our hedged debt. We intend to refinance $1.00 billion of debt that is maturing in March 2014. A portion of the interest rate risk associated with the anticipated refinancing has been hedged through the use of forward-starting interest rate swaps. See Note 7 to the consolidated financial statements for additional details. We currently have $1.36 billion of unused committed bank credit facilities, $1.20 billion of which backs our commercial paper program.

Capital expenditures of $1.01 billion during 2013 were $106.7 million more than in 2012. We expect 2014 capital expenditures to be approximately $1.3 billion as we invest in the long-term growth of our diabetes-care product portfolio and additional biotechnology capacity while continuing investments to improve the quality, productivity, and capability of our manufacturing, research, and development facilities.

For the 129th consecutive year, we distributed dividend payments to our shareholders. Dividends of $1.96 per share were paid in both 2013 and 2012. In the fourth quarter of 2013, effective for the dividend to be paid in the first quarter of 2014, the quarterly dividend was maintained at $0.49 per share, resulting in an indicated annual rate for 2014 of $1.96 per share.

During 2013, we repurchased the remaining $1.10 billion of shares associated with our $1.50 billion share repurchase program announced in 2012. In October 2013, we announced a new $5.00 billion share repurchase program which will be completed over time. We purchased $500.0 million of shares under the new repurchase program in 2013.

At December 31, 2013, we had an aggregate of $11.61 billion of cash and investments at our foreign subsidiaries. A significant portion of this amount would be subject to tax payments if such cash and investments were repatriated to the United States. We record U.S. deferred tax liabilities for certain unremitted earnings, but when foreign earnings are expected to be indefinitely reinvested outside the U.S., no accrual for U.S. income taxes is provided. We believe cash provided by operating activities in the U.S. and planned repatriations of foreign earnings for which tax has been provided should be sufficient to fund our domestic operating needs, dividends paid to shareholders, share repurchases, and capital expenditures. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and "Risk Factors" may affect our operating results and cash generated from operations.

In December 2013, we lost U.S. patent protection for Cymbalta. In 2014, we will lose U.S. patent protection for Evista and data package protection for Cymbalta in major European countries. See "Executive Overview—Legal, Regulatory, and Other Matters" for additional information.

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 recent 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 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 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, 2013 and 2012, 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, 2013 and 2012, 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 the Japanese yen, and the British pound against the euro. We face transactional currency exposures that arise when we enter into transactions, generally on an intercompany basis, denominated in currencies other than the local currency. 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 contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, the British pound, and the Japanese yen). Our policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative positions offset, in part, the impact of currency fluctuations on the existing assets, liabilities, commitments, and anticipated revenues. Considering our derivative financial instruments outstanding at December 31, 2013 and 2012, a hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) as of December 31, 2013 and 2012, respectively, would not have a material impact on earnings, cash flows, or fair values of foreign currency rate risk-sensitive instruments over a one-year period. These calculations do not reflect the impact of the exchange gains or losses on the underlying positions that would be offset, in part, by the results of the derivative instruments.

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 pharmaceutical 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 not material in any one annual reporting period. However, if milestones for multiple products covered by these arrangements would happen to be reached in the same reporting period, the aggregate charge to expense could be material to the results of operations in that period. See "Financial Statements and Supplementary Data—Note 4, Collaborations," 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 are as follows (in millions):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt, including interest payments[1]	$ 7,589.0	$ 1,136.3	$ 495.3	$ 1,473.0	$ 4,484.4
Capital lease obligations	27.3	10.3	13.8	3.2	—
Operating leases	620.0	136.5	218.4	147.2	117.9
Purchase obligations[2]	13,199.5	12,310.1	455.8	279.0	154.6
Other long-term liabilities reflected on our balance sheet[3]	1,989.2	—	861.5	260.5	867.2
Other[4]	476.9	476.9	—	—	—
Total	$ 23,901.9	$ 14,070.1	$ 2,044.8	$ 2,162.9	$ 5,624.1

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, 2013, 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 consist primarily of all open purchase orders as of December 31, 2013. 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 We have included long-term liabilities consisting primarily of our nonqualified supplemental pension funding requirements and deferred compensation liabilities. We excluded long-term income taxes payable of $1.08 billion, because we cannot reasonably estimate the timing of future cash outflows associated with those liabilities.

4 This category consists of various miscellaneous items expected to be paid in the next year, none of which are individually material. We excluded unfunded commitments of $142.2 million, because we cannot reasonably estimate the timing of future cash outflows associated with those commitments.

The contractual obligations table is current as of December 31, 2013. 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 United States (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

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. Provisions for returns, rebates, and discounts are established in the same period the related sales are recorded.

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 does not provide an incentive for speculative wholesaler buying and provides us with data on inventory levels at our wholesalers. When we believe wholesaler purchasing patterns have caused an unusual increase or decrease in the sales of a major product compared with underlying demand, we disclose this in our product sales discussion if we believe the amount is material to the product sales trend; however, we are not always able to accurately quantify the amount of stocking or destocking. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.

When sales occur, we estimate a reserve for future product returns related to those sales. This estimate is based on several factors, including: historical return rates, expiration date by product (generally, 24 to 36 months after the initial sale of a product to our customer), and estimated levels of inventory in the wholesale and retail channels, among others, 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. pharmaceutical customers to return product 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. Additional adjustments to the returns reserve may be required in the future based on revised estimates to our assumptions, which would have an impact on our consolidated results of operations. We record the return amounts as a deduction to arrive at our net product sales. Once the product is returned, it is destroyed. Actual product returns have been less than 1 percent of our net sales over the past three years and have not fluctuated significantly as a percentage of sales. However, we expect the ratio of actual product returns as a percentage of net sales to increase in future periods as we begin to experience elevated return levels for both Zyprexa and Cymbalta following the recent losses of patent exclusivity for these products in several major markets.

We establish sales rebate and discount accruals in the same period as the related sales. The rebate and discount amounts are recorded as a deduction to arrive at our net product sales. Sales rebates and discounts that require the use of judgment in the establishment of the accrual include Medicaid, managed care, Medicare, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We base these accruals primarily upon our historical rebate and discount payments made to our customer segment groups and the provisions of current rebate and discount contracts.

The largest of our sales rebate and discount amounts are rebates associated with sales covered by Medicaid. In determining the appropriate accrual amount, we consider our historical Medicaid rebate payments by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries), an evaluation of the current Medicaid rebate laws and interpretations, the percentage of our products that are sold to Medicaid recipients, and our product pricing and current rebate and discount contracts. Although we accrue a liability for Medicaid rebates at the time we record the sale (when the product is shipped), the Medicaid 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. A best estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale. If our estimates are not reflective of the actual pharmaceutical costs incurred by the government, we adjust our rebate reserves.

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. A 5 percent change in our global

sales return, rebate, and discount liability at December 31, 2013 would lead to an approximate $138 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 88 percent and 83 percent as of December 31, 2013 and 2012, respectively.

The following represents a roll-forward of our most significant U.S. sales return, rebate, and discount liability balances, including Medicaid (in millions):

	2013	2012
Sales return, rebate, and discount liabilities, beginning of year	**$ 1,584.5**	$ 1,597.9
Reduction of net sales due to sales returns, discounts, and rebates[1]	**4,723.3**	3,563.5
Cash payments of discounts and rebates	**(4,092.3)**	(3,576.9)
Sales return, rebate, and discount liabilities, end of year[2]	**$ 2,215.5**	$ 1,584.5

1 Adjustments of the estimates for these returns, rebates, and discounts to actual results were less than 1.0 percent of net sales for each of the years presented.

2 The increase in our most significant U.S. sales return, rebate, and discount liability balances as of December 31, 2013, as compared to December 31, 2012, is primarily due to an increase in our returns reserve for sales of Cymbalta, which lost U.S. patent exclusivity in December 2013.

Product Litigation Liabilities and Other Contingencies

Product litigation liabilities and other contingencies are, by their nature, uncertain and are 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 litigation cases, 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. We estimate these expenses 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.

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.

Pension and Retiree Medical Plan Assumptions

Pension benefit costs include assumptions for the discount rate, retirement age, and expected return on plan assets. Retiree medical plan costs include assumptions for the discount rate, retirement age, expected return on plan assets, and health-care-cost trend rates. 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 rate of return, we consider many factors, with a primary analysis of current and projected market conditions, asset returns and asset allocations (approximately 80 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, expected return on plan assets, and health-care-cost trend rates 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.

If the health-care-cost trend rates were to increase by one percentage point, the aggregate of the service cost and interest cost components of the 2013 annual expense would increase by $9.4 million. A one-percentage-point decrease would decrease the aggregate of the 2013 service cost and interest cost by $7.6 million. If the 2013 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 $40.6 million. If the 2013 expected return on plan assets for U.S. plans were to change by a quarter percentage point, income before income taxes would change by $20.1 million. If our assumption regarding the 2013 expected age of future retirees for U.S. plans were adjusted by one year, our income before income taxes would be affected by $57.6 million. The U.S. plans, including Puerto Rico, represent approximately 80 percent of both the total projected benefit obligation and total plan assets at December 31, 2013.

Impairment of Indefinite-Lived and Long-Lived Assets

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 may not be recoverable. We determine impairment by comparing the 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.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually and when certain impairment indicators are present. When required, a comparison of fair value to the carrying amount of assets is performed to determine the amount of any impairment.

Several methods may be used to determine the estimated fair value of the IPR&D acquired in a business combination, all of which require multiple assumptions. We utilize the "income method," which applies a probability weighting that considers the risk of development and commercialization to the estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, 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 project independently.

For 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 the "Late-Stage Pipeline" section. The nature of the pharmaceutical business is high-risk and requires that we invest in a large number of projects to build a successful portfolio of approved products. As such, it is likely that some 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 from these estimates.

Income Taxes

We prepare and file tax returns based on our interpretation of tax laws and regulations and record estimates based on these judgments and 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 by these authorities. Inherent uncertainties exist in estimates of many tax positions due to changes in tax law resulting from legislation, regulation, and/or 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 significant amendments to existing tax law, the issuance of regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an 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.

As of December 31, 2013, a 5 percent change in the amount of the uncertain tax positions and the valuation allowance would result in a change in net income of $26.2 million and $32.4 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 2014

For the full year of 2014, we expect EPS to be in the range of $2.77 to $2.85. EPS expectations for 2014 reflect completed share repurchases in 2013 and potential share repurchases in 2014. We anticipate that total revenue will be between $19.2 billion and $19.8 billion. Patent expirations are expected to drive a rapid and severe decline in U.S. sales of Cymbalta and Evista. These revenue declines are expected to be partially offset by growth from a portfolio of other products including Humalog, Trajenta, Cialis, Forteo and Alimta, as well as our animal health business. In addition, strong revenue growth is expected in China, while a weaker Japanese yen is expected to dampen revenue growth in Japan.

We anticipate that gross margin as a percent of revenue will be approximately 74 percent in 2014. Marketing, selling, and administrative expenses are expected to be in the range of $6.2 billion to $6.5 billion. Research and development expense is expected to be in the range of $4.4 billion to $4.7 billion. Other—net, (income) expense is expected to be in a range between $100 million and $200 million of income, benefited by gains of $150 million to $200 million on the sale of equity investments acquired as part of past business development transactions. Operating cash flows are expected to be sufficient to pay our dividend of approximately $2.1 billion, allow for capital expenditures of approximately $1.3 billion, and fund potential business development activity and share repurchases.

Our 2014 financial guidance does not include a potential charge related to the collaboration with Pfizer to develop and commercialize tanezumab. If the partial clinical hold for the molecule is removed and we and Pfizer move forward with development, we will pay a $200 million upfront fee to Pfizer. This charge would reduce EPS by approximately $0.12.

Financial Statements and Supplementary Data

Consolidated Statements of Operations

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except per-share data) Year Ended December 31	2013	2012	2011
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Cost of sales	**4,908.1**	4,796.5	5,067.9
Research and development	**5,531.3**	5,278.1	5,020.8
Marketing, selling, and administrative	**7,125.6**	7,513.5	7,879.9
Acquired in-process research and development (Notes 3 and 4)	**57.1**	—	388.0
Asset impairment, restructuring, and other special charges (Note 5)	**120.6**	281.1	401.4
Other—net, (income) expense (Note 18)	**(518.9)**	(674.0)	179.0
	17,223.8	17,195.2	18,937.0
Income before income taxes	**5,889.3**	5,408.2	5,349.5
Income taxes (Note 14)	**1,204.5**	1,319.6	1,001.8
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Earnings per share—basic (Note 13)	**$ 4.33**	$ 3.67	$ 3.90
Earnings per share—diluted (Note 13)	**$ 4.32**	$ 3.66	$ 3.90

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2013	2012	2011
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Other comprehensive income (loss):			
Foreign currency translation gains (losses)	**36.2**	160.9	(244.8)
Net unrealized gains (losses) on securities	**204.3**	88.5	(178.5)
Defined benefit pension and retiree health benefit plans (Note 15)	**2,592.2**	(128.6)	(1,240.2)
Effective portion of cash flow hedges	**(123.8)**	8.7	44.8
Other comprehensive income (loss) before income taxes	**2,708.9**	129.5	(1,618.7)
Provision for income taxes related to other comprehensive income (loss) items	**(914.5)**	(68.0)	430.2
Other comprehensive income (loss) (Note 17)	**1,794.4**	61.5	(1,188.5)
Comprehensive income	**$ 6,479.2**	$ 4,150.1	$ 3,159.2

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	December 31	2013	2012
Assets			
Current Assets			
Cash and cash equivalents (Note 7)		**$ 3,830.2**	$ 4,018.8
Short-term investments (Note 7)		**1,567.1**	1,665.5
Accounts receivable, net of allowances of **$100.3 (2013)** and $108.5 (2012)		**3,434.4**	3,336.3
Other receivables		**588.4**	552.0
Inventories (Note 6)		**2,928.8**	2,643.8
Prepaid expenses and other		**755.8**	822.3
Total current assets		**13,104.7**	13,038.7
Other Assets			
Investments (Note 7)		**7,624.9**	6,313.9
Goodwill and other intangibles, net (Note 8)		**4,331.1**	4,752.7
Sundry		**2,212.5**	2,533.4
Total other assets		**14,168.5**	13,600.0
Property and equipment, net (Note 9)		**7,975.5**	7,760.2
Total assets		**$ 35,248.7**	$ 34,398.9
Liabilities and Equity			
Current Liabilities			
Short-term borrowings and current maturities of long-term debt (Note 10)		**$ 1,012.6**	$ 11.9
Accounts payable		**1,119.3**	1,188.3
Employee compensation		**943.9**	940.3
Sales rebates and discounts		**1,941.7**	1,777.2
Dividends payable		**523.5**	541.4
Income taxes payable (Note 14)		**254.4**	143.5
Deferred income taxes (Note 14)		**792.8**	1,048.0
Other current liabilities		**2,328.4**	2,738.9
Total current liabilities		**8,916.6**	8,389.5
Other Liabilities			
Long-term debt (Note 10)		**4,200.3**	5,519.4
Accrued retirement benefits (Note 15)		**1,549.4**	3,012.4
Long-term income taxes payable (Note 14)		**1,078.7**	1,334.3
Other noncurrent liabilities		**1,863.0**	1,369.4
Total other liabilities		**8,691.4**	11,235.5
Commitments and contingencies (Note 16)			
Eli Lilly and Company Shareholders' Equity (Notes 11 and 12)			
Common stock—no par value Authorized shares: 3,200,000 Issued shares: **1,117,628 (2013)** and 1,146,493 (2012)		**698.5**	716.6
Additional paid-in capital		**5,050.0**	4,963.1
Retained earnings		**16,992.4**	16,088.2
Employee benefit trust		**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 17)		**(2,002.7)**	(3,797.1)
Cost of common stock in treasury, **833 shares (2013)** and 2,850 shares (2012)		**(93.6)**	(192.4)
Total Eli Lilly and Company shareholders' equity		**17,631.4**	14,765.2
Noncontrolling interests		**9.3**	8.7
Total equity		**17,640.7**	14,773.9
Total liabilities and equity		**$ 35,248.7**	$ 34,398.9

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Other[1]	Shareholders' Equity
Balance at January 1, 2011	1,154,018	$ 721.3	$ 4,798.5	$ 12,732.6	$ (2,670.1)	864	$ (96.4)	$(3,065.6)	$ 12,420.3
Net income				4,347.7					4,347.7
Other comprehensive income (loss), net of tax					(1,188.5)				(1,188.5)
Cash dividends declared per share: $1.96				(2,182.5)					(2,182.5)
Retirement of treasury shares	(1)		(0.1)			(1)	0.1		—
Issuance of stock under employee stock plans-net	4,627	2.8	(108.7)			(10)	1.0		(104.9)
Stock-based compensation			147.4						147.4
ESOP transactions			49.7					52.4	102.1
Other								0.1	0.1
Balance at December 31, 2011	1,158,644	724.1	4,886.8	14,897.8	(3,858.6)	853	(95.3)	(3,013.1)	13,541.7
Net income				4,088.6					4,088.6
Other comprehensive income (loss), net of tax					61.5				61.5
Cash dividends declared per share: $1.96				(2,186.5)					(2,186.5)
Retirement of treasury shares	(14,912)	(9.3)		(711.7)		(14,912)	721.1		0.1
Purchase for treasury						16,918	(819.2)		(819.2)
Issuance of stock under employee stock plans-net	2,761	1.8	(65.2)			(9)	1.0		(62.4)
Stock-based compensation			141.5						141.5
Other								(0.1)	(0.1)
Balance at December 31, 2012	1,146,493	716.6	4,963.1	16,088.2	(3,797.1)	2,850	(192.4)	(3,013.2)	14,765.2
Net income				4,684.8					4,684.8
Other comprehensive income (loss), net of tax					1,794.4				1,794.4
Cash dividends declared per share: $1.96				(2,102.8)					(2,102.8)
Retirement of treasury shares	(32,406)	(20.3)		(1,677.8)		(32,406)	1,698.1		—
Purchase for treasury						30,400	(1,600.0)		(1,600.0)
Issuance of stock under employee stock plans-net	3,541	2.2	(58.0)			(11)	0.7		(55.1)
Stock-based compensation			144.9						144.9
Balance at December 31, 2013	**1,117,628**	**$ 698.5**	**$ 5,050.0**	**$ 16,992.4**	**$ (2,002.7)**	**833**	**$ (93.6)**	**$(3,013.2)**	**$ 17,631.4**

[1] Includes activity related to shares held by an employee benefit trust and employee stock ownership plan (ESOP). See Note 12 for additional details.

Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2013	2012	2011
Cash Flows from Operating Activities			
Net income	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities			
Depreciation and amortization	**1,445.6**	1,462.2	1,373.6
Change in deferred income taxes	**285.9**	126.0	(268.5)
Stock-based compensation expense	**144.9**	141.5	147.4
Impairment charges, indefinite lived intangibles	**—**	205.0	151.5
Acquired in-process research and development, net of tax	**37.1**	—	252.2
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**(495.4)**	(787.8)	—
Other operating activities, net	**25.1**	120.5	(17.8)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables—(increase) decrease	**(152.7)**	361.8	(188.8)
Inventories—(increase) decrease	**(286.5)**	(307.9)	203.1
Other assets—(increase) decrease	**116.5**	231.0	642.7
Accounts payable and other liabilities—increase (decrease)	**(70.3)**	(336.1)	591.4
Net Cash Provided by Operating Activities	**5,735.0**	5,304.8	7,234.5
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,012.1)**	(905.4)	(672.0)
Disposals of property and equipment	**179.4**	22.0	25.3
Proceeds from sales and maturities of short-term investments	**3,320.1**	2,547.5	1,807.9
Purchases of short-term investments	**(1,531.0)**	(2,172.4)	(2,058.8)
Proceeds from sales and maturities of noncurrent investments	**11,235.0**	4,355.7	2,138.5
Purchases of noncurrent investments	**(14,041.9)**	(7,618.6)	(4,459.4)
Purchase of product rights	**(24.1)**	(138.8)	(632.9)
Purchases of in-process research and development	**(57.1)**	—	(388.0)
Cash paid for acquisitions, net of cash acquired	**(43.7)**	(199.3)	(307.8)
Net change in loan to collaboration partner (Note 4)	**—**	165.0	(165.0)
Proceeds from prepayment of revenue-sharing obligation (Note 4)	**—**	1,212.1	—
Other investing activities, net	**(97.4)**	(100.6)	(112.2)
Net Cash Used for Investing Activities	**(2,072.8)**	(2,832.8)	(4,824.4)
Cash Flows from Financing Activities			
Dividends paid	**(2,120.7)**	(2,187.4)	(2,180.1)
Net change in short-term borrowings	**—**	—	(134.1)
Repayments of long-term debt	**(10.5)**	(1,511.1)	(61.7)
Purchases of common stock	**(1,698.1)**	(721.1)	—
Other financing activities, net	**—**	—	6.0
Net Cash Used for Financing Activities	**(3,829.3)**	(4,419.6)	(2,369.9)
Effect of exchange rate changes on cash and cash equivalents	**(21.5)**	43.9	(110.9)
Net decrease in cash and cash equivalents	**(188.6)**	(1,903.7)	(70.7)
Cash and cash equivalents at beginning of year	**4,018.8**	5,922.5	5,993.2
Cash and Cash Equivalents at End of Year	**$ 3,830.2**	$ 4,018.8	$ 5,922.5

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

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 and have evaluated subsequent events up to the time of the filing.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of dilutive stock options and other incremental shares.

Cash equivalents

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.

Inventories

We state all inventories at the lower of cost or market. We use the last-in, first-out (LIFO) method for the majority of our inventories located in the continental United States. Other inventories are valued by the first-in, first-out (FIFO) method. FIFO cost approximates current replacement cost.

Investments

Substantially all of our investments in debt and marketable equity securities are classified as available-for-sale. Investment securities with maturity dates of less than one year from the date of the balance sheet are classified as short-term. Available-for-sale securities are carried at fair value with the unrealized gains and losses, net of tax, reported in other comprehensive income (loss). The credit portion of unrealized losses on our debt securities considered to be other-than-temporary is recognized in earnings. The remaining portion of the other-than-temporary impairment on our debt securities is then recorded, net of tax, in other comprehensive income (loss). The entire amount of other-than-temporary impairment on our equity securities is recognized in earnings. We do not evaluate cost-method investments for impairment unless there is an indicator of impairment. We review these investments for indicators of impairment on a regular basis. Realized gains and losses on sales of available-for-sale securities 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. 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. We own no investments that are considered to be trading securities.

Risk-management instruments

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities, and transactions being hedged. As derivative contracts are initiated, we designate the instruments individually as either a fair value hedge or a cash flow hedge. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative contracts 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 contracts that are designated and qualify as cash flow hedges, the effective portion of gains and losses on these contracts is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings. Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in current earnings during the period of change.

We may enter into foreign currency forward contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, the 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 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 contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months.

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 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.

We may enter into forward contracts and designate them as cash flow hedges to limit the potential volatility of earnings and cash flow associated with forecasted sales of available-for-sale securities.

We may enter into forward-starting interest rate swaps as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. Upon completion of a debt issuance and termination of the swap, the change in fair value of these instruments is recorded as part of other comprehensive income (loss) and is amortized to interest expense over the life of the debt agreement.

Goodwill and other intangibles

Goodwill results from excess consideration in a business combination over the fair value of identifiable net assets acquired. Goodwill is not amortized.

Intangible assets with finite lives are capitalized and are amortized on a straight-line basis over their estimated useful lives, ranging from 3 to 20 years.

The costs of in-process research and development (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. The fair values of IPR&D projects acquired in business combinations are capitalized as other intangible assets. Several methods may be used to determine the estimated fair value of the IPR&D acquired in a business combination. We utilize the “income method,” which applies a probability weighting that considers the risk of development and commercialization, to the estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, 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 project independently. These 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. For transactions other than a business combination, we also capitalize milestone payments incurred at or after the product has

obtained regulatory approval for marketing and amortize those amounts over the remaining estimated useful life of the underlying asset.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually and when impairment indicators are 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 IPR&D assets for impairment testing purposes, we utilize the "income method" discussed in the previous paragraph. Finite-lived intangible assets are reviewed for impairment when an indicator of impairment is present.

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 3 to 18 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.

Litigation and environmental liabilities

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. For substantially all of our currently marketed products, we are completely self-insured for product liability losses.

Revenue recognition

We recognize revenue from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership. Provisions for returns, discounts, and rebates are established in the same period the related sales are recognized.

We also generate income as a result of collaboration agreements. Revenue from co-promotion arrangements is based upon gross margins reported to us by our co-promotion partners. Initial fees we receive from the partnering of our compounds under development where we have continuing involvement are generally amortized through the expected product approval date. For out-licensing agreements that include both the sale of marketing rights to our commercialized products and a related commitment to supply the products, the initial fees received are generally recognized in net product sales over the term of the supply agreement when we have determined that the marketing rights do not have value on a standalone basis. We immediately recognize the full amount of developmental milestone payments due to us upon the achievement of the milestone event if the event is objectively determinable and the milestone is substantive in its entirety. A milestone is considered substantive if the consideration earned 1) relates solely to past performance, 2) is commensurate with the enhancement in the pharmaceutical product's value associated with the achievement of the important event in its development life cycle, and 3) is reasonable relative to all of the deliverables and payment terms within the arrangement. Milestone payments earned by us are generally recorded in other–net, (income) expense. If the payment to us is a commercialization payment that is part of a multiple-element collaborative commercialization arrangement and is a result of the initiation of the commercialization period (e.g., payments triggered by regulatory approval for marketing or launch of the product), we amortize the payment to income as we perform under the terms of the arrangement. See Note 4 for specific agreement details.

Royalty revenue from licensees, which is based on third-party sales of licensed products and technology, is recorded as earned in accordance with the contract terms when third-party sales can be reasonably

measured and collection of the funds is reasonably assured. This royalty revenue is included in collaboration and other revenue.

Research and development expenses and acquired 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 IPR&D projects acquired directly in asset acquisitions, unless they have an alternative future use.

Income taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Federal income taxes are provided on the portion of the income of foreign subsidiaries that is expected to be remitted to the U.S. and be taxable. When foreign earnings are expected to be indefinitely reinvested outside the U.S., no accrual for U.S. income taxes is provided.

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.

Earnings per share

We calculate basic earnings per share based on the weighted-average number of common shares outstanding and incremental shares. We calculate diluted earnings per share based on the weighted-average number of common shares outstanding, including incremental shares and dilutive stock options. See Note 13 for further discussion.

Stock-based compensation

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. Under our policy, all stock-based awards are approved prior to the date of grant. The compensation committee of the board of directors approves the value of the award and date of grant. Stock-based compensation that is awarded as part of our annual equity grant is made on a specific grant date scheduled in advance.

Reclassifications

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

Note 2: Implementation of New Financial Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued a clarification regarding the presentation of an unrecognized tax benefit related to a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Under this new standard, the liability related to an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset if available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, the unrecognized tax benefit should be presented in the financial statements as a separate liability. The assessment is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date. The provisions of the new standard are effective on a prospective basis beginning in 2014 for annual and interim reporting periods, with earlier adoption permitted. While we are still finalizing our determination of the impact of this standard on both our deferred tax assets and income taxes payable, we do not currently anticipate that the implementation of this standard will have a material impact on our consolidated balance sheets, and it will have no impact on our consolidated statements of operations.

Note 3: Acquisitions

During 2012 and 2011, we completed the acquisitions of ChemGen Corporation (ChemGen) and the animal health business of Janssen Pharmaceuticia NV (Janssen), respectively. These acquisitions were accounted for as business combinations under the acquisition method of accounting. 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 these acquisitions are included in our consolidated financial statements from the date of acquisition. None of these acquisitions were material to our consolidated financial statements.

In addition to the acquisitions of businesses, we also acquired assets in development in 2013 and 2011 which are further discussed below in Product Acquisitions and in Note 4, respectively. Upon acquisition, the acquired IPR&D related to these products was immediately written off as an expense because the products had no alternative future use. For the years ended December 31, 2013 and 2011, we recorded acquired IPR&D charges of $57.1 million and $388.0 million, respectively, associated with these transactions. There were no acquired IPR&D charges in 2012.

In connection with the arrangements described below, our partners may be entitled to future milestones and royalties based on sales should these products be approved for commercialization.

Acquisition of Businesses

ChemGen

On February 17, 2012, we acquired all of the outstanding stock of ChemGen Corporation, a privately-held bioscience company specializing in the development and commercialization of innovative feed-enzyme products that improve the efficiency of poultry, egg, and meat production, for total purchase consideration of $206.9 million in cash. In connection with this acquisition, we recorded $151.5 million of marketed product assets and $55.4 million of other net assets.

Janssen

On July 7, 2011, we acquired the animal health business of Janssen, a Johnson & Johnson company, for total purchase consideration of $307.8 million in cash. We obtained a portfolio of more than 50 marketed animal health products. In connection with this acquisition, we recorded $234.4 million of marketed product assets, $29.6 million of acquired IPR&D assets, and $43.8 million of other net assets.

Product Acquisitions

In December 2013, we acquired all development and commercial rights for a calcitonin gene-related peptide (CGRP) antibody currently being studied as a potential treatment for the prevention of frequent, recurrent migraine headaches for $57.1 million in cash. At the time of the purchase, the product had completed a successful Phase II proof-of-concept study and had no alternative future use. The related $57.1 million charge for acquired IPR&D was included as expense in the fourth quarter of 2013 and is deductible for tax purposes.

Note 4: Collaborations

We often enter into collaborative 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 collaborations 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 or payments to the third party. Revenues related to products we sell pursuant to these arrangements are included in net product sales, while other sources of revenue (e.g., royalties and profit-share payments) are included in collaboration and other revenue. For the years ended December 31, 2013, 2012, and 2011, we recognized collaboration and other revenue of $707.5 million, $633.0 million, and $681.7 million, respectively. Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments made

to or reimbursements received from our collaboration partners. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

Exenatide

In November 2011, we agreed with Amylin Pharmaceuticals, Inc. (Amylin) to terminate our collaborative arrangement for the joint development, marketing, and selling of Byetta® (exenatide injection) and other forms of exenatide such as Bydureon® (exenatide extended-release for injectable suspension). Under the terms of the termination agreement, Amylin made a one-time, upfront payment to us of $250.0 million. Amylin also agreed to make future revenue-sharing payments to us in an amount equal to 15.0 percent of its global net sales of exenatide products until Amylin made aggregate payments to us of $1.20 billion plus interest, which would accrue at 9.5 percent. Upon completion of the acquisition of Amylin by Bristol-Myers Squibb Company in August 2012, Amylin's obligation of $1.26 billion, including accrued interest, was paid in full, with $1.21 billion representing a prepayment of the obligation. We would also receive a $150.0 million milestone payment contingent upon U.S. Food and Drug Administration (FDA) approval of a once-monthly suspension version of exenatide.

Commercial operations were transferred to Amylin in the U.S. in late-2011. Outside the U.S., we transferred to Amylin exenatide commercial rights and control in all markets during the first quarter of 2013.

Payments received from Amylin were allocated 65 percent to the U.S., which was treated as a contract termination, and 35 percent to the business outside the U.S., which was treated as the disposition of a business. The allocation was based upon relative fair values. The revenue-sharing income allocated to the U.S. was recognized as collaboration and other revenue, consistent with our policy for royalty revenue, while the income related to the prepayment of Amylin's obligation allocated to the U.S. was recognized in other-net, (income) expense. All income allocated to the business outside the U.S. that was transferred during the first quarter of 2013 was recognized as a gain on the disposition of a business in other–net, (income) expense, net of the goodwill allocated to the business transferred.

Prior to termination of the collaboration, we and Amylin were co-promoting Byetta in the United States. Amylin was responsible for manufacturing and primarily utilized third-party contract manufacturers to supply Byetta. We supplied Byetta pen delivery devices for Amylin and will continue to do so for a period that will not extend beyond the first quarter of 2014. We were responsible for certain development costs related to certain clinical trials outside the U.S. that we were conducting as of the date of the termination agreement as well as commercialization costs outside the U.S. until the commercial rights were transferred to Amylin.

Under the terms of our prior arrangement, we reported as collaboration and other revenue our 50 percent share of gross margin on Amylin’s net product sales in the United States. We reported as net product sales 100 percent of sales outside the U.S. and our sales of Byetta pen delivery devices to Amylin. We paid Amylin a percentage of the gross margin of exenatide sales outside of the U.S., and these costs were recorded in cost of sales. This arrangement for the commercial operations outside the U.S. continued until those rights were transferred to Amylin during the first quarter of 2013. Prior to termination of the agreement, under the 50/50 profit-sharing arrangement for the U.S., in addition to recording as revenue our 50 percent share of exenatide’s gross margin, we also recorded approximately 50 percent of U.S. related research and development costs and marketing and selling costs in the respective line items on the consolidated statements of operations.

In accordance with the prior arrangement and pursuant to Amylin’s request, we loaned Amylin $165.0 million in the second quarter of 2011. This loan and related accrued interest were paid in full in August 2012.

The following table summarizes the revenue and other income recognized with respect to exenatide:

	2013	2012	2011
Net product sales	**$ 133.1**	$ 207.8	$ 179.6
Collaboration and other revenue	**—**	70.1	243.1
Total revenue	**$ 133.1**	$ 277.9	$ 422.7
Income related to termination of the exenatide collaboration with Amylin[1]	**$ 495.4**	$ 787.8	$ —

[1] Presented in other-net, (income) expense

Effient®

We are in a collaborative arrangement with Daiichi Sankyo Co., Ltd. (Daiichi Sankyo) to develop, market, and promote Effient. We and Daiichi Sankyo co-promote Effient in certain territories (including the U.S. and five major European markets), while we have exclusive marketing rights in certain other territories. Daiichi Sankyo has exclusive marketing rights in Japan and certain other territories. The parties share approximately 50/50 in the profits, as well as in the costs of development and marketing in the co-promotion territories. A third party manufactures bulk product, and we produce the finished product for our exclusive and co-promotion territories. We record product sales in our exclusive and co-promotion territories. In our exclusive territories, we pay Daiichi Sankyo a royalty specific to these territories. Profit-share payments made to Daiichi Sankyo are recorded as marketing, selling, and administrative expenses. All royalties paid to Daiichi Sankyo and the third-party manufacturer are recorded in cost of sales. Effient sales were $508.7 million, $457.2 million, and $302.5 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Erbitux®

We have several collaborations with respect to Erbitux. The most significant collaborations are in the U.S., Canada, and Japan (Bristol-Myers Squibb Company); and worldwide except the U.S. and Canada (Merck KGaA). Upon expiration of the agreements, all of the rights to Erbitux in the U.S. and Canada return to us and certain rights to Erbitux outside the U.S. and Canada will remain with Merck KGaA (Merck).

The following table summarizes our revenue recognized with respect to Erbitux:

	2013	2012	2011
Net product sales	**$ 58.5**	$ 76.4	$ 87.6
Collaboration and other revenue	**315.2**	320.6	321.6
Total revenue	**$ 373.7**	$ 397.0	$ 409.2

Bristol-Myers Squibb Company

Pursuant to commercial agreements with Bristol-Myers Squibb Company and E.R. Squibb (collectively, BMS), we are co-developing Erbitux in the U.S. and Canada with BMS through September 2018, exclusively, and in Japan with BMS and Merck through 2032. Under these arrangements, Erbitux research and development and other costs are shared by both companies according to a predetermined ratio.

Responsibilities associated with clinical and other ongoing studies are apportioned between the parties under the agreements. Collaborative reimbursements received by us for supply of clinical trial materials; for research and development; and for a portion of marketing, selling, and administrative expenses are recorded as a reduction to the respective expense line items on the consolidated statement of operations. We receive a distribution fee in the form of a royalty from BMS, based on a percentage of net sales in the U.S. and Canada, which is recorded in collaboration and other revenue. Royalty expense paid to third parties, net of any reimbursements received, is recorded as a reduction of collaboration and other revenue.

We are responsible for the manufacture and supply of all requirements of Erbitux in bulk-form active pharmaceutical ingredient (API) for clinical and commercial use in the U.S. and Canada, and BMS will purchase all of its requirements of API for commercial use from us, subject to certain stipulations per the agreement. Sales of Erbitux to BMS for commercial use are reported in net product sales.

Merck KGaA

A development and license agreement grants Merck exclusive rights to market Erbitux outside of the U.S. and Canada, and expires in December 2018. A separate agreement grants co-exclusive rights among Merck, BMS and us in Japan and expires in 2032.

Merck manufactures Erbitux for supply in its territory as well as for Japan. We receive a royalty on the sales of Erbitux outside of the U.S. and Canada, which is included in collaboration and other revenue as earned. Collaborative reimbursements received for research and development and for marketing, selling, and administrative expenses are recorded as a reduction to the respective expense line items on the consolidated statement of operations. Royalty expense paid to third parties, net of any royalty reimbursements received, is recorded as a reduction of collaboration and other revenue.

Diabetes Collaboration

In January 2011, we and Boehringer Ingelheim entered into a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Currently, the compounds included in the collaboration are Boehringer Ingelheim's two oral diabetes agents, linagliptin and empagliflozin, and our new insulin glargine product. Additionally, Boehringer Ingelheim may elect to opt in to the Phase III development and potential commercialization of our anti-TGF-beta monoclonal antibody. Under the terms of the global agreement, we made an initial one-time payment to Boehringer Ingelheim of $388.0 million and recorded an acquired IPR&D charge, which was included as expense in the first quarter of 2011 and was deductible for tax purposes.

Linagliptin was subsequently approved in 2011 and launched in the U.S. (trade name Tradjenta®), Japan (trade name Trazenta™), certain countries in Europe (trade name Trajenta®), and other countries. Currently, empagliflozin and the new insulin glargine product are both under regulatory review in the U.S., Europe, and Japan, and the anti-TGF-beta monoclonal antibody is in Phase II clinical testing.

In connection with the approval of linagliptin in the U.S., Japan, and Europe, in 2011 we paid $478.7 million in success-based regulatory milestones, all of which were capitalized as intangible assets and are being amortized to cost of sales. We incurred milestone-related expenses of $97.2 million in connection with regulatory submissions for empagliflozin in the U.S., Europe, and Japan during 2013. These regulatory submission milestones were recorded as research and development expenses. We may also pay up to 225.0 million euro in additional success-based regulatory milestones for empagliflozin.

During 2013, we earned $50.0 million in milestones for the regulatory submissions of our new insulin glargine product in the U.S., Europe, and Japan. These submission milestones were recorded as income in other–net, (income) expense. In the future, we will be eligible to receive up to $250.0 million in success-based regulatory milestones on our new insulin glargine product.

Should Boehringer Ingelheim elect to opt in to the Phase III development and potential commercialization of the anti-TGF-beta monoclonal antibody, we would be eligible for up to $525.0 million in opt-in and success-based regulatory milestone payments.

The companies share ongoing development costs equally. The companies also share in the commercialization costs and gross margin for any product resulting from the collaboration that receives regulatory approval. We record our portion of the gross margin as collaboration and other revenue, and we record our portion of the commercialization costs as marketing, selling, and administrative expense. Each company will also be entitled to potential performance payments on sales of the molecules they contribute to the collaboration. Our revenue related to this collaboration (which is, to-date, entirely related to Trajenta) was $249.2 million, $88.6 million, and $15.1 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Solanezumab

We have an agreement with an affiliate of TPG-Axon Capital (TPG) whereby TPG funded a portion of the Phase III development of solanezumab. Under the agreement, TPG’s obligation to fund solanezumab costs was not material and ended in the first half of 2011. In exchange for their funding, TPG may receive success-based sales milestones totaling approximately $70 million and mid-single digit royalties contingent upon the successful development of solanezumab. The royalties would be paid for approximately ten years after launch of a product.

Baricitinib

In December 2009, we entered into a worldwide license and collaboration agreement with Incyte Corporation (Incyte) to acquire development and commercialization rights to its Janus tyrosine kinase (JAK) inhibitor compound, now known as baricitinib, 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 if the product is successfully commercialized. The agreement provides Incyte with options to co-develop these compounds 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. In 2010, Incyte exercised its option to co-develop baricitinib in rheumatoid arthritis. The agreement also provides Incyte with an option to co-promote in the U.S. and calls for payments associated with certain development, success-based regulatory, and sales-based milestones. Upon initiation of Phase III trials for the treatment of rheumatoid arthritis in the fourth quarter of 2012, we incurred a milestone-related expense of $50.0 million which was recorded as research and development expense. As of December 31, 2013, Incyte is eligible to receive up to $415.0 million of additional payments from us contingent upon certain development and success-based regulatory milestones as well as an additional $150.0 million of potential sales-based milestones.

Tanezumab

In October 2013, we entered into a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the potential treatment of osteoarthritis pain, chronic low back pain and cancer pain. Tanezumab is currently in Phase III development and is subject to a partial clinical hold by the FDA pending submission of nonclinical data to the FDA. Under the agreement, the companies share equally the ongoing development costs and, if successful, in gross margins and commercialization expenses. Contingent upon the parties continuing in the collaboration after receipt of the FDA's response to the submission of the nonclinical data, we will be obligated to pay an upfront fee of $200.0 million. This payment would be immediately expensed. In addition to this fee, we may pay 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. Both parties have the right to terminate the agreement under certain circumstances.

Summary of Collaboration-Related Commission and Profit-Share Payments

The aggregate amount of commission and profit-share payments included in marketing, selling, and administrative expense pursuant to the collaborations described above was $203.7 million, $188.5 million, and $125.4 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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.

	2013	2012	2011
Severance	**$ 90.6**	$ 74.5	$ 251.8
Asset impairment and other special charges	**30.0**	206.6	149.6
Asset impairment, restructuring, and other special charges	**$ 120.6**	$ 281.1	$ 401.4

Severance costs listed above for all years relate to initiatives to reduce our cost structure and global workforce.

For the year ended December 31, 2013, we incurred $30.0 million of asset impairment and other special charges related primarily to costs associated with the anticipated closure of a packaging and distribution facility in Germany.

For the year ended December 31, 2012, we incurred $206.6 million of asset impairment and other special charges consisting of $122.6 million related to an intangible asset impairment for liprotamase (see Note 8) net of the reduction of the related contingent consideration liability, $64.0 million related to the recognition of an

asset impairment associated with the decision to stop development of a delivery device platform, and $20.0 million resulting from a change in our estimates of returned product related to the withdrawal of Xigris™ from the market during the fourth quarter of 2011.

For the year ended December 31, 2011, we incurred $149.6 million of asset impairments and other special charges primarily consisting of $85.0 million for returned product and contractual commitments related to the withdrawal of Xigris from the market and $56.1 million related to our decision to vacate certain leased premises.

Note 6: Inventories

Inventories at December 31 consisted of the following:

	2013	2012
Finished products	**$ 968.1**	$ 834.4
Work in process	**1,868.3**	1,735.8
Raw materials and supplies	**259.0**	256.1
	3,095.4	2,826.3
Reduction to LIFO cost	**(166.6)**	(182.5)
Inventories	**$ 2,928.8**	$ 2,643.8

Inventories valued under the LIFO method comprised $1.02 billion and $994.3 million of total inventories at December 31, 2013 and 2012, 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-sciences products account for a substantial portion of trade receivables; collateral is generally not required. The risk associated with this concentration is mitigated by 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 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.

At December 31, 2013, we had outstanding foreign currency forward commitments to purchase 462.6 million U.S. dollars and sell 337.6 million euro; commitments to purchase 520.7 million euro and sell 716.8 million U.S. dollars; commitments to purchase 180.7 million British pounds and sell 216.0 million euro; and commitments to purchase 234.4 million U.S. dollars and sell 24.35 billion Japanese yen, which will all settle within 30 days.

At December 31, 2013, substantially all of our total debt is at a fixed rate. We have converted approximately 65 percent of our fixed-rate debt to floating rates through the use of interest rate swaps.

During 2013 we entered into forward-starting interest rate swaps with a notional amount of $500.0 million and maturities not exceeding 30 years to hedge a portion of the cash flows associated with the planned refinancing of our $1.00 billion March 2014 debt maturity.

The Effect of Risk Management Instruments on the Statement of Operations

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

	2013	2012	2011
Fair value hedges:			
Effect from hedged fixed-rate debt	**$ (308.2)**	$ 51.5	$ 259.6
Effect from interest rate contracts	**308.2**	(51.5)	(259.6)
Cash flow hedges:			
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**9.0**	9.0	9.0
Net (gains) losses on foreign currency exchange contracts not designated as hedging instruments	**15.4**	(35.8)	97.4

The effective portion of net gains (losses) on equity contracts in designated cash flow hedging relationships recorded in other comprehensive income (loss) was $(149.6) million, $0.0 million, and $35.6 million for the years ended December 31, 2013, 2012, and 2011, respectively. There were no equity contracts in designated cash flow hedging relationships in 2012. During the next 12 months, we expect to sell the underlying equity securities in designated cash flow hedging relationships that were outstanding at December 31, 2013, and will reclassify to earnings the accumulated other comprehensive loss related to the cash flow hedges and the unrealized gains on the underlying equity securities. The unrealized gains are in excess of the losses on the cash flow hedges.

For forward-starting interest rate swaps in designated cash flow hedging relationships associated with an anticipated debt issuance, the effective portion of net gains recorded in other comprehensive income (loss) was $16.7 million for the year ended December 31, 2013. There were no forward-starting interest rate swaps in designated cash flow hedging relationships in 2012 and 2011.

During the next 12 months, we expect to reclassify from accumulated other comprehensive loss to earnings $8.8 million of pretax net losses on cash flow hedges of the variability in expected future interest payments on our floating rate debt.

During the years ended December 31, 2013, 2012, and 2011, 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.

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	Amortized Cost	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, 2013						
Cash and cash equivalents	**$ 3,830.2**	**$ 3,830.2**	**$ 3,772.6**	**$ 57.6**	**$**	**$ 3,830.2**
Short-term investments:						
U.S. government and agencies	**$ 276.4**	**$ 276.6**	**$ 276.4**	**$**	**$**	**$ 276.4**
Corporate debt securities	**931.7**	**929.8**		**931.7**		**931.7**
Other securities	**2.7**	**2.7**		**2.7**		**2.7**
Marketable equity	**356.3**	**75.0**	**356.3**			**356.3**
Short-term investments	**$ 1,567.1**	**$ 1,284.1**				
Noncurrent investments:						
U.S. government and agencies	**$ 1,115.6**	**$ 1,126.1**	**$ 1,035.6**	**$ 80.0**	**$**	**$ 1,115.6**
Corporate debt securities	**4,940.5**	**4,933.7**		**4,940.5**		**4,940.5**
Mortgage-backed	**636.0**	**652.4**		**636.0**		**636.0**
Asset-backed	**490.0**	**494.5**		**490.0**		**490.0**
Other securities	**7.3**	**8.3**		**7.3**		**7.3**
Marketable equity	**81.2**	**22.8**	**81.2**			**81.2**
Equity method and other investments[1]	**354.3**	**354.3**				
Noncurrent investments	**$ 7,624.9**	**$ 7,592.1**				
December 31, 2012						
Cash and cash equivalents	$ 4,018.8	$ 4,018.8	$ 3,964.4	$ 54.4	$	$ 4,018.8
Short-term investments:						
U.S. government and agencies	$ 150.2	$ 150.2	$ 150.2	$	$	$ 150.2
Corporate debt securities	1,503.5	1,501.5		1,503.5		1,503.5
Other securities	11.8	11.8		11.8		11.8
Short-term investments	$ 1,665.5	$ 1,663.5				
Noncurrent investments:						
U.S. government and agencies	$ 1,362.7	$ 1,360.3	$ 1,122.4	$ 240.3	$	$ 1,362.7
Corporate debt securities	3,351.3	3,322.9		3,351.3		3,351.3
Mortgage-backed	668.1	677.7		668.1		668.1
Asset-backed	519.0	523.5		519.0		519.0
Other securities	3.3	3.3		3.3		3.3
Marketable equity	175.8	83.0	175.8			175.8
Equity method and other investments[1]	233.7	233.7				
Noncurrent investments	$ 6,313.9	$ 6,204.4				

1 Fair value not applicable

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
Long-term debt, including current portion					
December 31, 2013	**$ (5,212.9)**	**$**	**$ (5,490.9)**	**$**	**$ (5,490.9)**
December 31, 2012	(5,531.3)		(5,996.6)		(5,996.6)

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, 2013					
Risk-management instruments					
Interest rate contracts designated as hedging instruments:					
Other receivables	**$ 20.1**	**$**	**$ 20.1**	**$**	**$ 20.1**
Sundry	**278.7**		**278.7**		**278.7**
Other noncurrent liabilities	**(0.9)**		**(0.9)**		**(0.9)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**6.7**		**6.7**		**6.7**
Other current liabilities	**(7.1)**		**(7.1)**		**(7.1)**
Equity contracts designated as hedging instruments:					
Other current liabilities	**(149.6)**		**(149.6)**		**(149.6)**
December 31, 2012					
Risk-management instruments					
Interest rate contracts designated as hedging instruments:					
Sundry	589.4		589.4		589.4
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	11.0		11.0		11.0
Other current liabilities	(17.5)		(17.5)		(17.5)

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 an enforceable master netting arrangement 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 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 value of equity method investments and other investments is not readily available.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of December 31, 2013:

		Maturities by Period			
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 8,400.2	$ 1,210.8	$ 5,977.4	$ 471.3	$ 740.7

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 (pretax) in accumulated other comprehensive loss follows:

	2013	2012
Unrealized gross gains	**$ 375.6**	$ 140.5
Unrealized gross losses	**59.8**	29.0
Fair value of securities in an unrealized gain position	**4,982.7**	5,246.0
Fair value of securities in an unrealized loss position	**3,664.7**	2,102.0

Other-than-temporary impairment losses on investment securities of $11.3 million, $22.6 million, and $31.1 million were recognized in the consolidated statements of operations for the years ended December 31, 2013, 2012, and 2011, respectively. For fixed-income securities, the amount of credit losses represents the difference between the present value of cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing the credit loss were the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration.

The securities in an unrealized loss position include fixed-rate debt securities of varying maturities. The value of fixed-income securities is sensitive to changes in the yield curve and other market conditions. Approximately 90 percent of the securities in a loss position are investment-grade debt securities. At this time, there is no indication of default on interest or principal payments for debt securities other than those for which an other-than-temporary impairment charge has been recorded. We do not intend to sell and it is not more likely than not 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 we have concluded that no additional other-than-temporary loss is required to be charged to earnings as of December 31, 2013.

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

	2013	2012	2011
Proceeds from sales	**$ 13,753.5**	$ 6,529.8	$ 2,268.3
Realized gross gains on sales	**49.5**	82.3	140.0
Realized gross losses on sales	**15.4**	10.9	9.9

Note 8: Goodwill and Other Intangibles

Goodwill and other indefinite-lived intangible assets at December 31 were as follows:

	2013	2012
Goodwill (by segment):		
Human pharmaceutical products	**$ 1,354.7**	$ 1,364.2
Animal health	**162.1**	137.1
Total goodwill	**1,516.8**	1,501.3
In-process research and development	**33.6**	65.0
Total indefinite-lived intangible assets	**$ 1,550.4**	$ 1,566.3

No impairments occurred with respect to the carrying value of goodwill for the years ended December 31, 2013, 2012, and 2011.

IPR&D consists of the acquisition date fair value of products under development acquired in business combinations that have not yet achieved regulatory approval for marketing adjusted for subsequent impairments. Examples of such products acquired in business combinations include liprotamase and Amyvid®, which are discussed further below. As discussed in Note 1, we use the "income method" to calculate the fair value of the IPR&D assets, which is a Level 3 fair value measurement.

No material impairments occurred with respect to the carrying value of IPR&D for the year ended December 31, 2013.

In 2012, we recorded impairment charges of $205.0 million related to liprotamase as a result of changes in key assumptions used in the valuation, based upon additional communications with the FDA regarding the clinical trial that would be required for resubmission, and our expectations for the product.

In 2011, we recorded impairment charges of $151.5 million due primarily to the impairment of the IPR&D assets related to Amyvid and liprotamase. The impairment of Amyvid was due to a delay in product launch and lower sales projections during the early part of the product's expected life cycle. In April 2011, we received a complete response letter from the FDA for the New Drug Application (NDA) for liprotamase, which communicated the need for us to conduct an additional clinical trial prior to a resubmission, resulting in an impairment of liprotamase.

The components of finite-lived intangible assets at December 31 were as follows:

	2013			2012		
Description	Carrying Amount—Gross	Accumulated Amortization	Carrying Amount—Net	Carrying Amount—Gross	Accumulated Amortization	Carrying Amount—Net
Marketed products	**$ 5,136.1**	**$ (2,447.2)**	**$ 2,688.9**	$ 5,107.9	$ (1,987.0)	$ 3,120.9
Other	**164.8**	**(73.0)**	**91.8**	129.5	(64.0)	65.5
Total finite-lived intangible assets	**$ 5,300.9**	**$ (2,520.2)**	**$ 2,780.7**	$ 5,237.4	$ (2,051.0)	$ 3,186.4

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. Other 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. No material impairments occurred with respect to the carrying value of finite-lived intangible assets for the years ended December 31, 2013, 2012 and 2011.

See Note 3 for further discussion of intangible assets acquired in recent business combinations.

As of December 31, 2013, the remaining weighted-average amortization period for finite-lived intangible assets is approximately 8 years. Amortization expense was $555.0 million, $563.0 million, and $469.0 million for 2013, 2012, and 2011, respectively. The estimated amortization expense associated with our current finite-lived intangible assets for each of the next five years approximates $530 million in 2014, $490 million in 2015, $380 million in 2016, $200 million in 2017, and $180 million in 2018. 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

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

	2013	2012
Land	**$ 198.7**	$ 201.4
Buildings	**6,489.9**	6,373.8
Equipment	**7,752.7**	7,542.9
Construction in progress	**1,205.4**	799.9
	15,646.7	14,918.0
Less accumulated depreciation	**(7,671.2)**	(7,157.8)
Property and equipment, net	**$ 7,975.5**	$ 7,760.2

Depreciation expense for the years ended December 31, 2013, 2012, and 2011 was $774.8 million, $754.0 million, and $732.4 million, respectively. Interest costs of $24.1 million, $21.0 million, and $25.7 million were capitalized as part of property and equipment for the years ended December 31, 2013, 2012, and 2011, respectively. Total rental expense for all leases, including contingent rentals (not material), amounted to $227.2 million, $262.2 million, and $267.4 million for the years ended December 31, 2013, 2012, and 2011, respectively. Assets under capital leases included in property and equipment, net on the consolidated balance sheets, capital lease obligations entered into, and future minimum rental commitments are not material.

Note 10: Borrowings

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

	2013	2012
4.20 to 7.13 percent notes (due 2014-2037)	**$ 4,887.3**	$ 4,887.3
Other, including capitalized leases	**27.1**	37.4
Fair value adjustment	**298.5**	606.6
	5,212.9	5,531.3
Less current portion	**(1,012.6)**	(11.9)
Long-term debt	**$ 4,200.3**	$ 5,519.4

Current maturities of long-term debt of $1.51 billion were repaid during the year ended December 31, 2012.

The aggregate amounts of maturities on long-term debt for the next five years are $1.01 billion in 2014, $9.5 million in 2015, $205.6 million in 2016, $1.00 billion in 2017, and $200.3 million in 2018.

At December 31, 2013, we have $1.36 billion of unused committed bank credit facilities, $1.20 billion of which is a revolving credit facility that backs our commercial paper program and matures in April 2015. There were no amounts outstanding under the revolving credit facility during the year ended December 31, 2013. 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.

We have converted approximately 65 percent of all fixed-rate debt to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rates based on debt obligations and interest rates at December 31, 2013 and 2012, including the effects of interest rate swaps for hedged debt obligations, were 3.10 percent and 3.20 percent, respectively.

For the years ended December 31, 2013, 2012, and 2011, cash payments for interest on borrowings totaled $139.7 million, $171.9 million, and $167.4 million, respectively, net of capitalized interest.

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 11: Stock-Based Compensation

Stock-based compensation expense of $144.9 million, $141.5 million, and $147.4 million was recognized for the years ended December 31, 2013, 2012, and 2011, respectively, as well as related tax benefits of $50.7 million, $49.5 million, and $51.6 million, respectively. Our stock-based compensation expense consists of performance awards (PAs), shareholder value awards (SVAs), and restricted stock units (RSUs). We recognize stock-based compensation expense over the requisite service period of the individual grantees, which equals the vesting period. We provide newly issued shares and treasury stock to satisfy stock option exercises and for the issuance of PA, SVA, and RSU shares. We classify tax benefits resulting from tax deductions in excess of the compensation cost recognized for exercised stock options as a financing cash flow in the consolidated statements of cash flows.

At December 31, 2013, additional stock-based compensation awards may be granted under the 2002 Lilly Stock Plan for not more than 100.0 million 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 periods. The fair values of PAs granted for the years ended December 31, 2013, 2012, and 2011 were $50.19, $35.74, and $31.90, respectively. The number of shares ultimately issued for the PA program is dependent upon the earnings achieved during the vesting period. Pursuant to this plan, approximately 0.7 million shares, 1.6 million shares, and 3.9 million shares were issued during the years ended December 31, 2013, 2012, and 2011, respectively. Approximately 0.6 million shares are expected to be issued in 2014. As of December 31, 2013, the total remaining unrecognized compensation cost related to nonvested PAs was $18.9 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 at the end of a three-year period. 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, 2013, 2012, and 2011 were $45.17, $30.35, and $28.33, respectively, determined using the following assumptions:

(Percents)	2013	2012	2011
Expected dividend yield	**3.50%**	4.50%	4.90%
Risk-free interest rate	**.08-.43**	.10-.36	.20-1.36
Range of volatilities	**18.95-22.37**	22.40-25.64	27.61-29.10

A summary of the SVA activity is presented below:

Units Attributable to SVAs (in thousands)	2013	2012	2011
Outstanding at January 1	**7,539**	7,036	6,381
Granted	**1,795**	2,439	2,561
Issued	**(2,397)**	(973)	(428)
Forfeited or expired	**(301)**	(963)	(1,478)
Outstanding at December 31	**6,636**	7,539	7,036

Approximately 2.2 million shares are expected to be issued in 2014. As of December 31, 2013, the total remaining unrecognized compensation cost related to nonvested SVAs was $51.6 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 3 years. The fair values of RSU awards granted during the years ended December 31, 2013, 2012, and 2011 were $54.10, $39.65, and $35.80, respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures. Pursuant to this plan, 1.1 million, 1.4 million, and 1.5 million shares were granted during the years ended December 31, 2013, 2012, and 2011, respectively, and approximately 0.8 million, 0.3 million, and 0.2 million shares were issued during the years ended December 31, 2013, 2012, and 2011, respectively. Approximately 0.8 million shares are expected to be issued in 2014. As of December 31, 2013, the total remaining unrecognized compensation cost related to nonvested RSUs was $58.4 million, which will be amortized over the weighted-average remaining requisite service period of 21 months.

Stock Option Program

Stock options were granted prior to 2007 to officers, management, and board members at exercise prices equal to the fair market value of our stock at the date of grant. Options fully vested 3 years from the grant date and have a term of 10 years.

Stock option activity during the year ended December 31, 2013 is summarized below:

	Shares of Common Stock Attributable to Options (in thousands)	Weighted-Average Exercise Price of Options	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2013	27,232	$ 63.89		
Exercised	(208)	54.27		
Forfeited or expired	(10,884)	59.95		
Outstanding at December 31, 2013	16,140	66.66	0.7	$ —
Exercisable at December 31, 2013	16,140	66.66	0.7	—

For options exercised during the years ended December 31, 2013, 2012, and 2011, the related intrinsic value, cash received, and tax benefits were not material.

Note 12: Shareholders' Equity

During 2013, we purchased $500.0 million of shares associated with our $5.00 billion share repurchase program that was announced in the fourth quarter of 2013. As of December 31, 2013, there were $4.50 billion of shares remaining in that program. During 2013 and 2012, we repurchased $1.10 billion and $400.0 million, respectively, of shares, completing our $1.50 billion share repurchase program announced in 2012. During 2012, we also repurchased $419.2 million of shares, completing our $3.00 billion share repurchase program announced in 2000. No shares were repurchased during the year ended December 31, 2011.

We have 5.0 million authorized shares of preferred stock. As of December 31, 2013 and 2012, no preferred stock has been issued.

We have an employee benefit trust that held 50.0 million shares of our common stock at both December 31, 2013 and 2012, 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, 2013 and 2012, and is shown as a reduction in 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 earnings per share. 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, 2013, 2012, and 2011.

We have an ESOP as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from us to purchase shares of common stock from our treasury. The ESOP issued third-party debt, which was repaid in 2011. The proceeds were used to purchase shares of our common stock on the open market. As of December 31, 2013, all shares of common stock held by the ESOP were allocated to participating employees as part of our savings plan contribution. The fair value of shares allocated each period was recognized as compensation expense.

Note 13: Earnings Per Share

Following is a reconciliation of the denominators used in computing earnings per share:

(Shares in thousands)	2013	2012	2011
Income available to common shareholders	**$ 4,684.8**	$ 4,088.6	$ 4,347.7
Basic earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares	**1,080,874**	1,113,178	1,113,923
Basic earnings per share	**$ 4.33**	$ 3.67	$ 3.90
Diluted earnings per share:			
Weighted-average number of common shares outstanding, including incremental shares and stock options	**1,084,766**	1,117,294	1,113,967
Diluted earnings per share	**$ 4.32**	$ 3.66	$ 3.90

Note 14: Income Taxes

Following is the composition of income tax expense:

	2013	2012	2011
Current:			
Federal	**$ 259.1**	$ 596.8	$ 671.4
Foreign	**553.2**	540.6	759.5
State	**126.3**	56.2	(22.9)
Total current tax expense	**938.6**	1,193.6	1,408.0
Deferred:			
Federal	**297.0**	87.0	(398.5)
Foreign	**(28.2)**	29.9	(34.7)
State	**(2.9)**	9.1	27.0
Total deferred tax expense (benefit)	**265.9**	126.0	(406.2)
Income taxes	**$ 1,204.5**	$ 1,319.6	$ 1,001.8

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

	2013	2012
Deferred tax assets:		
Compensation and benefits	**$ 639.8**	$ 1,081.8
Tax credit carryforwards and carrybacks	**494.6**	703.2
Purchases of intangible assets	**418.8**	366.8
Product return reserves	**313.7**	153.8
Tax loss carryforwards and carrybacks	**311.7**	370.1
Debt	**110.0**	232.8
Contingencies	**106.0**	113.2
Intercompany profit in inventories	**104.5**	159.6
Sale of intangibles	**76.5**	278.6
Other	**518.5**	361.5
Total gross deferred tax assets	**3,094.1**	3,821.4
Valuation allowances	**(647.1)**	(675.8)
Total deferred tax assets	**2,447.0**	3,145.6
Deferred tax liabilities:		
Unremitted earnings	**(898.3)**	(920.4)
Inventories	**(685.6)**	(573.4)
Intangibles	**(598.9)**	(708.8)
Prepaid employee benefits	**(446.2)**	—
Property and equipment	**(379.1)**	(407.1)
Financial instruments	**(109.6)**	(257.0)
Total deferred tax liabilities	**(3,117.7)**	(2,866.7)
Deferred tax assets (liabilities) - net	**$ (670.7)**	$ 278.9

At December 31, 2013 and 2012, no individually significant items were classified as “Other” deferred tax assets.

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.

Based on filed tax returns, we have tax credit carryforwards and carrybacks of $494.6 million available to reduce future income taxes; $2.9 million will be carried back; $183.8 million of the tax credit carryforwards will expire between 2023 and 2033; and $4.9 million of the tax credit carryforwards will never expire. The remaining portion of the tax credit carryforwards is related to federal tax credits of $80.3 million, international tax credits of $105.3 million, and state tax credits of $117.4 million, all of which are substantially reserved.

At December 31, 2013, based on filed tax returns we had net operating losses and other carryforwards for international and U.S. income tax purposes of $662.5 million: $262.8 million will expire by 2018; $356.8 million will expire between 2018 and 2033; and $42.9 million of the carryforwards will never expire. Other carryforwards for international and U.S. federal income tax purposes are substantially reserved. Deferred tax assets related to state net operating losses of $81.0 million and $9.8 million of other state carryforwards are substantially reserved.

Domestic and Puerto Rican companies contributed approximately 61 percent, 54 percent, and 24 percent for the years ended December 31, 2013, 2012, and 2011, respectively, to consolidated income before income taxes. We have a subsidiary operating in Puerto Rico under a tax incentive grant. The current tax incentive grant will not expire prior to 2017.

At December 31, 2013, U.S. income taxes have not been provided on approximately $23.74 billion of unremitted earnings of foreign subsidiaries as we consider these unremitted earnings to be indefinitely invested for continued use in our foreign operations. Additional tax provisions will be required if these earnings are repatriated in the future to the United States. Due to complexities in the tax laws and assumptions that we would have to make, it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

Cash payments of income taxes totaled $1.26 billion, $992.0 million, and $942.8 million, for the years ended December 31, 2013, 2012, and 2011, respectively.

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:

	2013	2012	2011
Income tax at the U.S. federal statutory tax rate	**$ 2,061.3**	$ 1,892.9	$ 1,872.3
Add (deduct):			
International operations, including Puerto Rico	**(778.3)**	(593.8)	(796.7)
General business credits	**(175.6)**	(11.2)	(80.8)
IRS audit conclusion	**(7.9)**	—	(85.3)
Other	**105.0**	31.7	92.3
Income taxes	**$ 1,204.5**	$ 1,319.6	$ 1,001.8

The American Taxpayer Relief Act of 2012, which included the reinstatement of the research tax credit for the year 2012, was enacted in early 2013. Therefore, the research tax credits for the years 2012 and 2013 are both included in 2013 with general business credits.

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

	2013	2012	2011
Beginning balance at January 1	**$ 1,534.3**	$ 1,369.3	$ 1,714.3
Additions based on tax positions related to the current year	**142.5**	144.8	89.4
Additions for tax positions of prior years	**251.5**	70.1	390.0
Reductions for tax positions of prior years	**(358.2)**	(38.5)	(492.3)
Settlements	**(404.9)**	(9.2)	(326.3)
Lapses of statutes of limitation	**(24.9)**	(4.6)	(2.6)
Changes related to the impact of foreign currency translation	**(3.9)**	2.4	(3.2)
Ending balance at December 31	**$ 1,136.4**	$ 1,534.3	$ 1,369.3

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $523.3 million and $928.1 million at December 31, 2013 and 2012, 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 2007.

During 2011, we settled the U.S. examinations of tax years 2005-2007, along with certain matters related to tax years 2008-2009. The examination of the remainder of 2008-2009 commenced in the fourth quarter of 2011. Considering this current examination cycle, as well as the settlement of 2005-2007 and certain matters related to 2008-2009, our consolidated results of operations benefited from a reduction in tax expense of $85.3 million in 2011. We made cash payments totaling approximately $300 million for tax years 2005-2007.

During 2013, we reached resolution on the remaining matters related to tax years 2008–2009 that were not settled as part of a previous examination. Considering the impact of this resolution on periods that have not yet been examined, as well as its impact on tax asset carryforwards, there was an immaterial benefit to our consolidated results of operations. We made cash payments of approximately $135 million related to tax years 2008–2009 after application of available tax credit carryforwards and carrybacks. The examination of tax years 2010-2012 commenced during the fourth quarter of 2013. Because the examination of tax years 2010-2012 is still in the early stages, the resolution of matters in this audit period will likely extend beyond the next 12 months.

We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense. During the years ended December 31, 2013, 2012, and 2011, we recognized income tax expense (benefit) of $(10.9) million, $42.3 million, and $(47.3) million, respectively, related to interest and penalties. At December 31, 2013 and 2012, our accruals for the payment of interest and penalties totaled $161.5 million and $187.5 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	
	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 10,423.8**	$ 9,191.2	**$ 2,337.7**	$ 2,308.6
Service cost	**287.1**	253.1	**49.9**	63.3
Interest cost	**437.2**	455.1	**98.1**	114.9
Actuarial (gain) loss	**(792.2)**	834.0	**(642.5)**	(57.0)
Benefits paid	**(402.3)**	(404.2)	**(79.6)**	(67.2)
Plan amendments	**(0.1)**	(0.6)	**(4.1)**	(28.4)
Foreign currency exchange rate changes and other adjustments	**22.9**	95.2	**(2.3)**	3.5
Benefit obligation at end of year	**9,976.4**	10,423.8	**1,757.2**	2,337.7
Change in plan assets:				
Fair value of plan assets at beginning of year	**8,286.6**	7,186.3	**1,518.0**	1,339.0
Actual return on plan assets	**1,144.6**	922.7	**365.7**	183.4
Employer contribution	**428.9**	469.7	**75.5**	62.8
Benefits paid	**(402.3)**	(404.2)	**(79.6)**	(67.2)
Foreign currency exchange rate changes and other adjustments	**23.9**	112.1	**—**	—
Fair value of plan assets at end of year	**9,481.7**	8,286.6	**1,879.6**	1,518.0
Funded status	**(494.7)**	(2,137.2)	**122.4**	(819.7)
Unrecognized net actuarial loss	**3,546.3**	5,187.5	**178.1**	1,156.7
Unrecognized prior service (benefit) cost	**50.7**	54.9	**(171.5)**	(203.4)
Net amount recognized	**$ 3,102.3**	$ 3,105.2	**$ 129.0**	$ 133.6
Amounts recognized in the consolidated balance sheet consisted of:				
Sundry	**$ 881.2**	$ 125.5	**$ 366.4**	$ —
Other current liabilities	**(62.8)**	(61.2)	**(7.7)**	(8.9)
Accrued retirement benefits	**(1,313.1)**	(2,201.6)	**(236.3)**	(810.8)
Accumulated other comprehensive loss before income taxes	**3,597.0**	5,242.5	**6.6**	953.3
Net amount recognized	**$ 3,102.3**	$ 3,105.2	**$ 129.0**	$ 133.6

The unrecognized net actuarial loss and unrecognized prior service cost (benefit) have not yet been recognized in net periodic pension costs and are included in accumulated other comprehensive loss at December 31, 2013.

During 2014, we expect the following components of accumulated other comprehensive loss to be recognized as components of net periodic benefit cost:

	Defined Benefit Pension Plans	Retiree Health Benefit Plans
Unrecognized net actuarial loss	$ 277.2	$ 20.0
Unrecognized prior service cost	3.6	(31.2)
Total	$ 280.8	$ (11.2)

We do not expect any plan assets to be returned to us in 2014.

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

(Percents)	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2013	2012	2011	2013	2012	2011
Discount rate for benefit obligation	**4.9**	4.3	5.0	**5.0**	4.3	5.1
Discount rate for net benefit costs	**4.3**	5.0	5.6	**4.3**	5.1	5.8
Rate of compensation increase for benefit obligation	**3.4**	3.4	3.7			
Rate of compensation increase for net benefit costs	**3.4**	3.7	3.7			
Expected return on plan assets for net benefit costs	**8.4**	8.4	8.5	**8.8**	8.8	8.8

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. Health-care-cost trend rates are assumed to increase at an annual rate of 6.6 percent for the year ended December 31, 2014, decreasing by approximately 0.3 percent per year to an ultimate rate of 5.0 percent by 2020.

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

	2014	2015	2016	2017	2018	2019-2023
Defined benefit pension plans	$ 430.9	$ 440.1	$ 453.0	$ 469.0	$ 486.0	$ 2,726.0
Retiree health benefit plans-gross	$ 94.0	$ 98.0	$ 102.3	$ 106.4	$ 111.0	$ 612.3
Medicare rebates	(6.8)	(7.6)	(8.2)	(9.0)	(9.8)	(60.5)
Retiree health benefit plans-net	$ 87.2	$ 90.4	$ 94.1	$ 97.4	$ 101.2	$ 551.8

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

	2013	2012
Projected benefit obligation	**$ 1,773.6**	$ 9,151.2
Fair value of plan assets	**395.4**	6,888.6

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

	2013	2012
Accumulated benefit obligation	**$ 1,384.6**	$ 8,021.0
Fair value of plan assets	**181.8**	6,580.6

The total accumulated benefit obligation for our defined benefit pension plans was $9.13 billion and $9.46 billion at December 31, 2013 and 2012, respectively.

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

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2013	2012	2011	2013	2012	2011
Components of net periodic benefit cost:						
Service cost	**$ 287.1**	$ 253.1	$ 236.3	**$ 49.9**	$ 63.3	$ 72.4
Interest cost	**437.2**	455.1	447.9	**98.1**	114.9	118.0
Expected return on plan assets	**(701.9)**	(684.8)	(685.9)	**(130.7)**	(127.2)	(129.4)
Amortization of prior service (benefit) cost	**3.7**	4.2	8.6	**(35.6)**	(39.8)	(42.9)
Recognized actuarial loss	**414.7**	285.7	200.4	**100.5**	98.4	88.7
Net periodic benefit cost	**$ 440.8**	$ 313.3	$ 207.3	**$ 82.2**	$ 109.6	$ 106.8

If the healthcare-cost trend rates were to be increased by one percentage point, the December 31, 2013, accumulated postretirement benefit obligation would increase by $169.7 million and the aggregate of the service cost and interest cost components of the 2013 annual expense would increase by $9.4 million. A one percentage point decrease in these rates would decrease the December 31, 2013, accumulated postretirement benefit obligation by $149.1 million, and the aggregate of the 2013 service cost and interest cost by $7.6 million.

The following represents the amounts recognized in other comprehensive income (loss) for the year ended December 31, 2013:

	Defined Benefit Pension Plans	Retiree Health Benefit Plans
Actuarial gain arising during period	$ 1,234.7	$ 877.6
Plan amendments during period	0.1	4.1
Amortization of prior service (benefit) cost included in net income	3.7	(35.6)
Amortization of net actuarial loss included in net income	414.7	100.5
Foreign currency exchange rate changes	(7.7)	0.1
Total other comprehensive income during period	$ 1,645.5	$ 946.7

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 $147.7 million, $136.3 million, and $124.8 million for the years ended December 31, 2013, 2012, and 2011, 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, 2013, 2012, and 2011 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 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 any 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 80 percent growth investments and 20 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, and commercial mortgage-backed obligations.

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 primarily in fund-of-funds structures to ensure diversification across many strategies and many individual managers. 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, and special situation investing. 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 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 both public and private 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 Level 3. 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 invested in investment-grade publicly traded equity and fixed-income securities.

Other than hedge funds, private equity-like investments, and real estate, 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, 2013 by asset category are as follows:

		Fair Value Measurements Using		
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Defined Benefit Pension Plans				
Public equity securities:				
U.S.	$ 400.3	$ 189.2	$ 211.1	$
International	2,483.8	1,045.8	1,438.0	
Fixed income:				
Developed markets	1,036.1	170.2	850.0	15.9
Emerging markets	382.6		382.6	
Private alternative investments:				
Hedge funds	2,902.3		1,461.9	1,440.4
Equity-like funds	1,069.9		76.4	993.5
Real estate	521.4	368.0		153.4
Other	685.3	245.2	440.1	
Total	$ 9,481.7	$ 2,018.4	$ 4,860.1	$ 2,603.2
Retiree Health Benefit Plans				
Public equity securities:				
U.S.	$ 39.4	$ 18.3	$ 21.1	$
International	167.2	61.6	105.6	
Fixed income:				
Developed markets	54.7		53.1	1.6
Emerging markets	38.2		38.2	
Private alternative investments:				
Hedge funds	266.4		145.8	120.6
Equity-like funds	88.9			88.9
Cash value of trust owned insurance contract	1,136.8		1,136.8	
Real estate	36.7	36.7		
Other	51.3	18.0	33.3	
Total	$ 1,879.6	$ 134.6	$ 1,533.9	$ 211.1

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2013.

The activity in the Level 3 investments during the year ended December 31, 2013 was as follows:

	Fixed Income: Developed Markets	Hedge Funds	Equity-like Funds	Real Estate	Total
Defined Benefit Pension Plans					
Beginning balance at January 1, 2013	$ 3.7	$ 1,218.1	$ 910.5	$ 142.6	$ 2,274.9
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	(3.0)	123.4	155.7	8.5	284.6
Relating to assets sold during the period	—	—	—	—	—
Purchases, sales, and settlements, net	3.7	98.9	(72.7)	2.3	32.2
Transfers into (out of) Level 3	11.5	—	—	—	11.5
Ending balance at December 31, 2013	$ 15.9	$ 1,440.4	$ 993.5	$ 153.4	$ 2,603.2
Retiree Health Benefit Plans					
Beginning balance at January 1, 2013	$ 0.4	$ 99.9	$ 81.9		$ 182.2
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	(0.3)	10.3	13.9		23.9
Relating to assets sold during the period	—	—	—		—
Purchases, sales, and settlements, net	0.4	10.4	(6.9)		3.9
Transfers into (out of) Level 3	1.1	—	—		1.1
Ending balance at December 31, 2013	$ 1.6	$ 120.6	$ 88.9		$ 211.1

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2012 by asset category are 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)
Defined Benefit Pension Plans				
Public equity securities:				
U.S.	$ 457.7	$ 307.9	$ 149.8	$
International	1,905.3	673.3	1,232.0	
Fixed income:				
Developed markets	1,075.4	156.4	915.3	3.7
Emerging markets	402.3		402.3	
Private alternative investments:				
Hedge funds	2,555.5		1,337.4	1,218.1
Equity-like funds	991.2	17.4	63.3	910.5
Real estate	504.3	353.5	8.2	142.6
Other	394.9	140.1	254.8	
Total	$ 8,286.6	$ 1,648.6	$ 4,363.1	$ 2,274.9
Retiree Health Benefit Plans				
Public equity securities:				
U.S.	$ 45.4	$ 30.4	$ 15.0	$
International	127.7	33.9	93.8	
Fixed income:				
Developed markets	59.4		59.0	0.4
Emerging markets	40.3		40.3	
Private alternative investments:				
Hedge funds	234.0		134.1	99.9
Equity-like funds	81.9			81.9
Cash value of trust owned insurance contract	869.1		869.1	
Real estate	35.4	35.4		
Other	24.8	6.2	18.6	
Total	$ 1,518.0	$ 105.9	$ 1,229.9	$ 182.2

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2012.

The activity in the Level 3 investments during the year ended December 31, 2012 was as follows:

	Fixed Income: Developed Markets	Hedge Funds	Equity-like Funds	Real Estate	Total
Defined Benefit Pension Plans					
Beginning balance at January 1, 2012	$ —	$ 1,248.4	$ 870.2	$ 138.0	$ 2,256.6
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	0.3	18.3	10.1	3.3	32.0
Relating to assets sold during the period	—	(0.2)	—	—	(0.2)
Purchases, sales, and settlements, net	2.3	(48.4)	30.2	1.3	(14.6)
Transfers into (out of) Level 3	1.1	—	—	—	1.1
Ending balance at December 31, 2012	$ 3.7	$ 1,218.1	$ 910.5	$ 142.6	$ 2,274.9
Retiree Health Benefit Plans					
Beginning balance at January 1, 2012	$ —	$ 105.3	$ 79.9		$ 185.2
Actual return on plan assets, including changes in foreign exchange rates:					
Relating to assets still held at the reporting date	—	(0.9)	—		(0.9)
Relating to assets sold during the period	—	—	—		—
Purchases, sales, and settlements, net	0.3	(4.5)	2.0		(2.2)
Transfers into (out of) Level 3	0.1	—	—		0.1
Ending balance at December 31, 2012	$ 0.4	$ 99.9	$ 81.9		$ 182.2

Contributions to our global defined benefit pension and post-retirement health benefit plans to satisfy minimum funding requirements as well as additional discretionary funding in the aggregate are not expected to be material during 2014.

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 specifically 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.

Alimta Patent Litigation and Administrative Proceedings

We are engaged in various U.S. patent litigation matters involving Alimta brought pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). Teva Parenteral Medicines, Inc. (Teva); APP Pharmaceuticals, LLC (APP); Barr Laboratories, Inc. (Barr); Pliva Hrvatska D.O.O. (Pliva); Accord Healthcare Inc. (Accord); and Apotex Inc. (Apotex) each submitted Abbreviated New Drug Applications (ANDAs) seeking approval to market generic versions of Alimta prior to the expiration of our vitamin dosage regimen patent (expiring in 2021 plus pediatric exclusivity expiring in 2022) and alleging the patent is invalid.

In October 2010, we filed a lawsuit in the U.S. District Court for the Southern District of Indiana against Teva, APP, Pliva, and Barr seeking rulings that the patent is valid and infringed. Trial in this case occurred in August 2013, and we are awaiting a decision. In January 2012 and April 2012, we filed similar lawsuits in the same court against Accord and Apotex, respectively. We filed a second lawsuit against Accord in February 2013. In September 2013, we filed a similar lawsuit in the same court against Sun Pharmaceutical Industries, Ltd. and Sun Pharma Global seeking a ruling that Lilly's patent is valid and infringed. In January 2014, we filed a

similar lawsuit in the same court against Glenmark Generics Inc., USA, seeking a ruling that Lilly's patent is valid and infringed. The Accord and Apotex cases have been consolidated and stayed by the court and the parties have agreed to be bound by the outcome of the Teva/APP litigation. In June 2013, Accord filed a petition requesting review of the patent by the U.S. Patent and Trademark Office, which was denied in October 2013. This denial is final and cannot be appealed.

Generic manufacturers have filed an opposition to the European Patent Office's decision to grant a vitamin dosage regimen patent. The Opposition Division upheld the patent and the generic manufacturers have lodged an appeal. In addition, in the UK, Actavis Group ehf and other Actavis companies have filed litigation asking for a declaratory judgment that commercialization of certain salt forms of pemetrexed (the active ingredient in Alimta) would not infringe the vitamin dosage regimen patents in the UK, Italy, France, Germany, and Spain. This case is scheduled to be heard by the trial court in April 2014. We have commenced separate infringement proceedings against certain Actavis companies in Germany. The German case is scheduled to be heard by the trial court in March 2014.

We believe our Alimta vitamin dosage patents are valid and enforceable against these generic manufacturers and we expect to prevail in these proceedings. However, it is not possible to determine the outcome of the proceedings, and accordingly, we can provide no assurance that we will prevail. An unfavorable outcome could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect a loss of exclusivity for Alimta would result in a rapid and severe decline in future revenues in the relevant market.

Byetta Product Liability Litigation

We have been named as a defendant in approximately 275 Byetta product liability lawsuits involving approximately 700 plaintiffs. Approximately 95 of these lawsuits, covering about 510 plaintiffs, are filed in California and coordinated in a Los Angeles Superior Court. Approximately 190 of these lawsuits, involving approximately 265 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer). We are aware of approximately 460 additional claimants who have not yet filed suit. The majority of these additional claims allege damages for pancreatitis. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Prozac® Product Liability Litigation

We have been named as a defendant in approximately 10 U.S. lawsuits primarily related to allegations that the antidepressant Prozac caused or contributed to birth defects in the children of women who ingested the drug during pregnancy. We are aware of approximately 370 additional claims related to birth defects, which have not yet been filed. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Brazil–Employee Litigation

We have been named in a lawsuit brought by the Labor Attorney for 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 manufacturing facility in Cosmopolis, Brazil. Final arguments were submitted in September and we are awaiting a decision. We have also been named in approximately 30 lawsuits filed in the same court by individual former employees making similar claims. We believe these lawsuits are without merit and are prepared to defend against them vigorously.

Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of 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 marketed products.

Note 17: Other Comprehensive Income (Loss)

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

(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	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2011	$ 510.7	$ 128.9	$ (3,175.8)	$ (133.9)	$ (2,670.1)
Unrealized gain (loss)		(59.4)		32.6	
Net amount reclassed to net income		(54.7)		(5.8)	
Net other comprehensive income (loss)	(244.8)	(114.1)	(856.4)	26.8	(1,188.5)
Balance at December 31, 2011	265.9	14.8	(4,032.2)	(107.1)	(3,858.6)
Unrealized gain (loss)		104.1		—	
Net amount reclassed to net income		(46.4)		5.9	
Net other comprehensive income (loss)	160.9	57.7	(163.0)	5.9	61.5
Balance at December 31, 2012	426.8	72.5	(4,195.2)	(101.2)	(3,797.1)
Other comprehensive income (loss) before reclassifications	**36.2**	**138.9**	**1,387.1**	**(86.5)**	**1,475.7**
Net amount reclassified from accumulated other comprehensive loss		**(6.2)**	**319.0**	**5.9**	**318.7**
Net other comprehensive income (loss)	**36.2**	**132.7**	**1,706.1**	**(80.6)**	**1,794.4**
Ending Balance at December 31, 2013	**$ 463.0**	**$ 205.2**	**$ (2,489.1)**	**$ (181.8)**	**$ (2,002.7)**

The tax effect on the unrealized net gains (losses) on securities was an expense of $71.6 million in 2013, an expense of $30.8 million in 2012, and a benefit of $64.4 million in 2011. The tax effect related to our defined benefit pension and retiree health benefit plans (Note 15) was an expense of $886.1 million in 2013, an expense of $34.4 million in 2012, and a benefit of $383.8 million in 2011. The tax effect on the effective portion of cash flow hedges was a benefit of $43.2 million for the year ended December 31, 2013, and was not significant for the years ended December 31, 2012 and 2011. 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 income.

Details about Accumulated Other Comprehensive Loss Components	Reclassifications Out of Accumulated Other Comprehensive Loss Year Ended December 31, 2013	Affected Line Item in the Consolidated Statements of Operations
Amortization of defined benefit items:		
Prior service benefits, net	$ (31.9)	(1)
Actuarial losses	515.2	(1)
Total before tax	483.3	
Tax benefit	(164.3)	
Net of tax	319.0	
Other, net of tax	(0.3)	Other—net, (income) expense
Total reclassifications for the period (net of tax).	$ 318.7	

1 These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 15).

Note 18: Other–Net, (Income) Expense

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

	2013	2012	2011
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**$ (495.4)**	$ (787.8)	$ —
Interest expense	**160.1**	177.8	186.0
Interest income	**(119.7)**	(105.0)	(79.9)
Other (income) expense	**(63.9)**	41.0	72.9
Other–net, (income) expense	**$ (518.9)**	$ (674.0)	$ 179.0

For the years ended December 31, 2013 and 2012, other–net, (income) expense primarily consists of income associated with the termination of the exenatide collaboration with Amylin, including income recognized from the transfer to Amylin of exenatide commercial rights in all markets outside the U.S. in 2013 and income recognized from the early payment of the exenatide revenue-sharing obligation by Amylin in 2012. See Note 4 for additional information. For the year ended December 31, 2011, other–net, (income) expense primarily consists of the impairment on acquired IPR&D assets related to liprotamase and Amyvid (Note 8) partially offset by gains on the disposal of investment securities.

Note 19: Segment Information

We operate in two business segments—human pharmaceutical products and animal health. Our business segments are distinguished by the ultimate end user of the product—humans or animals. Performance is evaluated based on profit or loss from operations before income taxes. The accounting policies of the individual segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements.

Our human pharmaceutical products segment includes the discovery, development, manufacturing, marketing, and sales of human pharmaceutical products worldwide in the following therapeutic areas: endocrinology, neuroscience, oncology, cardiovascular, and other. Our endocrinology products consist primarily of Humalog®, Humulin®, Forteo®, Evista®, Humatrope®, Trajenta, and Axiron®. Neuroscience products include Cymbalta®, Zyprexa®, Strattera®, and Prozac. Cymbalta, which had U.S. sales of $3.96 billion in 2013, lost patent exclusivity in the U.S. in December 2013, resulting in the immediate entry of several generic competitors. Oncology products consist primarily of Alimta, Erbitux, and Gemzar®. Cardiovascular products consist primarily of Cialis®, Effient, and ReoPro®. The other pharmaceuticals category includes anti-infectives, primarily Vancocin® and Ceclor™, and other miscellaneous pharmaceutical products and services.

Our animal health segment, operating through our Elanco animal health division, includes the development, manufacturing, marketing, and sales of animal health products worldwide for both food and companion animals. Animal health products include Rumensin®, Posilac®, Tylan®, Paylean®, Optaflexx® and other products for livestock and poultry, as well as Trifexis®, Comfortis®, and other products for companion animals.

Most of our pharmaceutical products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. For the years ended December 31, 2013, 2012, and 2011, our three largest wholesalers each accounted for between 10 percent and 19 percent of consolidated total revenue. Further, they each accounted for between 9 percent and 18 percent of accounts receivable as of December 31, 2013 and 2012. Animal health products are sold primarily to wholesale distributors.

We manage our assets on a total company basis, not by operating segment, as the assets of the animal health business are largely intermixed with those of the pharmaceutical products business. Therefore, our chief operating decision maker does not review any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

We are exposed to the risk of changes in social, political, and economic conditions inherent in foreign operations, and our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates.

	2013	2012	2011
Segment revenue—to unaffiliated customers:			
Human pharmaceutical products:			
Endocrinology	**$ 7,304.4**	$ 6,810.9	$ 6,806.7
Neuroscience	**7,216.2**	7,575.1	9,723.8
Oncology	**3,268.5**	3,281.6	3,322.2
Cardiovascular	**2,923.2**	2,632.5	2,486.4
Other pharmaceuticals	**249.3**	266.8	268.8
Total human pharmaceutical products	**20,961.6**	20,566.9	22,607.9
Animal health	**2,151.5**	2,036.5	1,678.6
Total segment revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Segment profits[1]:			
Human pharmaceutical products	**$ 5,015.0**	$ 4,393.4	$ 5,837.9
Animal health	**556.6**	508.1	301.0
Total segment profits	**$ 5,571.6**	$ 4,901.5	$ 6,138.9
Reconciliation of total segment profits to consolidated income before taxes:			
Segment profits	**$ 5,571.6**	$ 4,901.5	$ 6,138.9
Other profits (losses):			
Income related to termination of the exenatide collaboration with Amylin (Note 4)	**495.4**	787.8	—
Acquired in-process research and development (Notes 3 and 4)	**(57.1)**	—	(388.0)
Asset impairment, restructuring, and other special charges (Note 5)	**(120.6)**	(281.1)	(401.4)
Total consolidated income before taxes	**$ 5,889.3**	$ 5,408.2	$ 5,349.5

1 Human pharmaceutical products segment profit includes total depreciation and amortization expense of $1.35 billion, $1.37 billion, and $1.30 billion for the years ended December 31, 2013, 2012, and 2011, respectively. Animal health segment profit includes total depreciation and amortization expense of $99.4 million, $91.1 million, and $78.1 million for the years ended December 31, 2013, 2012, and 2011, respectively.

For internal management reporting presented to the chief operating decision maker, certain costs are fully allocated to our human pharmaceutical products segment and therefore are not reflected in the animal health segment's profit. Such items include costs associated with treasury-related financing, global administrative services, certain acquisition-related transaction costs, and manufacturing variances.

	2013	2012	2011
Geographic Information			
Revenue—to unaffiliated customers[1]:			
United States	**$ 12,889.7**	$ 12,313.1	$ 12,977.2
Europe	**4,338.4**	4,259.7	5,290.9
Japan	**2,063.8**	2,246.2	2,104.1
Other foreign countries	**3,821.2**	3,784.4	3,914.3
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5
Long-lived assets[2]:			
United States	**$ 4,649.6**	$ 5,064.7	$ 5,485.3
Europe	**2,469.7**	2,281.1	2,220.2
Japan	**81.1**	101.5	102.9
Other foreign countries	**1,540.9**	1,543.2	1,564.0
Long-lived assets	**$ 8,741.3**	$ 8,990.5	$ 9,372.4

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

2 Long-lived assets consist of property and equipment and certain sundry assets.

Note 20: Selected Quarterly Data (unaudited)

2013	Fourth	Third	Second	First
Revenue	**$ 5,808.8**	**$ 5,772.6**	**$ 5,929.7**	**$ 5,602.0**
Cost of sales	**1,386.5**	**1,198.1**	**1,165.2**	**1,158.3**
Operating expenses[1]	**3,429.0**	**3,029.8**	**3,198.0**	**3,000.1**
Acquired IPR&D	**57.1**	**—**	**—**	**—**
Asset impairment, restructuring, and other special charges	**35.4**	**—**	**63.5**	**21.7**
Other—net, (income) expense	**(9.1)**	**31.3**	**(11.9)**	**(529.2)**
Income before income taxes	**909.9**	**1,513.4**	**1,514.9**	**1,951.1**
Net income	**727.5**	**1,203.1**	**1,206.2**	**1,548.0**
Earnings per share—basic	**0.68**	**1.11**	**1.12**	**1.42**
Earnings per share—diluted	**0.67**	**1.11**	**1.11**	**1.42**
Dividends paid per share	**0.49**	**0.49**	**0.49**	**0.49**
Common stock closing prices:				
High	**51.34**	**54.96**	**58.33**	**56.79**
Low	**47.65**	**49.92**	**49.06**	**49.51**

2012	Fourth	Third	Second	First
Revenue	$ 5,957.3	$ 5,443.3	$ 5,600.7	$ 5,602.0
Cost of sales	1,248.3	1,203.6	1,146.7	1,197.9
Operating expenses[1]	3,440.6	3,100.2	3,251.8	2,999.0
Asset impairment, restructuring, and other special charges	204.0	53.3	—	23.8
Other—net, (income) expense	52.0	(788.5)	16.5	46.0
Income before income taxes	1,012.4	1,874.7	1,185.7	1,335.3
Net income	827.2	1,326.6	923.6	1,011.1
Earnings per share—basic	0.75	1.18	0.83	0.91
Earnings per share—diluted	0.74	1.18	0.83	0.91
Dividends paid per share	0.49	0.49	0.49	0.49
Common stock closing prices:				
High	53.81	47.64	42.91	41.80
Low	45.91	41.98	39.18	38.49

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

Our common stock is listed on the New York Stock Exchange, NYSE Euronext, and SIX Swiss Exchange.

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 CEO and all financial management must sign a financial code of ethics, which further reinforces their 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 Item 8 of our annual report on Form 10-K. 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 and is consistent with enacted corporate reform laws and regulations. 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 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 "*Internal Control—Integrated Framework (1992)"* 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, 2013. 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, 2013. Their responsibility is to evaluate whether internal control over financial reporting was designed and operating effectively.

John C. Lechleiter, Ph.D.
Chairman, President, and Chief Executive Officer

Derica W. Rice
Executive Vice President, Global Services and Chief Financial Officer

February 19, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, 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), Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 19, 2014 expressed an unqualified opinion thereon.

Indianapolis, Indiana

February 19, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Eli Lilly and Company

We have audited Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Eli Lilly and Company and subsidiaries' 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.

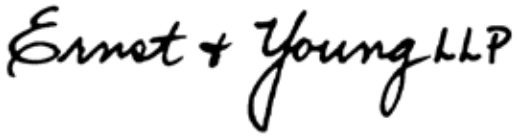
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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.

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.

In our opinion, Eli Lilly and Company and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Eli Lilly and Company and subsidiaries and our report dated February 19, 2014 expressed an unqualified opinion thereon.



Indianapolis, Indiana

February 19, 2014

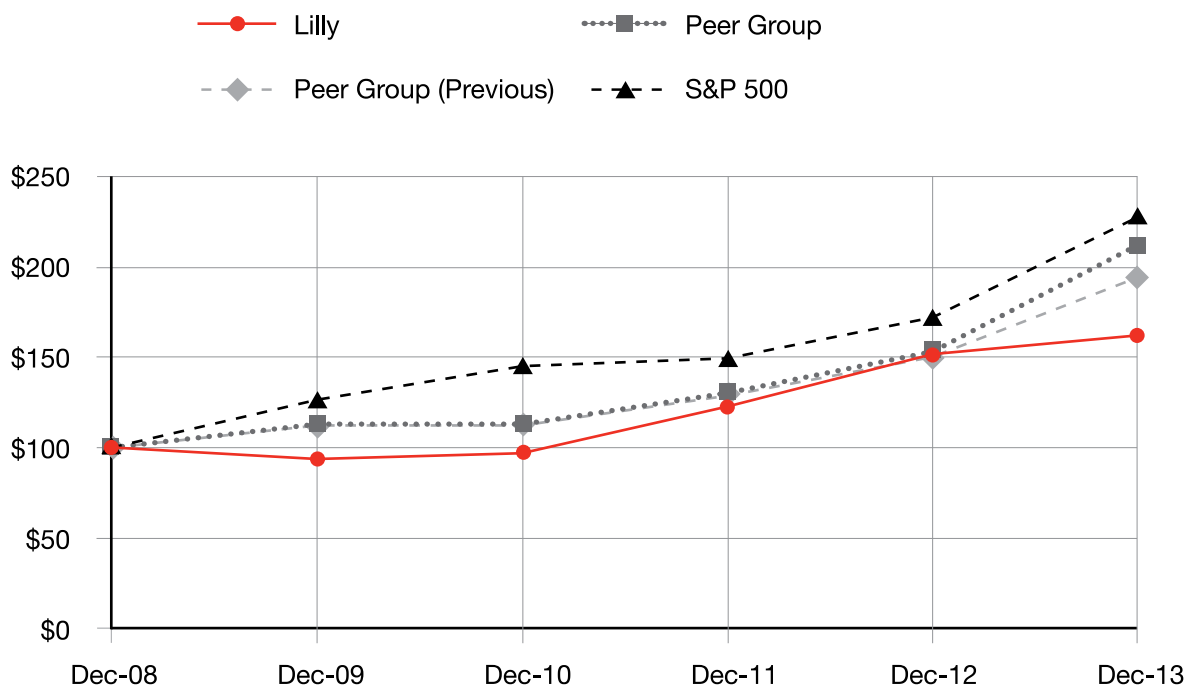
Selected Financial Data (unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except revenue per employee and per-share data)	2013	2012	2011	2010	2009
Operations					
Revenue	**$ 23,113.1**	$ 22,603.4	$ 24,286.5	$ 23,076.0	$ 21,836.0
Cost of sales	**4,908.1**	4,796.5	5,067.9	4,366.2	4,247.0
Research and development	**5,531.3**	5,278.1	5,020.8	4,884.2	4,326.5
Marketing, selling, and administrative	**7,125.6**	7,513.5	7,879.9	7,053.4	6,892.5
Other	**(341.2)**	(392.9)	968.4	247.0	1,012.2
Income before income taxes	**5,889.3**	5,408.2	5,349.5	6,525.2	5,357.8
Income taxes	**1,204.5**	1,319.6	1,001.8	1,455.7	1,029.0
Net income	**4,684.8**	4,088.6	4,347.7	5,069.5	4,328.8
Net income as a percent of revenue	**20.3%**	18.1%	17.9%	22.0%	19.8%
Net income per share— diluted	**$ 4.32**	$ 3.66	$ 3.90	$ 4.58	$ 3.94
Dividends declared per share	**1.96**	1.96	1.96	1.96	1.96
Weighted-average number of shares outstanding—diluted (thousands)	**1,084,766**	1,117,294	1,113,967	1,105,813	1,098,367
Financial Position					
Current assets	**$ 13,104.7**	$ 13,038.7	$ 14,248.2	$ 14,840.0	$ 12,486.5
Current liabilities	**8,916.6**	8,389.5	8,930.9	6,926.9	6,568.1
Property and equipment—net	**7,975.5**	7,760.2	7,760.3	7,940.7	8,197.4
Total assets	**35,248.7**	34,398.9	33,659.8	31,001.4	27,460.9
Long-term debt	**4,200.3**	5,519.4	5,464.7	6,770.5	6,634.7
Total equity	**17,640.7**	14,773.9	13,535.6	12,412.8	9,525.3
Supplementary Data					
Return on total equity	**29.5%**	27.8%	31.4%	46.1%	51.0%
Return on assets	**13.8%**	12.3%	13.4%	17.7%	15.8%
Capital expenditures	**$ 1,012.1**	$ 905.4	$ 672.0	$ 694.3	$ 765.0
Depreciation and amortization	**1,445.6**	1,462.2	1,373.6	1,328.2	1,297.8
Effective tax rate	**20.5%**	24.4%	18.7%	22.3%	19.2%
Revenue per employee	**$ 609,000**	$ 590,000	$ 638,000	$ 602,000	$ 540,000
Number of employees	**37,925**	38,350	38,080	38,350	40,360
Number of shareholders of record	**31,900**	33,600	35,200	36,700	38,400

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 2009 through 2013. The graph assumes that, on December 31, 2008, a person invested $100 each in Lilly stock, the S&P 500 Stock Index, and the peer groups' 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 2008
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-08	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Dec-09	$ 93.75	$ 113.71	$ 112.71	$ 126.46
Dec-10	$ 97.23	$ 112.80	$ 112.66	$ 145.51
Dec-11	$ 121.69	$ 130.63	$ 128.73	$ 148.59
Dec-12	$ 151.21	$ 153.53	$ 149.26	$ 172.37
Dec-13	$ 162.16	$ 211.87	$ 194.27	$ 228.19

1 We constructed the peer group as the industry index for this graph. It comprises the companies in the pharmaceutical and biotech industries that we used to benchmark the compensation of executive officers for 2013: Abbott Laboratories; AbbVie Inc.; Allergan Inc.; Amgen Inc.; AstraZeneca PLC; Baxter International Inc.; Biogen Idec Inc.; Bristol-Myers Squibb Company; Celgene Corporation; Gilead Sciences Inc.; GlaxoSmithKline plc; Johnson & Johnson; Medtronic, Inc.; Merck & Co., Inc.; Novartis AG.; Pfizer Inc.; and Sanofi-Aventis.

2 In an effort to broaden our peer group for benchmarking purposes, we revised our peer group in 2013 by adding Allergan Inc., Biogen Idec Inc., Celgene Corporation, Gilead Sciences Inc., and Medtronic, Inc., and removed Takeda Pharmaceuticals Company. The new peer group includes biotech companies we directly compete with for talent and business, and improves the balance of companies with respect to revenue size. AbbVie Inc. was also added to the current peer group upon its spinoff from Abbott Laboratories.

Trademarks Used In This Report

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

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Bydureon® and Byetta® are trademarks of Amylin Pharmaceuticals, Inc.

Darvon® is a trademark of Xanodyne Pharmaceuticals, Inc.

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Vancocin® is a trademark of ViroPharma Incorporated.

Xigris™ is a trademark of Biocritica, Inc.

Notice of 2014 Annual Meeting of Shareholders and Proxy Statement

PROXY STATEMENT

Your vote is important
Please vote by using the Internet, telephone, or by signing, dating, and returning the enclosed proxy card.

Table of Contents

Notice of Annual Meeting of Shareholders

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

The 2014 Annual Meeting of Shareholders of Eli Lilly and Company will be held as shown below:

- **WHEN:** 11:00 a.m. EDT, Monday, May 5, 2014
- **WHERE:** The Lilly Center Auditorium
Lilly Corporate Center
Indianapolis, Indiana 46285
- **ITEMS OF BUSINESS:** Election of the five directors listed in the proxy statement to serve three-year terms

  Ratification of Ernst & Young LLP as the principal independent auditors for 2014

  Approval, by non-binding vote, of the compensation paid to the company's named executive officers
- **WHO CAN VOTE:** Shareholders of record at the close of business on February 28, 2014

See the back page of this report for information regarding how to attend the meeting. Every shareholder vote is important. If you are unable to attend the meeting in person, please sign, date, and return your proxy and/or voting instructions by mail, telephone or through the Internet promptly so that a quorum may be represented at the meeting.

By order of the Board of Directors,

James B. Lootens
Secretary

March 24, 2014
Indianapolis, Indiana

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 5, 2014: The annual report and proxy statement are available at http://www.lilly.com/pdf/lillyar2013.pdf

Proxy Statement Overview

General Information

This overview highlights information contained elsewhere in this proxy statement. It does not contain all the information you should consider, and you should read the entire proxy statement carefully before voting.

Meeting:	Annual Meeting of Shareholders	**Date:**	May 5, 2014
Time:	11:00 a.m. EDT	**Location:**	The Lilly Center Auditorium Lilly Corporate Center Indianapolis, Indiana 46285
Record Date:	February 28, 2014		

What Is New In This Year's Proxy

Below is a summary of changes to our compensation disclosures since our proxy filing last year, based on dialogue with shareholders:

1. We redesigned our proxy statement to make it easier for our shareholders and other stakeholders to understand our compensation programs and to highlight important information about our corporate governance and other company practices.

2. We expanded our compensation recovery policy to cover all executives and to encompass a broader range of executive misconduct.

3. We reassessed our peer group in 2012 and expanded it to include six smaller biopharmaceutical and medical device companies: Allergan, Inc.; Biogen IDEC Inc., Celgene Corporation, Covidien PLC, Gilead Sciences, Inc., and Medtronic, Inc. We selected a revised peer group that would place Lilly in the middle of the group in terms of revenue.

2013 Business Performance Highlights

2013 falls in the middle of what we call the "YZ" period, during which we lose patent protection for a number of important products, including Zyprexa in the U.S. and Europe in late 2011, Cymbalta in the U.S. in December 2013, and Evista in the U.S. in March 2014. Despite these challenges, we delivered on our financial commitments for 2013, with revenue increasing 2 percent to $23.1 billion, non-GAAP net income increasing 19 percent to $4.5 billion, and non-GAAP earnings per share increasing 22 percent to $4.15. Total operating expenses decreased 1 percent, even as we continued to advance the company's pipeline. Reported net income for 2013 increased 15 percent to $4.68 billion, and reported earnings per share increased 18 percent to $4.32. (See Appendix A for a more detailed summary of adjustments to EPS.) Further information on our financial performance during 2013 is available in our 2013 Form 10-K and fourth-quarter earnings release available on our website at http://investor.lilly.com/financials.cfm.

We also made significant progress in delivering on the pipeline, with regulatory submissions for four products – empagliflozin, dulaglutide, new insulin glargine, and ramucirumab – along with five other new indication or line extension ("NILEX") approvals during 2013. In addition to these submissions, as of March 1, 2014, we also had 12 molecules in Phase III or submission stage and 25 more in Phase II.

Executive Compensation Summary for 2013

Under the leadership of our chairman and chief executive officer (CEO), Dr. John Lechleiter, during the past five years the company has made significant strides in advancing the pipeline, as illustrated by the figures below:

	Phase II NMEs	Phase III NMEs	Regulatory Submissions
2008	10	5	2
	⇩	⇩	⇩
2013	**25**	**8**	**7***

* Representing four products.

Prior to 2013, Dr. Lechleiter had not received an increase in target compensation since 2009. For 2013, the Compensation Committee decided to increase Dr. Lechleiter's target equity compensation based on the following factors:

- Dr. Lechleiter's continued strong performance in leading the company during a difficult period of patent expirations to achieve solid financial results, reduce its cost structure, and progress the pipeline
- The company's strong 2012 financial performance compared to goals; and
- Peer group CEO pay trends as well as internal pay relativity compared to his direct reports

In keeping with the company's desire to maintain the substantial majority of the CEO's pay long-term focused and linked to company performance and shareholder value, the Compensation Committee only increased Dr. Lechleiter's target equity compensation. Dr. Lechleiter's base salary and annual bonus targets remained unchanged.

The named executive officers each received base salary increases of between 2 and 3 percent, excluding Mr. Harrington, who was promoted to Senior Vice President and General Counsel on January 1, 2013. These increases were consistent with those granted to other U.S. employees who were eligible for salary increases. The total compensation paid to the company's named executive officers in 2012 remained in the middle range of the updated peer group. As a result, the committee made no changes to target equity compensation for the other named executive officers for 2013, except for Mr. Harrington, as noted above.

Further information on executive compensation for 2013 can be found in the "Compensation Discussion and Analysis" and "Executive Compensation" sections below.

Voting Proposals

Shareholders will vote on the following items at the annual meeting:

Agenda Item					Management recommendation	Vote required to pass
Item 1	Elect the following nominees for director to serve a three-year term that will expire in 2017:				**Vote FOR all**	Majority of votes cast
Name and principal occupation		**Joined the Board**	**Age**	**Public boards**		
Michael L. Eskew Former Chairman and CEO - UPS		2008	64	3M Corp. IBM Corp. UPS, Inc.	**Vote FOR**	
Karen N. Horn, Ph.D. Retired President, Private Client Services, and Managing Director - Marsh, Inc.		1987	70	T. Rowe Price Mutual Funds Simon Property Group, Inc. Norfolk Southern Corp.	**Vote FOR**	
William G. Kaelin, Jr. Professor, Department of Medicine and Associate Director, Basic Science - Dana-Farber/ Harvard Cancer Center		2012	56	None	**Vote FOR**	
John C. Lechleiter, Ph.D. Chairman, President, and CEO - Eli Lilly and Company		2005	60	Nike, Inc. Ford Motor Company	**Vote FOR**	
Marschall S. Runge Executive Dean for the School of Medicine at the University of North Carolina at Chapel Hill		2013	59	None	**Vote FOR**	
Item 2	Ratify the appointment of Ernst & Young LLP as the company's principal independent auditor for 2014.				**Vote FOR**	Majority of votes cast
Item 3	Approve, by non-binding vote, compensation paid to the company's named executive officers.				**Vote FOR**	Majority of votes cast

Our Corporate Governance Policies Reflect Best Practices

- Board membership marked by leadership, experience, and diversity
- All 15 of our nonemployee directors are independent
- Strong, independent lead director role
- All board committees are fully independent
- Executive sessions are held at every regularly-scheduled board meeting
- Active board participation in company strategy and CEO succession planning
- Board oversight of compliance and enterprise risk management practices
- Meaningful director stock ownership guidelines
- Majority voting standard and resignation policy for the election of directors

Our Executive Compensation Programs Reflect Best Practices

- Strong shareholder support of compensation practices: in 2013, 97 percent of shares cast voted in favor of our executive compensation
- Compensation programs are designed to align with shareholder interests and link pay to performance through a blend of short- and long-term performance measures
- The Compensation Committee annually reviews compensation programs to ensure appropriate risk mitigation
- No "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
- Broad compensation recovery policy that applies to all executives and covers a wide range of misconduct
- Executives and senior management are prohibited from engaging in hedging transactions with company stock or pledging their company stock
- Executives are subject to strong stock ownership guidelines
- No tax gross-ups provided to executives (except for limited gross-ups related to international assignments)
- Very limited perquisites; CEO did not use the corporate aircraft for personal use at any time during 2013. Other named executive officers (NEOs) are not permitted to use the corporate aircraft for personal use
- Severance plans related to change-in-control generally require double trigger
- No employment agreements with executive officers

How to Vote in Advance of the Meeting

Even if you plan to attend the 2014 Annual Meeting in person, we encourage you to vote prior to the meeting via one of the methods described below. You can vote in advance via one of three ways:

Visit the website listed on your proxy card/voting instruction form to vote **VIA THE INTERNET**

Call the telephone number on your proxy card/voting instruction form to vote **BY TELEPHONE**

Sign, date and return your proxy card/voting instruction form to vote **BY MAIL**

Further information on how to vote is provided at the end of the proxy statement under "Meeting and Voting Logistics".

Voting at our 2014 Annual Meeting

You may also opt to vote in person at the 2014 Annual Meeting, which will be held on Monday, May 5, 2014 at the Lilly Corporate Center, Indianapolis, IN 46285, at 11:00 a.m., local time. See the section entitled "Meeting and Voting Logistics" for more information.

Board Operations and Governance

Board of Directors

In order of appearance, from left to right: Michael L. Eskew, Katherine Baicker, Alfred G. Gilman, Karen N. Horn, Jackson P. Tai, Franklyn G. Prendergast, J. Erik Fyrwald, R. David Hoover, John C. Lechleiter, Douglas R. Oberhelman, Ellen R. Marram, Sir Winfried Bischoff, William G. Kaelin, Jr., Marschall S. Runge, Kathi P. Seifert, Ralph Alvarez.

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a nominee is unavailable for election, proxy holders may vote for another nominee proposed by the Board of Directors or, as an alternative, the Board of Directors may reduce the number of directors to be elected at the annual meeting. Each nominee has agreed to serve on the Board of Directors if elected.

Director Biographies

Set forth below is the information as of March 12, 2014, 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, or skills that led to the conclusion that each director or director nominee should serve as one of our directors in light of our business and structure. Full biographies for each of our directors are available on our website at http://www.lilly.com/about/board-of-directors/Pages/board-of-directors.aspx.

No family relationship exists among any of our 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. See the "Other Matters" section of the proxy for information about shareholder derivative litigation in which certain directors are named as defendants. 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 that are material to the evaluation of the ability or integrity of any of our directors or nominees for director during the past 10 years.

Class of 2014

The following six directors' terms will expire at this year's annual meeting. Dr. Gilman will retire from the Board at the end of his term. The other five directors are standing for reelection. See "Item 1. Election of Directors" below for more information.

Michael L. Eskew, age 64, director since 2008

Board Committees: Audit (chair); Finance

Career Highlights

United Parcel Service, Inc.

- Former Chairman and Chief Executive Officer (2002 - 2007)
- UPS Board of Directors (1998 - present)
- Vice Chairman (2000 - 2002)

Other Board Service

- ***Public boards***: 3M Corporation; IBM Corporation
- ***Non-profit service***: Chairman of the board of trustees of The Annie E. Casey Foundation

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. company audit committees. He has extensive corporate governance experience through his service on the boards of other companies.

Alfred G. Gilman, M.D., Ph.D., age 72, director since 1995

Board Committees: Public Policy and Compliance; Science and Technology (chair)

Career Highlights

University of Texas Southwestern Medical Center

- Regental Professor Emeritus (2009 - present)
- Executive Vice President for Academic Affairs and Provost (2006 - 2009)
- Dean of the Medical School (2004 - 2009)

Cancer Prevention and Research Institute of Texas

- Chief Scientific Officer (2009 - 2012)

Career Honors

- Nobel Prize in Physiology or Medicine (1994)
- Nadine and Tom Craddick Distinguished Chair in Medical Science
- Raymond and Ellen Willie Distinguished Chair of Molecular Neuropharmacology

Other Board Service

- ***Public board:*** Regeneron Pharmaceuticals, Inc.

Qualifications: Dr. Gilman is a Nobel Prize-winning pharmacologist, researcher, and professor. He has deep expertise in basic science, including mechanisms of drug action, and experience with pharmaceutical discovery research. As the former dean of a major medical school, he brings to the Board important perspectives of both the academic and practicing medical communities.

Karen N. Horn, Ph.D., Age 70, Director since 1987

Board Committees: Compensation (chair); Directors and Corporate Governance

Career Highlights

Brock Capital Group, a provider of financial advising and consulting services

- Senior Managing Director (2004 - present)

Marsh, Inc., a global provider of risk and insurance services

- President, Private Client Services and Managing Director (1999 - 2003)

Bank One, Cleveland, N.A.

- Chairman and chief executive officer (1982 - 1987)

Other Board Service

- ***Public boards***: T. Rowe Price Mutual Funds; Simon Property Group, Inc.; and Norfolk Southern Corporation
- ***Prior public board service***: Fannie Mae; Georgia-Pacific Corporation

Qualifications: Ms. Horn is a former CEO with extensive experience in various segments of the financial industry, including banking and financial services. Through her for-profit and her public-private partnership work, she has significant experience in international economics and finance. Ms. Horn has extensive corporate governance experience through service on other public company boards in a variety of industries.

William G. Kaelin, Jr., M.D., age 56, director since 2012

Board Committees: Finance; Science and Technology

Career Highlights

Dana-Farber/Harvard Cancer Center

- Professor of Medicine (2002 - present)
- Associate director, Basic Science (2009 - present)

Industry Memberships

- Institute of Medicine; National Academy of Sciences; Association of American Physicians

Career Honors

- Canada Gairdner International Award
- Lefoulon-Delalande Prize - Institute of France

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.

John C. Lechleiter, Ph.D., age 60, director since 2005

Board Committees: none

Career Highlights

Eli Lilly and Company

- President and CEO (2008 - present)
- Chairman of the Board (2009 - present)

Career Honors

- Honorary doctorates: Marian University, University of Indianapolis, the National University of Ireland, and Indiana University

Industry Memberships

- American Chemical Society; Pharmaceutical Research and Manufacturers of America; Business Roundtable; President of International Federation of Pharmaceutical Manufacturers & Associations; Chairman of the U.S. - Japan Business Council

Other Board Service

- ***Public boards***: Ford Motor Company; Nike, Inc.
- ***Non-profit boards***: United Way Worldwide; Xavier University; the Life Sciences Foundation; and the Central Indiana Corporate Partnership

Qualifications: Dr. Lechleiter is our chairman, president, and chief executive officer. A Ph.D. chemist by training, Dr. Lechleiter has over 30 years of experience with the company in a variety of roles of increasing responsibility in research and development, sales and marketing, and corporate administration. As a result, he has a deep understanding of pharmaceutical research and development, sales and marketing, strategy, and operations. He also has significant corporate governance experience through service on other public company boards.

Marschall S. Runge, M.D., Ph.D., age 59, director since 2013. Dr. Runge is serving under interim election by the board and was referred to the Directors and Corporate Governance Committee by an independent executive search firm.

Board Committees: Science and Technology; Public Policy and Compliance

Career Highlights

University of North Carolina, School of Medicine

- Executive Dean (2010 - present); Chair of the Department of Medicine (2000 - present)
- Principal Investigator and Director of the North Carolina Translational and Clinical Sciences Institute

Industry Memberships

- Experimental Cardiovascular Sciences Study Section of the National Institutes of Health

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

Class of 2015

The following five directors will continue in office until 2015.

Katherine Baicker, Ph.D., age 42, director since 2011

Board Committees: Audit; Public Policy and Compliance

Career Highlights

Harvard University School of Public Health, Department of Health Policy and Management

- Professor of health economics (2007 - present)

Council of Economic Advisers, Executive Office of the President

- Member (2005 - 2007)
- Senior Economist (2001 - 2002)

Industry Memberships

- Commissioner of the Medicare Payment Advisory Commission
- Panel of Health Advisers to the Congressional Budget Office
- Editorial boards of Health Affairs; the Journal of Health Economics; Journal of Economic Perspectives
- Member of the Institute of Medicine

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 care policy and health care delivery is recognized by both academia and government.

J. Erik Fyrwald, age 54, director since 2005

Board Committees: Public Policy and Compliance (chair); Science and Technology

Career Highlights

Univar, Inc., a leading distributor of industrial and specialty chemicals and provider of related services

- President and Chief Executive Officer (2012 - present)

Nalco Company, a provider of integrated water treatment and process improvement services, chemicals and equipment programs for industrial and institutional applications

- 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)

Other board service

- ***Non-profit boards***: Society of Chemical Industry; Amsted Industries; The Chicago Public Education Fund

Other organizations

- Field Museum of Chicago, Trustee

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

Ellen R. Marram, age 67, director since 2002, Lead director since 2012

Board Committees: Compensation; Directors and Corporate Governance (chair)

Career Highlights

The Barnegat Group LLC, provider of business advisory services

- President (2006 - present)

Tropicana Beverage Group - Pepsico

- President and Chief Executive Officer (1993 - 1998)

Nabisco Biscuit Company*, a unit of Nabisco, Inc.*

- President and Chief Executive Officer (1988 - 1993)

Other Board Service

- ***Public boards***: Ford Motor Company, The New York Times Company
- ***Prior public board service***: Cadbury plc
- ***Non-profit boards***: Wellesley College; Institute for the Future; New York-Presbyterian Hospital; Lincoln Center Theater; and Families and Work Institute

Qualifications: Ms. Marram is a former CEO with a strong marketing and consumer-brand background. Through her nonprofit and private company activities, she has a special focus and expertise in wellness and consumer health. Ms. Marram has extensive corporate governance experience through service on other public company boards in a variety of industries.

Douglas R. Oberhelman, age 61, director since 2008

Board Committees: Audit; Finance

Career Highlights

Caterpillar Inc.

- Chairman and Chief Executive Officer (2010 - present)
- Group President (2001 - 2010)
- Chief Financial Officer (1995 - 1998)

Memberships and Other Organizations

- Business Roundtable, Executive Committee
- Business Council
- National Association of Manufacturers, Chairman

Other Board Service

- ***Public boards***: Caterpillar Inc.
- ***Prior public board service***: Ameren Corporation
- ***Non-profit boards***: Wetlands America Trust

Qualifications: Mr. Oberhelman has a strong strategic and operational background as the CEO of Caterpillar, a leading manufacturing company with worldwide operations and a special focus on emerging markets. He is an audit committee financial expert as a result of his prior experience as CFO of Caterpillar and as a member and chairman of the audit committee of another U.S. public company.

Jackson P. Tai, age 63, director since 2013. Mr. Tai is serving under interim election by the board and was referred to the Directors and Corporate Governance Committee by an independent executive search firm.

Board Committees: Audit; Finance

Career Highlights

DBS Group Holdings and DBS Bank (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)

J.P. Morgan & Co. Incorporated, a leading global financial institution

- 25 year career in investment banking, including senior management responsibilities in New York, Tokyo and San Francisco

Other Board Service

- ***Public boards***: The Bank of China Limited, Singapore Airlines, MasterCard Incorporated, Royal Philips NV
- ***Prior board service***: NYSE Euronext; ING Groep NV; CapitaLand (Singapore); DBS Group Holdings and DBS Bank

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, a key growth market for Lilly. He also has broad corporate governance experience from his service on public company boards in the U.S. and Asia.

Class of 2016

The following five directors will continue in office until 2016, with the exception of Sir Winfried Bischoff, who will retire from the Board on May 5, 2014, prior to the annual meeting of shareholders, and the Directors and Corporate Governance Committee does not plan to fill his vacant seat.

Ralph Alvarez, age 58, director since 2009

Board Committees: Compensation; Science and Technology

Career Highlights

Skylark Co., Ltd., a leading restaurant operator in Japan

- Executive Chairman (2013 - present)

McDonald's Corporation

- President and Chief Operating Officer (2006 - 2009)

Memberships and Other Organizations

- University of Miami: President's Council; School of Business Administration Board of Overseers; International Advisory Board

Other Board Service

- ***Public boards***: Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.; Realogy Holdings Corp.
- ***Private boards***: Skylark Co., Ltd.
- ***Prior public board service***: McDonald's Corporation; KeyCorp

Qualifications: Through his senior executive 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 emerging markets.

Sir Winfried Bischoff, age 72, director since 2000

Board Committees: Directors and Corporate Governance; Finance (chair)

Career Highlights

Lloyds Banking Group plc, a leading UK-based financial institution

- Chairman (2009 - present)

Citigroup Inc.

- Chairman (2007 - 2009)
- Interim Chief Executive Officer (2007)
- Chairman, Citigroup Europe (2000 - 2009)

Other Board Service

- ***Public boards***: The McGraw-Hill Companies, Inc.
- ***Prior board service***: Citigroup Inc.; Prudential plc; Land Securities plc; Akbank T.A.S.

Qualifications: Sir Winfried Bischoff has a distinguished career in banking and finance, including commercial banking, corporate finance, and investment banking. He has CEO experience both in Europe and the U.S. He is a globalist, with particular expertise in European matters but with extensive experience overseeing worldwide operations. He has broad corporate governance experience from his service on public company boards in the U.S., UK, and other European and Asian countries.

R. David Hoover, age 68, director since 2009

Board Committees: Finance; Public Policy and Compliance

Career Highlights

Ball Corporation, a provider of products and other technologies and services to commercial and governmental customers

- Chairman (2002 - 2013)
- President and Chief Executive Officer (2001 - 2010)
- Chief Operating Officer (2000 - 2001)
- Chief Financial Officer (1998 - 2000)

Other Board Service

- ***Public companies***: Ball Corporation; Energizer Holdings, Inc.; Steelcase, Inc.
- ***Non-profit companies***: Boulder Community Hospital; Children's Hospital Colorado
- ***Prior public board service***: Irwin Financial Corporation; Qwest International, Inc.

Memberships and Other Organizations

- Board of Trustees of DePauw University
- Indiana University Kelley School of Business, Dean's Council

Qualifications: Mr. Hoover has extensive CEO experience at Ball Corporation, with a strong record of leadership in operations and strategy. He has deep financial expertise as a result of his experience as CEO and CFO of Ball. He also has extensive corporate governance experience through his service on other public company boards.

Franklyn G. Prendergast, M.D., Ph.D., age 69, director since 1995

Board Committees: Public Policy and Compliance; Science and Technology

Career Highlights

Mayo Medical School

- Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology (1986 - present)
- Professor of Molecular Pharmacology and Experimental Therapeutics (1987 - present)
- Mayo Clinic Center for Individualized Medicine, Director Emeritus (2006 - 2012)

Qualifications: Dr. Prendergast is a prominent medical clinician, researcher, and academician. He has extensive experience in senior-most administration at Mayo Clinic, a major medical institution, and as director of its renowned cancer center. He has special expertise in two critical areas for Lilly—oncology and personalized medicine. As a medical doctor, he brings an important practicing-physician perspective to the Board's deliberations.

Kathi P. Seifert, age 64, director since 1995

Board Committees: Audit; Compensation

Career Highlights

Kimberly-Clark Corporation, a global consumer products company

- Executive Vice President (1999 - 2004)

Katapult, LLC, a provider of pro bono mentoring and consulting services to non-profit organizations

- Chairman (2004 - present)

Other Board Service

- ***Public companies***: Revlon Consumer Products Corporation; Lexmark International, Inc.
- ***Private companies***: Appvion, Inc.
- ***Prior public board service***: Supervalu Inc.; Appleton Papers, Inc.
- ***Non-profit companies***: Fox Cities Performing Arts Center; Community Foundation for the Fox Valley Region; Fox Cities Building for the Arts

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*:* The Board seeks independent directors who represent a mix of experiences that will enhance the quality of the Board's deliberations and decisions. The Board is particularly focused on maintaining a mix of individuals with CEO, international business, medical/science, government/policy or other health care experience.

Diversity: The Board considers diversity as an important factor in selecting potential Board candidates but does not have a stand-alone diversity policy. The Board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, ethnicity, and experiences. Although the Board does not establish specific diversity goals, the Board's overall diversity is a significant 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 current Board includes members whose experiences cover a wide range of geographies and industries, and includes members with experience in academic research, healthcare, and governmental consulting. The company's directors range in age from 42 to 72, and include four women and three ethnically diverse members.

Character: Board members should possess the personal attributes necessary to be an effective director, including unquestioned integrity, sound judgment, independence, a collaborative spirit, and commitment to the company, our shareholders, and other constituencies.

Director Nomination Process

The Board delegates the director screening process to the Directors and Corporate Governance Committee, which receives input from other Board members.

Potential directors are identified from several sources, including incumbent directors, management, shareholders, and executive search firms. The committee employs the same process for evaluating all shareholder candidates, including those submitted by shareholders.

The 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 the 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 for direct discussions to determine the mutual levels of interest in pursuing the candidacy. If these discussions are favorable, the committee makes a final recommendation to the board to nominate the candidate for election by the shareholders (or to select the candidate to fill a vacancy, as applicable).

Shareholder Recommendations and Nominations for Director Candidates

A shareholder who wishes to recommend a director candidate for evaluation should forward the candidates name and information about the candidate's qualifications to:

Chair of the Corporate Governance Committee
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, IN 46285

The candidate must meet the selection criteria described above 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 2015 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 24, 2014 and no earlier than September 21, 2014. 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 http://investor.lilly.com/governance.cfm. The bylaws will also be provided by mail upon request to the corporate secretary.

We have not received any shareholder nominations for board candidates for the 2014 meeting.

Communication with the Board of Directors

You may send written communications to one or more members of the Board, addressed to:

Board of Directors
Eli Lilly and Company
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, IN 46285

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
In 2013, the company provided nonemployee directors with an annual retainer of $100,000 (payable in monthly installments). In addition, certain Board roles receive additional annual retainers:

***Lead director*:** $30,000

Committee chairs: $12,000 ($18,000 for Audit Committee chair; $15,000 for Science and Technology Committee chair)

Audit Committee/Science and Technology Committee members: $3,000

Directors are reimbursed for customary and usual travel expenses. Directors may also receive additional cash compensation for serving on ad hoc committees that may be assembled from time-to-time.

Stock Compensation
Directors should hold meaningful equity ownership positions in the company; accordingly, a significant portion of director compensation is in the form of Lilly stock. Directors are required to hold Lilly stock, directly or through company plans, valued at not less than five times their annual cash retainer; new directors are allowed five years to reach this ownership level.

Nonemployee directors receive $145,000 of stock compensation, deposited annually in a deferred stock account in the Lilly Directors' Deferral Plan (as described below), payable after service on the Board has ended.

Lilly Directors' Deferral Plan: allows nonemployee 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 funds 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. In addition, the annual award of shares to each director as noted below is credited to this account on a pre-set annual date. The number of shares credited is calculated by dividing the $145,000 annual compensation figure by the closing stock price on that date. Funds in this account are credited as hypothetical shares of company stock based on the market price of the stock at the time the compensation would otherwise have been earned. 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 or transferred after the director ends his or her service on the Board.

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, as amended (the Internal Revenue Code). The aggregate amount of interest that accrued in 2013 for the participating directors was $130,990, at a rate of 2.85 percent. The rate for 2014 is 3.92 percent.

Both accounts may be paid 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.

2013 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) [1]	All Other Compensation and Payments ($)[2]	Total ($) [3]
Mr. Alvarez	$106,000	$145,000	$0	$251,000
Dr. Baicker	$103,000	$145,000	$0	$248,000
Sir Winfried Bischoff	$112,000	$145,000	$10,196 [4]	$267,196
Mr. Eskew	$121,000	$145,000	$0	$266,000
Mr. Fyrwald	$115,000	$145,000	$30,000	$290,000
Dr. Gilman	$118,000	$145,000	$28,576	$291,576
Mr. Hoover	$106,000	$145,000	$30,000	$281,000
Ms. Horn	$112,000	$145,000	$5,550	$262,550
Dr. Kaelin	$103,000	$145,000	$23,700	$271,700
Ms. Marram	$142,000	$145,000	$30,000	$317,000
Mr. Oberhelman	$106,000	$145,000	$30,000	$281,000
Dr. Prendergast	$103,000	$145,000	$0	$248,000
Dr. Runge	$34,333	$48,333	$0	$82,666
Ms. Seifert	$103,000	$145,000	$10,250	$258,250
Mr. Tai	$17,167	$24,167	$30,000	$71,334

[1] Each nonemployee director received an award of stock valued at $145,000 (approximately 2,841 shares), except Dr. Runge and Mr. Tai, who received shares proportionately for a partial year of service. This stock award and all prior stock awards are fully vested in that they are not subject to forfeiture; however, the shares are not issued until the director ends his or her service on the Board, as described above under "Lilly Directors' Deferral Plan." The column shows the grant date fair value for each director's stock award. 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. Aggregate outstanding stock options as of December 31, 2013 are shown in the table below. These options, which were granted in 2004, expired in February 2014 with no value.

Name	Outstanding Stock Options (Exercisable)	Exercise Price
Sir Winfried Bischoff	2,800	$73.11
Dr. Gilman	2,800	$73.11
Ms. Horn	2,800	$73.11
Ms. Marram	2,800	$73.11
Dr. Prendergast	2,800	$73.11
Ms. Seifert	2,800	$73.11

[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 the outside 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.

[3] Directors do not participate in a company pension plan or non-equity incentive plan.

[4] For Sir Winfried Bischoff, this column includes $10,196 for expenses for his spouse to travel to and participate in board functions that included spouse participation.

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 http://www.lilly.com/about/corporate-governance/Pages/guidelines.aspx along with our Corporate Governance Guidelines.

On the recommendation of the Directors and Corporate Governance Committee, the Board determined that all 15 nonemployee directors are independent, and that the members of each committee also meet the independence standards referenced above. The Board determined that none of the 15 nonemployee directors has had during the last four years (i) any of the relationships referenced above or (ii) any other material relationship with the company that would compromise his or her independence. The table below includes a description of categories or types of transactions, relationships, or arrangements the Board considered in reaching its determinations.

Director	Organization	Type of Organization	Relationship to Organization	Primary Type of Transaction / Relationship / Arrangement	2013 Aggregate Magnitude of Organization's Revenue
K. Baicker	Harvard University	Educational Institution	Employee	Research grants	Less than 0.1 percent
J. E. Fyrwald	Univar, Inc.	For-profit Corporation	Executive Officer	Purchases of products	Less than 0.1 percent
W. G. Kaelin, Jr.	Harvard University	Educational Institution	Employee	Research grants	Less than 0.1 percent
	Brigham and Women's Hospital	Health Care Institution	Employee	Research grants	Less than 0.1 percent
	Dana-Farber Cancer Institute	Health Care Institution	Employee	Research grants	Less than 0.1 percent
F. G. Prendergast	Mayo Clinic and Mayo Medical School	Health Care and Educational Institution	Employee	Research grants	Less than 0.1 percent
	Mayo Foundation	Charitable Organization	Employee of affiliated Mayo Clinic and Mayo Medical School	Contributions	Less than 0.1 percent
M. S. Runge	University of North Carolina Medical School	Educational Institution	Executive Officer	Research grants	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 relevant 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 the members of the Audit and Compensation Committees each meet the additional independence requirements applicable to them as members of those committees.

Committee membership and selection of committee chairs are recommended to the Board by the Directors and Corporate Governance Committee after consulting the chairman of the Board and after considering the backgrounds, skills, and desires of the Board members. 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.

Each committee reviews and approves its own charter annually, and the Directors and Corporate Governance Committee reviews and approves all committee charters annually. 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.

All six committee charters are available online at http://investor.lilly.com/governance.cfm, or upon request to the company's corporate secretary.

Audit Committee

Assists the Board of Directors in fulfilling its oversight responsibilities by monitoring:

- The integrity of financial information which will be provided to the shareholders and others;
- The systems of internal controls and disclosure controls which management has established;
- The performance of internal and independent audit functions; and
- The company's compliance with legal and regulatory requirements.

The Board of Directors has determined that Mr. Eskew, Mr. Oberhelman, and Mr. Tai are Audit Committee financial experts, as defined in the SEC rules.

Compensation Committee

- Oversees the company's global compensation philosophy and policies;
- Establishes the compensation of our chief executive officer and other executive officers; and
- Acts as the oversight committee with respect to the company's deferred compensation plans, management stock plans, and other management incentive compensation programs.

The committee delegates authority to the appropriate company management for day-to-day plan administration and interpretation, including selecting participants, determining award levels within plan parameters, and approving award documents. However, the committee may not delegate any authority for matters affecting the executive officers.

Directors and Corporate Governance Committee

- Recommends to the Board candidates for membership on the Board and Board committees and for lead director; and
- Oversees matters of corporate governance, including Board performance, director independence and compensation, and the corporate governance guidelines.

Finance Committee

Reviews and makes recommendations to the Board regarding financial matters, including:

- Capital structure and strategies;
- Dividends;
- Stock repurchases;
- Capital expenditures;
- Investments, financings and borrowings;
- Financial risk management; and
- Significant business-development projects.

Public Policy and Compliance Committee

- Oversees the processes by which the company conducts its business so that the company will do so in a manner that complies with laws and regulations and reflects the highest standards of integrity; and
- Reviews and makes recommendations regarding policies, practices, and procedures of the company that relate to public policy and social, political, and economic issues.

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 new product pipeline; and
- Oversees matters of scientific and medical integrity and risk management.

Membership and Meetings of the Board and Its Committees

In 2013, each director attended more than 85 percent of the total number of meetings of the Board and the committees on which he or she serves. In addition, all Board members are expected to attend the annual meeting of shareholders, and all the directors attended in 2013. Current committee membership and the number of meetings of the Board and each committee in 2013 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Finance	Public Policy and Compliance	Science and Technology
Mr. Alvarez	Member		Member				Member
Dr. Baicker	Member	Member				Member	
Sir Winfried Bischoff	Member			Member	Former Chair		
Mr. Eskew	Member	Chair			Member		
Mr. Fyrwald	Member					Chair	Member
Dr. Gilman	Member					Member	Former Chair
Mr. Hoover	Member				Chair	Member	
Ms. Horn	Member		Chair	Member			
Dr. Kaelin	Member				Member		Chair
Dr. Lechleiter	Chair						
Ms. Marram	Lead Director		Member	Chair			
Mr. Oberhelman	Member	Member			Member		
Dr. Prendergast	Member					Member	Member
Dr. Runge	Member					Member	Member
Ms. Seifert	Member	Member	Member				
Mr. Tai	Member	Member			Member		
Number of 2013 Meetings	8	11	7	5	8	8	6

Board Oversight of Compliance and Risk Management

The Board takes an active role in overseeing the company's compliance and enterprise risk management programs to ensure the company operates with the highest level of integrity and that the company is appropriately managing both current and potential future areas of risk.

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 of Directors. 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.

Both documents are available online at: http://www.lilly.com/about/business-practices/ethics-compliance, or upon request to the company's corporate secretary.

Compliance and Risk Management

The Board, in concert with the Audit and Public Policy and Compliance Committees, oversee 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.

The company also has an enterprise risk management program overseen by its chief ethics and compliance officer and senior vice president of enterprise risk management, who reports directly to the CEO. Enterprise risks are identified and prioritized by management, and the top priorities are assigned to a Board committee or full Board for oversight.

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 joint meeting of the Audit and Public Policy and Compliance Committees, and enterprise risks are also addressed in periodic business unit reviews and at the annual board and senior management strategy session.

Highlights of the Company's Corporate Governance

The company is committed to good corporate governance, which promotes the long-term interest of shareholders and other company stakeholders, builds confidence in our company leadership, and strengthens accountability for the Board and company management. The board has adopted corporate governance guidelines that set forth basic principles of corporate governance by which the company operates. The section that follows outlines a few key elements of the guidelines and other governance matters. Investors can learn more by reviewing the full corporate governance guidelines document, which is available online at http://investor.lilly.com/governance.cfm 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:

- Providing general oversight of the business;
- Approving corporate strategy;
- Approving major management initiatives;
- Selecting, compensating, evaluating, and, when necessary, replacing the chief executive officer, and compensating other senior executives;
- Ensuring that an effective succession plan is in place for all senior executives;
- Overseeing the company's ethics and compliance program and management of significant business risks; and
- Nominating, compensating, and evaluating directors.

Board Composition

Mix of Independent Directors and Officer-Directors

There should always be a substantial majority (75 percent or more) of independent directors. The CEO should be a Board member.

Voting for Directors
In an uncontested election, directors are elected by a majority of votes cast. An incumbent nominee who fails to receive a majority of the votes cast will tender his or her resignation. 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 why the Board rejected the resignation.

Director Tenure and Retirement Policy
The company has in place policies for director tenure and retirement, which include the limitation that non-employee directors must retire no later than the date of the annual meeting that follows their seventy-second birthday. The Directors and Corporate Governance Committee, with input from all Board members, also considers the contributions of the individual directors at least every three years when considering whether to nominate the director to a new three-year term.

Other Board Service
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.

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 the CEO, coupled with a strong lead director position, 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 in order to ensure that the company's approach continues to strike the appropriate balance for the company and our stakeholders.

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 chief executive officer and considered by Compensation Committee in establishing the CEO's compensation for the next year.

- ***A strong, independent, clearly defined lead director***: The lead 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, ensures that 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; and
  - Overseeing the independent directors' annual performance evaluation of the chairman and CEO.

  The lead director also has authority to call meetings of the independent directors and to retain advisers for the independent directors.

  The lead director is appointed annually by the Board. Currently Ms. Marram is the lead 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 at least part of each regularly scheduled Board meeting. The independent directors and all committees are also free to retain their own independent advisors, at company expense, whenever they feel it would be desirable to do so.

CEO Succession Planning

The lead director, Board and CEO maintain and annually review the company's succession plans for the CEO and other key senior leadership positions. During these reviews, the CEO and independent directors discuss future candidates for the CEO and other senior leadership positions, succession timing, and development plans for the highest-potential candidates. The company ensures that the directors have multiple opportunities to interact with the company's top leadership talent in both formal and informal settings in order to allow them to most effectively assess the candidates' qualifications and capabilities.

The CEO maintains in place at all times, and reviews with the independent directors, a confidential plan for the timely and efficient transfer of his responsibilities in the event of an emergency or his sudden departure, incapacitation, or death.

Board Education and Annual Performance Assessment

The company engages in a comprehensive orientation process for incoming new directors. Directors also receive ongoing continuing educational sessions on areas of particular relevance or import to our company and we hold periodic mandatory training sessions for the Audit Committee.

Additionally, the Directors and Corporate Governance Committee conducts an annual assessment of the Board's performance, Board committee performance, and all Board processes based on input from all directors.

Prior Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements

Between 2006 - 2012, each year we submitted management 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, as required in the company's articles of incorporation. In addition, in 2010, 2011, 2012, 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 was even lower, 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. We have concluded that the proposals would achieve a similar result in 2014 and therefore we are not resubmitting them. We will continue to monitor this situation and engage in dialogue with our shareholders on these and other governance topics to ensure that Lilly continues to demonstrate strong corporate governance and accountability to shareholders.

Conflicts of Interest and Transactions with Related Persons

Conflicts of Interest

Directors must disclose to the company all relationships that 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. A director may be excused from discussions on the issue, as appropriate.

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 5 percent or greater 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 they determine 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; and
- The overall fairness of the transaction to the company.

The Board or relevant committee will periodically monitor the transaction to ensure there are no changed circumstances that would render it advisable to amend or terminate the transaction.

***Procedures**:*

- Management or the affected director or executive officer will bring the matter to the attention of the chairman, the lead director, the chair of the Directors and Corporate Governance Committee, or the secretary.
- The chairman and the lead 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 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.

The Directors and Corporate Governance Committee has approved the following employment relationships which are considered related-party transactions under the SEC rules.

Dr. John Bamforth, vice president, chief marketing officer, Lilly Bio-Medicines, is the spouse of Dr. Susan Mahony, one of the company's executive officers, and has been employed by the company for over 20 years. In 2013, he was paid approximately $381,000 in cash compensation, and he received grants under the company's performance-based equity program valued at approximately $60,000 based upon the fair value computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). Similarly, Mr. Myles O'Neill, senior vice president, global drug products, is the spouse of Dr. Fionnuala Walsh, a Lilly executive officer, and has been employed by the company for over 10 years. His cash compensation in 2013 was approximately $700,000 and his equity grants were valued at approximately $375,000. Both Dr. Bamforth and Mr. O'Neill participate in the company's benefit programs generally available to U.S. employees, and their compensation was established in accordance with the company's compensation practices applicable to employees with equivalent qualifications and responsibilities and holding similar positions.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides a detailed description of our executive compensation philosophy, the Compensation Committee's process for setting executive compensation, the

elements of our compensation program, the factors the committee considered when setting executive compensation in 2013, and how the company's results impacted incentive payouts for 2013.

Say on Pay Results for 2013

At last year's annual meeting, 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. We communicate directly with shareholders on executive compensation matters and seek to ensure our programs are aligned with shareholder values and concerns.

Our Philosophy on Compensation

At Lilly, we aim to discover, develop, and market innovative therapies – medicines that make a real difference for patients and deliver clear value for payers. In order to accomplish our mission, we must attract, engage, and retain highly-talented individuals who are committed to the company's 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 customers and shareholders.

Objectives

Our compensation and benefits program is based on the following principles:

- ***Reflect both individual and company performance.*** We reinforce a high-performance culture by linking pay with individual performance and company performance. As employees assume greater responsibilities, the proportion of total compensation based on company performance and shareholder returns increases. We perform an annual review to ensure the programs provide incentive to deliver long-term, sustainable business results while discouraging excessive risk-taking, or other adverse behaviors.

- ***Consider employee retention.*** Compensation should be competitive with our peer group and reflect the level of job impact and responsibilities. Employee retention is an important factor in the design of our compensation and benefit programs.

- ***Broad-based program design.*** 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 compensation and benefit programs.

Compensation Committee's Processes and Analyses

Process for setting compensation

The Compensation Committee considers the following in determining executive compensation:

- ***Assessment of the executive's individual performance and contribution***.
  - *Chief Executive Officer ("CEO")*: The independent directors, under the direction of the lead director, meet with the CEO at the beginning of each year to agree upon the CEO's performance objectives for the year, and at the end of each year to assess the CEO's achievement of those objectives along with other factors, including contribution to the company's performance and ethics and integrity. The year-end evaluation is used in setting the CEO's potential compensation for the next year.
  - *Other Executive Officers ("EOs")*: The committee receives individual performance assessments and compensation recommendations from the CEO and also exercises its judgment based on the Board's knowledge and interactions with the EOs. As with the CEO, each EO's performance assessment is based on his or her achievement of objectives established between the EO and the CEO at the start of the year as well as other factors.

- ***Assessment of company performance***. The Compensation Committee considers company performance in two ways:
  - Prior to establishing total potential compensation for the coming year, the committee considers overall company performance during the prior year across a variety of metrics.
  - To determine payouts under the cash and equity incentive programs, the committee establishes specific company performance goals related to revenue, EPS, delivery of our pipeline portfolio, and stock price growth.

- ***Peer-group analysis***. The committee uses peer-group data as a market check for compensation decisions, but does not use this data as the sole basis for its compensation targets. The company does not target a specific position within the range of market data.

- ***The Compensation Committee seeks input from an independent compensation consultant concerning CEO pay***. The role of the independent compensation consultant is described in more detail under "Compensation Committee Matters" that follows the CD&A.

Competitive pay assessment

Our peer group is comprised of companies that directly compete with us, operate in a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. In selecting the peer group, the committee considers market cap and revenue as measures of size. The committee reviews the peer group at least every three years. The group includes: Abbott, Allergan, Amgen, AstraZeneca, Biogen, Baxter, Bristol-Myers Squibb, Celgene, Covidien (prior to the spin off of Mallinckrodt), Gilead, GlaxoSmithKline, Hoffman-La Roche, Johnson & Johnson, Medtronic, Merck, Novartis, Pfizer, and Sanofi-Aventis. Lilly fell in the middle of this peer group in terms of both revenue and market cap when the peer group was established in 2012. With the exception of Johnson & Johnson, Novartis, and Pfizer, peer companies were no greater than three times our size with regard to both measures. The committee included these three 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. In the aggregate, the company's total compensation to named executive officers for 2012 was in the middle range of the peer group.

Components of Our Compensation

We have three elements of compensation for executive officers: (1) base salary; (2) an annual bonus, which is calculated based on company performance on revenue, EPS, and the progress of the pipeline relative to internal targets; and (3) two different forms of equity incentives: (i) "Performance Awards" (PAs) - performance-based equity awards that pay out as restricted stock units based upon the company's two-year earnings per share (EPS) growth relative to the expected industry growth over the period; and (ii) "Shareholder Value Awards" (SVAs) - performance-based equity awards that pay out based on company stock price growth over a three-year period. Executives also receive the company benefits package, described below under "Employee Benefits".

The Compensation Committee has authority to adjust the reported earnings per share (EPS) on which PAs and the annual bonus are determined in order to eliminate the distorting effect of unusual income or expense items that may occur during a given year that impact year-over-year growth percentages. Further details on the adjustments for 2013 and the rationale for making these adjustments are set forth in Appendix A ("Summary of Adjustments to EPS Related to the Annual Bonus and PA") to this proxy. For ease of reference, throughout the CD&A and the other compensation disclosures we refer simply to "EPS" but we encourage you to review the information in Appendix A to understand the adjustments that may have been made to EPS.

1. Base Salary

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 market data.

Base salary increases, if granted during a given year, are 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 fiscal year, and general external trends. In setting salaries, the Compensation Committee seeks to retain, motivate, and reward successful performers while maintaining affordability within the company's business plan.

2. Annual Bonus

The Eli Lilly and Company Bonus Plan ("Bonus Plan") is designed to align employees' individual goals with the company's financial plans and pipeline delivery objectives for the year. The bonus is based on company performance in three areas over the course of the year, relative to internal targets: (1) revenue performance; (2) EPS performance; and (3) progress on advancing our product pipeline.

Individual bonus targets and company performance goals are set at the beginning of each year. In establishing the goals, the Compensation Committee references the annual operating plan. Each year, the Compensation Committee reviews the relative weighting for each of the factors. For 2013, the weightings were set as follows:

Goal	Weighting
Revenue performance	25%
EPS performance	50%
Pipeline progress	25%

Based on this weighting, the company bonus multiple is calculated as follows:

(0.25 x revenue multiple) + (0.50 x EPS multiple) + (0.25 x pipeline multiple) = company bonus multiple

Individual payouts are calculated according to the following formula:

company bonus multiple x individual bonus target x base salary earnings = payout

EOs are subject to the Executive Officer Incentive Plan ("EOIP"), which sets further limits on the allowable bonus amounts. Under the EOIP, the maximum annual bonus allowable is calculated based on non-GAAP net income (as defined under "Adjustments to Reported Results" in Appendix A to this proxy statement) for the year. For the CEO, the maximum bonus award is 0.3 percent of non-GAAP net income. For other EOs, the maximum amount is 0.15 percent of non-GAAP net income. EOs will not receive any annual cash incentive payments unless the company has a positive non-GAAP net income for the year.

Once the maximum payout for an EO is determined, the Compensation Committee has the discretion to reduce (but not increase) the amount of the bonus to be paid. In exercising this discretion, the committee intends to generally award EOs the lesser of (i) the bonuses they would have received under the Bonus Plan or (ii) the EOIP maximum amounts.

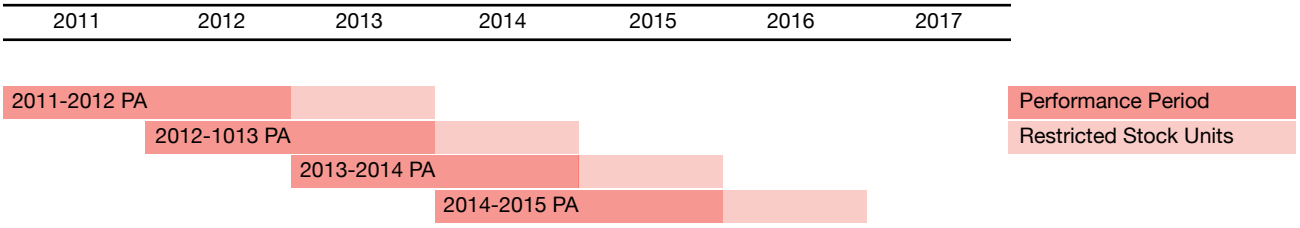
3. Equity Incentives

The company has two equity incentive programs - PAs and SVAs. The PAs are designed to focus company leaders on multi-year operational performance relative to peer companies and the SVAs align compensation with long-term growth in shareholder value. The Compensation Committee has the discretion to adjust downward (but not upward) any executive officer's equity award payout from the amount yielded by the applicable formula.

Performance Awards

PAs are structured as a schedule of potential shares earned based on cumulative, aggregated annual growth in EPS over a two-year period. The growth rate targets are set relative to the median expected EPS growth for the peer group for the period. As reflected in the chart below, following the two-year performance period, PAs pay out to EOs in restricted stock units that vest 13 months after the end of the performance period. These awards do not accumulate dividends during the two-year performance period, but do accumulate dividends during the one-year restriction period.

Performance and Holding Periods for PAs



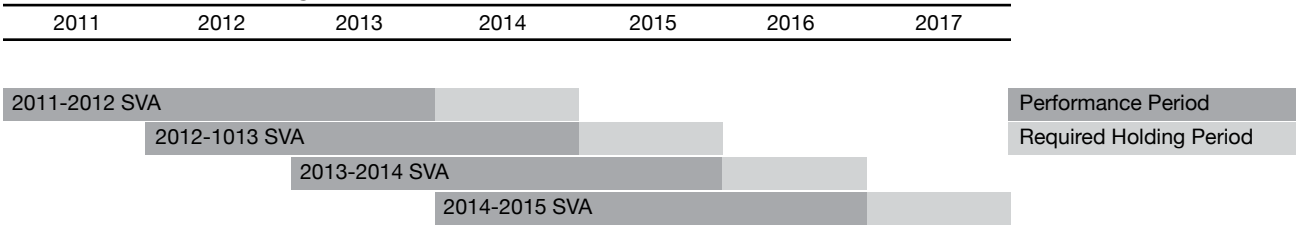
The Compensation Committee believes that EPS growth is an effective measure of performance because it is closely linked to shareholder value, is broadly communicated to the public, is easily understood by employees, and allows for objective comparisons to peer-group performance. Consistent with our compensation objectives, company performance exceeding the expected peer-group median will result in above-target payouts, while company performance lagging the expected peer-group median will result in below-target payouts.

The measure of EPS used in the PA program differs from the adjusted measure used in our annual bonus program in two ways. First, the bonus program measures EPS over a one-year period, while the PA program measures EPS over a two-year period. Second, the target EPS goal in the bonus program is set with reference to internal goals for the year, while the target EPS goal in the PA program is set relative to expected growth rates among our peer group. Possible payouts range from 0 to 150 percent of the target depending on the EPS growth over the performance period.

Shareholder Value Awards

SVAs are structured as a schedule of shares of company stock that may be earned based on Lilly's share price performance over a three-year period. As reflected in the chart below, SVAs have a three-year performance period and any shares paid out are subject to a one-year holding requirement. No dividends are accrued during the performance period. SVAs pay out above target if Lilly stock outperforms an expected compounded annual rate of return and below target if company stock underperforms that rate of return. The expected rate of return includes dividends and is based on the total three-year shareholder return (TSR) that a reasonable investor would consider appropriate for investing in a basket of large-cap U.S. companies (based on input from external money managers). The share price payout schedule is based on this expected rate of return less the company's dividend yield, applied to the starting share price. Executive officers receive no payout if TSR for the three-year period is zero or negative.

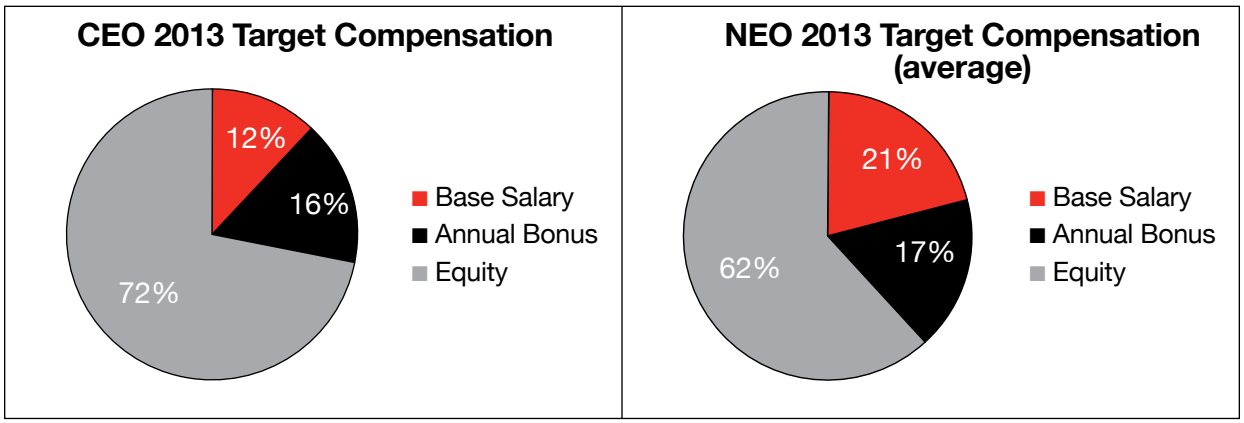
Performance and Holding Periods for SVAs



Possible payouts range from 0 to 140 percent of the target amount, depending on stock performance over the period.

Pay for Performance

The mix of compensation for the CEO and other Named Executive Officers (NEOs) reflects the company's desire to link executive compensation with company performance. As reflected in the charts below, a substantial portion of the target pay for all NEOs is performance-based. Both the equity and annual bonus payouts are determined by company performance, with the bonus factoring in performance over a one-year period, and equity compensation factoring in performance over a longer term (as described above under "Components of Executive Compensation - Equity Incentives").



Individual Executive Performance

The Compensation Committee met at the end of 2012 to set potential EO compensation for 2013. The committee reviewed both individual and company performance during 2012. A summary of the committee's review of the individual EOs is provided below:

Dr. John Lechleiter: In assessing Dr. Lechleiter's performance, the independent directors noted that under his leadership in 2012, the company exceeded corporate goals for growth in revenue, EPS, and cash flow, and continued to advance the product pipeline, with 11 molecules in late-stage development.

The directors also noted Dr. Lechleiter's strong leadership in establishing and executing the company's strategy to manage through the period of patent expirations from 2011-2014 and return to long-term growth following this period. Dr. Lechleiter set a clear tone throughout the organization emphasizing integrity and quality, and measures of both employee engagement and customer brand equity showed continued gains. In addition, Dr. Lechleiter continued his effective public advocacy on behalf of the company and the biopharmaceutical industry, and oversaw smooth transitions of two critical leadership roles in the organization during 2012.

Dr. Lechleiter had not received an increase in base salary, target bonus, or target equity since 2009. The Compensation Committee considered Dr. Lechleiter's performance over the past several years in determining whether to increase any components of his potential compensation for 2013. In light of Dr. Lechleiter's excellent leadership, the company's consistent progress during a difficult period, the comparison of peers' CEO pay, and the compensation of his direct reports, the Compensation Committee recommended that Dr. Lechleiter receive an increase in total target compensation. In keeping with the company's desire to maintain the substantial majority of the CEO's pay as performance-based equity compensation, the committee decided to increase Dr. Lechleiter's target equity compensation by 20 percent but maintained his base salary and target bonus at current levels.

Derica Rice: Mr. Rice made strong contributions in leading the company to meet challenging expense targets and revenue goals for 2012. He served as a key facilitator of collaborative work among the business units and key functions to set strategy and allocate resources. Mr. Rice also successfully oversaw leadership changes in the chief accounting officer and external audit partner roles, and has maintained an excellent external reputation.

Dr. Jan Lundberg: Dr. Lundberg, through his leadership, continued to be a key contributor to strong pipeline progress in 2012. Dr. Lundberg has reinvigorated Lilly's scientific culture, improved employee morale and engagement within Lilly Research Laboratories ("LRL"), and strengthened LRL's partnership with the business unit leaders.

Michael Harrington: The committee established Mr. Harrington's target compensation when he was promoted to Senior Vice President and General Counsel upon the retirement of Robert Armitage at the end of 2012.

Enrique Conterno: Mr. Conterno's leadership was a key factor in the excellent progress with our diabetes business and the progression of our diabetes pipeline. During 2012, he oversaw the successful conclusion of the Amylin relationship, and has been instrumental in leading the alliance with Boehringer Ingelheim.

Company Performance

For 2013, the company met its revenue target with annual revenues of $23.1 billion. The company exceeded its EPS target with earnings of $4.5 billion, resulting in $4.15 of EPS. The company also made significant progress on its pipeline, exceeding most targets for pipeline progress, highlighted by regulatory submissions for four products - empagliflozin, dulaglutide, new insulin glargine, and ramucirumab - along with five other new approvals or new indication or line extensions ("NILEX") during 2013. Further information on the company's performance during 2013 is provided above in the "Proxy Statement Overview".

2013 Target Total Compensation

The information in the section below reflects target total compensation for executive officers for 2013. The actual payouts made to the NEOs in the form of the 2013 annual bonus and equity awards that vested in 2013 are summarized in the next section, under "2013 Compensation Payouts".

Base Salary

For base salary increases granted to the NEOs in 2013, in addition to the considerations set forth above under "Individual Executive Performance," the committee considered the corporate budget for salary increases, which was established at 3 percent for 2013. The aggregate increases for the NEOs and the other executive officers were within this budget, and the increased base salaries for the NEOs remained within the broad middle range of the peer group. The chart below reflects the annualized base salary for each NEO:

Name	2013 (in thousands)	Percentage Increase
Dr. Lechleiter	$1,500	0%
Mr. Rice	$1,020	3%
Dr. Lundberg	$1,008	3%
Mr. Harrington	$765	–
Mr. Conterno	$683	2%

Each executive's full base salary for 2013 is reflected in the "Summary Compensation Table" in the "Executive Compensation" section of the proxy that follows.

Annual Bonus Targets

Based on the fact that the total compensation paid to the company's NEOs in 2012 remained in the middle range of the peer group data, the committee decided to maintain the same bonus targets for the NEOs for 2013, as reflected below (as a percentage of base salary), excluding Mr. Harrington, who was not a NEO in 2012. Mr. Harrington's target was based on internal pay relativity and market data.

Name	2013
Dr. Lechleiter	140%
Mr. Rice	90%
Dr. Lundberg	90%
Mr. Harrington	75%
Mr. Conterno	75%

The Compensation Committee established the performance targets for 2013 equal to the targets specified in the company's 2013 corporate operating plan.

Total Equity Program - Target Grant Values

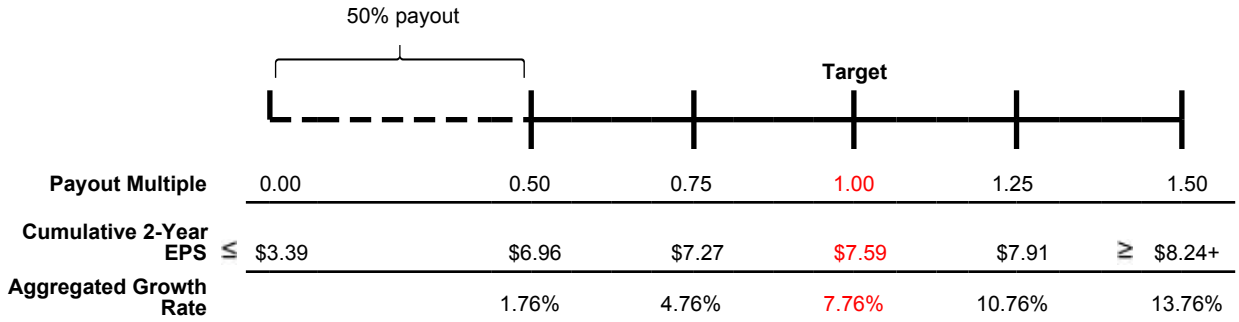
For equity program grants made during 2013, the committee set the aggregate target values for EOs based on internal relativity, individual performance, and peer-group data. The committee determined that a 50/50 split between PAs and SVAs appropriately balances company financial performance with shareholder return. Target values for the 2013 equity grant to the named executive officers were as follows:

Name	2013 Total Equity (in thousands)
Dr. Lechleiter	$9,000
Mr. Rice	$3,800
Dr. Lundberg	$3,000
Mr. Harrington	$1,750
Mr. Conterno	$2,000

The committee's process and rationale for increasing Dr. Lechleiter's equity is set forth above under "Pay for Performance - Dr. John Lechleiter."

Performance Awards – 2013-2014 PA

The committee established the compounded EPS growth target at 7.8 percent across the two-year period (7 percent and 9 percent for 2013 and 2014, respectively), based on investment analysts' published estimates for the peer group. Possible payouts for the 2013-2014 PA range from 0 to 150 percent of the target, as illustrated in the chart below:



Shareholder Value Awards – 2013-2015 SVA

The starting price was $48.43 per share, representing the average of the closing prices of company stock for all trading days in November and December 2012. The future share price that determines the number of shares awarded was established based on the expected rate of return for large-cap companies, less an assumed dividend yield of 4.05 percent. The ending price to determine payouts will be the average of the closing prices of company stock for all trading days in November and December 2015. There is no payout to EOs if the shareholder return (including dividends) is zero or negative. Possible payouts are illustrated in the grid below.

Ending Stock Price	Less than $42.56	$42.56-$48.85	$48.86-$55.14	$55.15-$57.64	$57.65-$60.14	$60.15-$62.64	Greater than $62.64
Compounded Annual Share Price Growth Rate (excluding dividends)	Less than (4.2%)	(4.2%)-0.3%	0.3%-4.4%	4.4%-6.0%	6.0%-7.5%	7.5% -9.0%	Greater than 9%
Percent of Target	0%	40%	60%	80%	100%	120%	140%

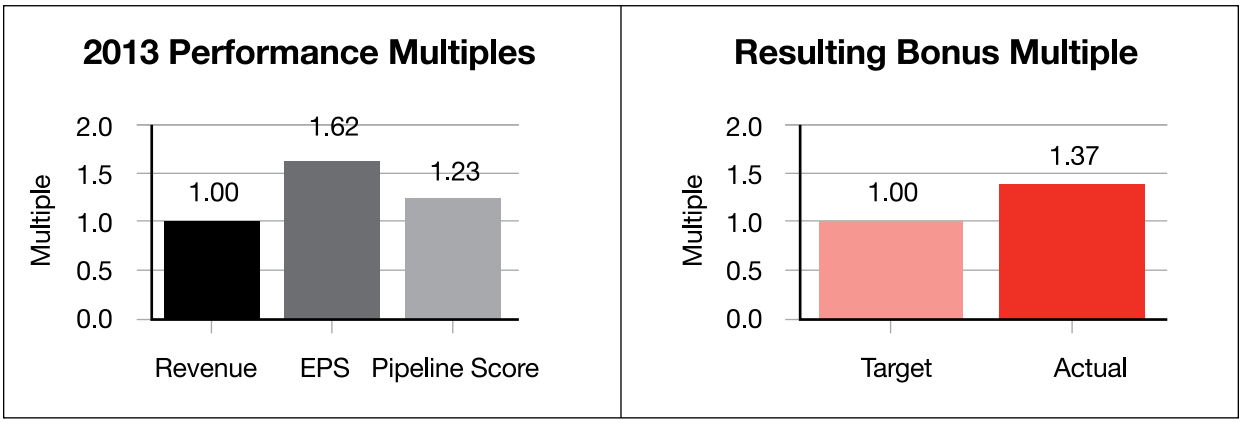
2013 Compensation Payouts

The information in this section reflects the amounts paid to NEOs for the 2013 annual bonus and payouts from equity awards for which the relevant performance period ended in 2013.

Bonus Award for 2013

The company's 2013 performance compared to targets for revenue, EPS, and pipeline progress, as well as the resulting bonus multiple, are illustrated below.

	2013 Corporate Target	Actual Results	Multiple
Revenue	$23.1 billion	$23.1 billion	1.0
EPS	$3.94	$4.15	1.62
Pipeline score	3	3.45	1.23
Cumulative Bonus Multiple			1.37



The Science and Technology Committee assessed the company's progress toward achieving product pipeline goals at 3.45 (on a scale of 1 to 5), noting 5 NILEX approvals versus a goal of 3, and one new molecular entity (NME) entering into Phase III, achieving the goal of one. Additionally, 66 percent of pipeline projects met their milestone goals, which was below the target range of 70 to 80 percent. The Science and Technology Committee also performed a subjective assessment of the quality of the pipeline, considering many factors, including the achievement of four NME regulatory submissions in 2013. Based on the recommendation of the Science and Technology Committee, the Compensation Committee certified a pipeline score of 3.45, resulting in a pipeline multiple of 1.23.

Combined, the revenue, EPS, and pipeline progress multiples yielded a bonus multiple of 1.37.

(0.25 x 1.0) + (0.50 x 1.62) + (0.25 x 1.23) = 1.37 bonus multiple

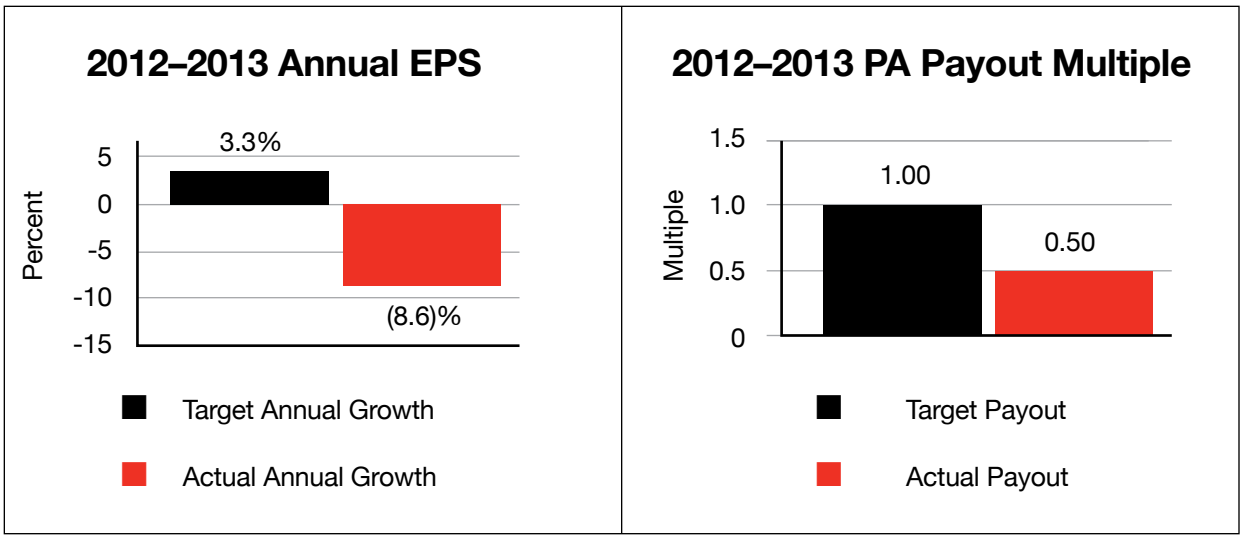
The bonus amounts paid to the executive officers during 2013 are reflected in the "Summary Compensation Table" in the "Executive Compensation" section of the proxy that follows.

Equity Award Payouts in 2013

2012-2013 Performance Award

The target cumulative EPS for the 2012-2013 PA was set in January of 2012 reflecting expected industry growth of 3.3 percent each year. The company's two-year EPS growth was at the bottom of our peer group, as a consequence of the Zyprexa and Cymbalta patent expirations.

The company's performance compared to targets (and the resulting multiple) for the 2012-2013 PA are reflected in the charts below.



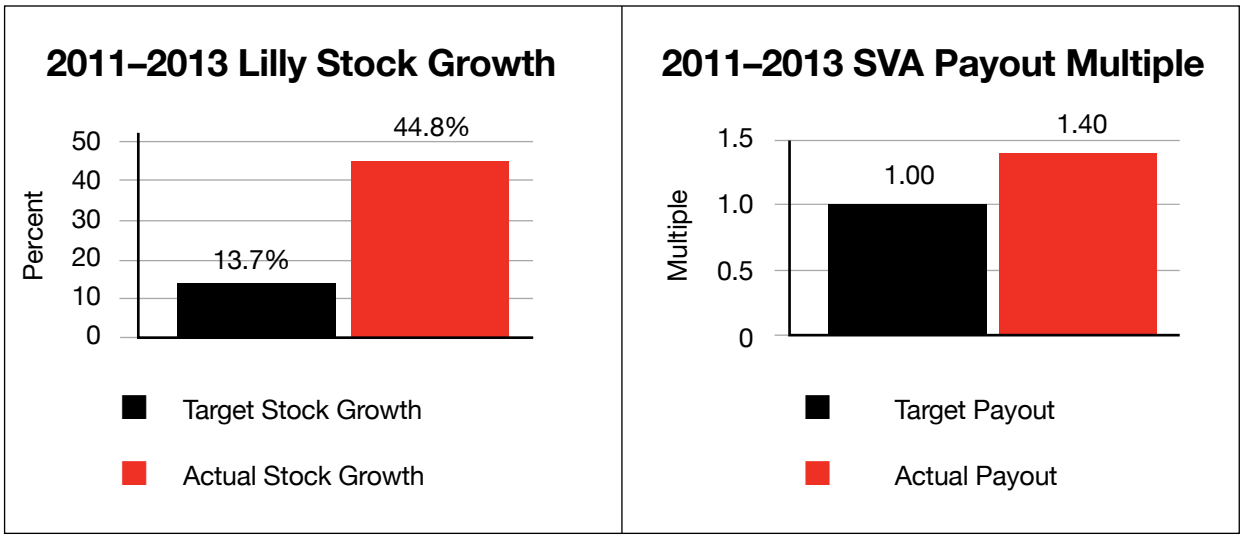
For the NEOs, the number of shares paid out under the 2012-2013 PA is reflected in the table below (this information is also included in footnote 5 to the "Outstanding Equity Awards Table" in the "Executive Compensation" section of the proxy, below):

Name	Target Shares	Shares Paid Out
Dr. Lechleiter	104,924	52,462
Mr. Rice	53,162	26,581
Dr. Lundberg	41,970	20,985
Mr. Harrington	6,995	3,498
Mr. Conterno	27,980	13,990

Mr. Harrington's shares reflect amounts granted to him in 2012 before he became an executive officer.

2011-2013 Shareholder Value Award

The target stock price of $39.60 for the 2011-2013 SVA was set in January 2011 based on a beginning stock price of $34.81, which was the average closing price for Lilly stock for all trading days in November and December 2010. The ending stock price of $50.42 represents stock price growth of approximately 45 percent over the relevant three-year period. The company's performance compared to target (and the resulting payout multiple) for the 2011-2013 SVA are shown below.



The number of shares paid to NEOs during 2013 for the 2011-2013 SVA were as follows:

Name	Target Shares	Shares Paid Out
Dr. Lechleiter	149,522	209,331
Mr. Rice	75,758	106,061
Dr. Lundberg	54,825	76,755
Mr. Harrington	7,596	10,634
Mr. Conterno	39,872	55,821

Mr. Harrington's shares reflect amounts granted to him in 2011 before he became an executive officer.

Other Compensation Practices and Information

Stock Options

The company stopped granting stock options after 2006. The stock options granted in 2003 expired in 2013 with no value. These awards (and other expired stock options) were not replaced.

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; and
- enhance productivity and job satisfaction through benefit programs that focus on overall well-being.

The benefits available are the same for all U.S. employees and include medical and dental coverage, disability insurance, and life insurance. In addition, The Lilly Employee 401(k) plan (the 401(k) plan) and The Lilly Retirement Plan (the retirement plan) 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 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 does not allow personal use of the corporate aircraft except the aircraft is made available for the personal use of Dr. Lechleiter in very rare cases when the security and efficiency benefits to the company outweigh the expense. Dr. Lechleiter did not use the corporate aircraft for personal flights during 2013, nor did he receive any other perquisites. Depending on seat availability, family members and personal guests of executive officers may travel on the company aircraft to accompany executives who are traveling on business. There is no incremental cost to the company for these trips.

The Lilly Deferred Compensation Plan

Executive officers may defer receipt of part or all of their cash compensation under The Lilly Deferred Compensation Plan (the 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 2013" table.

Severance Benefits

Except in the case of a change in control of the company, the company is 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 the 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, the plans generally require a "double trigger"—a change in control followed by an involuntary loss of employment within two years thereafter. This is consistent with the plan's intent to provide employees with financial protection upon loss of employment. A partial exception is made for outstanding PAs, a portion of which would be paid out upon a change in control on a pro-rated basis for time worked based on the forecasted payout level at the time of the change in control. This partial payment is appropriate because of the difficulties in converting the company EPS targets into an award based on the surviving company's EPS. Likewise, if Lilly is not the surviving entity, a portion of outstanding SVAs would be paid out on a pro-rated basis for time worked up to the change in control based on the merger price for company stock.

- ***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 is defined in the plan. See "Potential 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 assure 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 be continued 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 vest at the time of termination of employment.

- ***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; Hedging Prohibition and Pledging Shares

Share ownership and retention guidelines help to foster a focus on long-term growth. The CEO is required to own company stock valued at least six times his or her annual base salary. Other executive officers are required to own a fixed number of shares based on their position. Until the required number of shares is reached, the executive officer must retain 50 percent of net shares resulting from new equity payouts. Our executives have a long history of maintaining extensive holdings in company stock, and all NEOs already meet or exceed the guideline (except for Mr. Harrington, who, as a newly named EO, is on track to meet the share requirements within the next few years). As of February 21, 2014, Dr. Lechleiter held shares valued at approximately 32 times his annual salary. The following table shows the share requirements for each NEO:

Name	Share Requirement	Owns Required Shares
Dr. Lechleiter	six times base salary	Yes
Mr. Rice	75,000	Yes
Dr. Lundberg	75,000	Yes
Mr. Harrington	55,000	No[1]
Mr. Conterno	50,000	Yes

[1] As a new executive officer, Mr. Harrington is required to retain at least half of all equity payouts until he reaches the 55,000 share requirement.

Executive officers are also required to hold all shares received from equity program payouts, net of acquisition costs and taxes, for at least one year, even once share ownership requirements have been met. For PAs, this holding requirement is met by the one-year restriction period on the RSUs paid out pursuant to the program.

Employees are not permitted to hedge their economic exposures to company stock through short sales or derivative transactions, and for 2013, executive officers did not hold any pledged shares. Effective in 2014, the committee adopted a formal policy prohibiting outside directors and all members of senior management from pledging any company stock.

Tax Deductibility Cap on Executive Compensation

U.S. federal income tax law prohibits the company from taking a tax deduction for non-performance based compensation paid in excess of $1,000,000 to named executive officers. However, performance-based compensation is fully deductible if the programs are approved by shareholders and meet other requirements. Our policy is to qualify our incentive compensation programs for full corporate deductibility to the extent feasible and consistent with our overall compensation objectives.

We have taken steps to qualify all incentive awards (bonuses, PAs, and SVAs) for full deductibility as performance-based compensation. The committee may make payments that are not fully deductible if, in its judgment, such payments are necessary to achieve the company's compensation objectives and to protect shareholder interests. For 2013, the non-deductible compensation was approximately $408,000 for Dr. Lechleiter, less than the portion of his base salary that exceeded $1,000,000.

Executive Compensation Recovery Policy

All incentive awards are subject to forfeiture upon termination of employment prior to the end of the performance period or for disciplinary reasons. In addition, the Compensation Committee has adopted an executive compensation recovery policy, which gives the committee broad discretion to claw back incentive payouts from any executive 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 in the case of materially inaccurate financial statements or material errors in the performance calculation, whether or not they result in a

restatement and whether or not the executive officer has engaged in wrongful conduct. Recoveries under the plan can extend back as far as three years. Additionally, as of 2013, the policy applies not only to executive officers, but to all members of senior management (approximately 160 employees).

The recovery policy covers any incentive compensation awarded or paid beginning in 2013 to an employee at a time when he or she is a member of senior management. 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 2014 Compensation

For 2014, in recognition of an expected substantial decline in revenue due to significant patent expirations, most employees, including executive officers, will not be receiving an increase to base salary to allow the company to fully invest in launching the company's late stage pipeline assets. The company bonus multiple for 2014 will also be reduced by 0.25. For example, if the company hits its performance goals for 2014, the multiple will be reduced from 1.0 to 0.75.

Additionally, although the practice has long been discouraged for EOs, effective in 2014, the company has formally adopted a policy prohibiting all members of senior management (and outside directors) from pledging company shares (i.e., using them as collateral for a loan).

Compensation Committee Matters

Background

Role of the Independent Consultant In Assessing Executive Compensation
The committee has retained Cimi B. Silverberg of Frederic W. Cook & Co., Inc., as its independent compensation consultant to assist the committee. Ms. Silverberg reports directly to the committee. Neither she nor her firm is permitted to have any business or personal relationship with management or the 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 committee of evolving best practices
- Provide independent analyses and recommendations to the committee on the CEO's pay
- Review draft "Compensation Discussion and Analysis" and related tables for the proxy statement
- Proactively advise the committee on best practices for board governance of executive compensation
- Undertake special projects at the request of the committee chair

Ms. Silverberg interacts directly with members of company management only on matters under the committee's oversight and with the knowledge and permission of the 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 gives the committee a performance assessment and compensation recommendation for each of the other executive officers. The committee considers those recommendations with the assistance of its consultant. The CEO and the senior vice president of human resources and diversity attend committee meetings but are not present for executive sessions or for any discussion of their own compensation. Only nonemployee directors and the committee's consultant attend executive sessions.

The CEO does not participate in the formulation or discussion of his pay recommendations and has no prior knowledge of the recommendations that the consultant makes to the committee.

Risk Assessment Process

As a part of the overall enterprise risk management program, in 2013 the committee reviewed the company's compensation policies and practices for employees, including executive officers. The committee concluded that the company's compensation programs are not reasonably likely to have a material adverse effect on the company. The committee noted numerous design features of the company's cash and equity incentive programs that reduce the likelihood of inappropriate risk-taking, including, but not limited to:

- Independent Compensation Committee members
- Compensation Committee engages independent compensation consultant
- Compensation Committee has downward discretion to lower compensation plan payouts
- Threshold levels below target that provide for payouts and maximums that cap payouts
- Different measures and metrics used across multiple incentive plans; appropriate balance of cash/stock, fixed/variable pay, short-term/long-term incentives
- Performance objectives are appropriately achievable
- Programs with operational metrics that have a continuum of payout multiples based upon achievement of performance milestones
- Negative compensation consequences for serious compliance violations and compensation recovery policy in place for all members of senior management
- Meaningful share ownership requirements for all members of senior management

Compensation Committee Report

The Compensation Committee evaluates and establishes compensation for executive officers and oversees the deferred compensation plan, the company's 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 committee is satisfied that the CD&A fairly and completely represents the philosophy, intent, and actions of the committee with regard to executive compensation. The committee recommended to the Board of Directors that the CD&A be included in this proxy statement for filing with the SEC.

Compensation Committee
Karen N. Horn, Ph.D., Chair
Ralph Alvarez
Ellen R. Marram
Kathi P. Seifert

Compensation Committee Interlocks and Insider Participation

None of the Compensation Committee members:

- Has ever been an officer of the company
- Has ever been an employee of the company
- Is or was a participant in a related-person transaction in 2013 (see "Review and Approval of Transactions with Related Persons" for a description of our policy on related-person transactions).

None of our Board members or Compensation Committee members is an executive officer of another entity at which one of our executive officers serves on the Board of Directors.

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 ($) [4]	Total Compensation ($)
John C. Lechleiter, Ph.D.	2013	$1,500,000	$0	$6,750,000	$0	$2,877,000	$0 [5]	$90,000	$11,217,000
Chairman, President, and Chief Executive Officer	2012	$1,500,000	$0	$5,625,000	$0	$2,982,000	$4,423,633	$90,000	$14,620,633
	2011	$1,500,000	$0	$5,625,000	$0	$2,625,000	$6,530,094	$90,000	$16,370,094
Derica W. Rice	2013	$1,014,750	$0	$2,850,000	$0	$1,251,187	$0 [5]	$60,885	$5,176,822
Executive Vice President, Global Services and Chief Financial Officer	2012	$990,000	$0	$2,850,000	$0	$1,265,220	$1,770,767	$59,400	$6,935,387
	2011	$984,167	$0	$2,850,000	$0	$1,107,188	$940,589	$59,050	$5,940,993
Jan M. Lundberg, Ph.D.	2013	$1,002,963	$0	$2,250,000	$0	$1,236,653	$224,741	$60,178	$4,774,535
Executive Vice President, Science and Technology and President, Lilly Research Laboratories	2012	$978,500	$0	$2,250,000	$0	$1,250,523	$307,275	$58,710	$4,845,008
	2011	$973,750	$0	$2,062,500	$0	$1,095,469	$232,128	$58,425	$4,422,272
Michael J. Harrington	2013	$765,000	$0	$1,312,500	$0	$786,038	$264,784	$45,900	$3,174,222
Senior Vice President and General Counsel	2012	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2011	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Enrique A. Conterno	2013	$680,658	$0	$1,500,000	$0	$699,376	$88,167	$40,840	$3,009,041
Senior Vice President and President, Lilly Diabetes	2012	$669,500	$0	$1,500,000	$0	$713,018	$992,187	$40,170	$3,914,875
	2011	$666,250	$0	$1,500,000	$0	$624,609	$887,380	$39,975	$3,718,214

[1] This column shows the grant date fair value of PAs and SVAs computed in accordance with FASB ASC Topic 718. Values for awards subject to performance conditions (PAs) are computed based upon the probable outcome of the performance condition as of the grant date. A discussion of assumptions used in calculating award values may be found in Note 11 to our 2013 audited financial statements in our Form 10-K.

The table below shows the minimum, target, and maximum payouts (using the grant date fair value) for the 2013-2014 PA grant included in this column of the Summary Compensation Table.

Name	Payout Date	Minimum Payout	Target Payout	Maximum Payout
Dr. Lechleiter	January 2015	$0	$4,500,000	$6,750,000
Mr. Rice	January 2015	$0	$1,900,000	$2,850,000
Dr. Lundberg	January 2015	$0	$1,500,000	$2,250,000
Mr. Harrington	January 2015	$0	$875,000	$1,312,500
Mr. Conterno	January 2015	$0	$1,000,000	$1,500,000

[2] Payments for 2013 performance were made in March 2014 under the bonus plan. All bonuses paid to named executive officers were part of a non-equity incentive plan.

[3] The amounts in this column reflect the change in pension value for each individual, calculated by our actuary, and are impacted by the discount rate, pay earned in the last ten years, age, and years of service. No named executive officer received preferential or above-market earnings on deferred compensation.

[4] The amounts in this column are solely company matching contributions for each individual's 401(k) plan contributions. The company does not reimburse executives for taxes outside of the limited circumstance of taxes related to employee relocation or a prior international assignment. There were no perquisites or payments to report in the proxy statement.

[5] The net present value of the pension benefits for Dr. Lechleiter and Mr. Rice reflect no change from 2012 due to an increase in the discount rate as reflected in footnote 1 to the pension benefits table below. For the other named executive officers, increases in pensionable earnings offset the impact of the increased discount rate.

Grants of Plan-Based Awards During 2013

The compensation plans under which the grants in the following table were made are described in the "Compensation Discussion and Analysis" and include the bonus plan (a non-equity incentive plan) and the 2002 Lilly Stock Plan (which provides for PAs, SVAs, stock options, restricted stock grants, and RSUs).

Name	Award	Grant Date [2]	Compensation Committee Action Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards [1]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock or Option Awards: Number of Shares of Stock, Options, or Units	Grant Date Fair Value of Equity Awards
				Threshold ($)	Target ($)	Maximum ($)	Threshold (# shares)	Target (# shares)	Maximum (# shares)		
Dr. Lechleiter		—	—	$52,500	$2,100,000	$4,200,000					
	2013-2014 PA	2/5/2013 [3]	12/17/2012				44,830	89,659	134,489		$2,250,000
	2013-2015 SVA	2/5/2013 [4]	12/17/2012				44,302	110,756	155,058		$4,500,000
										—	
Mr. Rice		—	—	$22,832	$913,275	$1,826,550					
	2013-2014 PA	2/5/2013 [3]	12/17/2012				18,928	37,856	56,784		$950,000
	2013-2015 SVA	2/5/2013 [4]	12/17/2012				18,705	46,763	65,468		$1,900,000
										—	
Dr. Lundberg		—	—	$22,567	$902,666	$1,805,333					
	2013-2014 PA	2/5/2013 [3]	12/17/2012				14,943	29,886	44,829		$750,000
	2013-2015 SVA	2/5/2013 [4]	12/17/2012				14,768	36,919	51,687		$1,500,000
										—	
Mr. Harrington		—		$14,344	$573,750	$1,147,500					
	2013-2014 PA	2/5/2013 [3]	12/17/2012				8,717	17,434	26,151		$437,500
	2013-2015 SVA	2/5/2013 [4]	12/17/2012				8,614	21,536	30,150		$875,000
										—	
Mr. Conterno		—	—	$12,762	$510,494	$1,020,988					
	2013-2014 PA	2/5/2013 [3]	12/17/2012				9,962	19,924	29,886		$500,000
	2013-2015 SVA	2/5/2013 [4]	12/17/2012				9,845	24,612	34,457		$1,000,000
										—	

[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 payment for 2013 performance was 137 percent of target, and is included 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 and consistently falls in the first week of February. Equity awards to new hires and other off-cycle grants are effective on the first trading day of the following month.

[3] This row shows the range of payouts for 2013-2014 PA grants. The 2013-2014 PA will pay out in January 2015, with payouts ranging from 0 to 150 percent of target. The grant-date fair value of the PA reflects the probable payout outcome anticipated at the time of grant, which was less than the target value.

[4] This row shows the range of payouts for 2013-2015 SVA grants. The 2013-2015 SVA will pay out in January 2016, with payouts ranging from 0 to 140 percent of target. We measure the fair value of the SVA on the grant date using a Monte Carlo simulation model.

To receive a payout under the PA or the SVA, a participant must remain employed with the company through the end of the relevant performance period (except in the case of death, disability, or retirement). In addition, an employee who was an executive officer at the time of the 2013-2014 PA grant will receive payment in RSUs. No dividends accrue on either PAs or SVAs during the performance period. Non-preferential dividends accrue during the earned PA's one-year restriction period (following the two-year performance period) and are paid upon vesting.

Outstanding Equity Awards at December 31, 2013

The 2013 closing stock price applied to the values in the table below was $51.00.

	Option Awards			Stock Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable [1]	Option Exercise Price ($)	Option Expiration Date	Award	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	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 ($)
Dr. Lechleiter				2013-2015 SVA			155,058 [2]	$7,907,978
				2012-2014 SVA			198,713 [3]	$10,134,373
				2013-2014 PA			44,830 [4]	$2,286,305
				2012-2013 PA	52,462 [5]	$2,675,562		
				2011-2012 PA	58,778 [6]	$2,997,678		
	140,964	$56.18	02/09/2016					
	127,811	$55.65	02/10/2015					
	200,000 [7]	$73.11	02/14/2014					
Mr. Rice				2013-2015 SVA			65,468 [2]	$3,338,878
				2012-2014 SVA			100,681 [3]	$5,134,731
				2013-2014 PA			18,928 [4]	$965,328
				2012-2013 PA	26,581 [5]	$1,355,631		
				2011-2012 PA	29,781 [6]	$1,518,831		
	30,000	$52.54	04/29/2016					
	27,108	$56.18	02/09/2016					
	23,077	$55.65	02/10/2015					
	25,000 [7]	$73.11	02/14/2014					
Dr. Lundberg				2013-2015 SVA			51,687 [2]	$2,636,017
				2012-2014 SVA			79,485 [3]	$4,053,735
				2013-2014 PA			14,943 [4]	$762,093
				2012-2013 PA	20,985 [5]	$1,070,235		
	N/A			2011-2012 PA	21,552 [6]	$1,099,152		
Mr. Harrington				2013-2015 SVA			30,150 [2]	$1,537,670
				2012-2014 SVA			10,969 [3]	$559,419
				2013-2014 PA			8,717 [4]	$444,567
	6,024	$56.18	02/09/2016					
	2,722	$55.65	02/10/2015					
	5,200 [7]	$73.11	02/14/2014					
Mr. Conterno				2013-2015 SVA			34,457 [2]	$1,757,297
				2012-2014 SVA			52,990 [3]	$2,702,490
				2013-2014 PA			9,962 [4]	$508,062
				2012-2013 PA	13,990 [5]	$713,490		
				2011-2012 PA	15,674 [6]	$799,374		
				RSU	20,000 [8]	$1,020,000		
	6,928	$56.18	02/09/2016					
	7,101	$55.65	02/10/2015					
	10,700 [7]	$73.11	02/14/2014					

[1] These options vested as listed in the table below by expiration date.

Expiration Date	Vesting Date
4/29/2016	5/1/2009
2/9/2016	2/10/2009
2/10/2015	2/11/2008
2/14/2014	2/19/2007

[2] SVAs granted for the 2013-2015 performance period. The number of shares reported in the table reflects the maximum payout, which will be made if the average closing stock price in November and December 2015 is over $62.64. Actual payouts may vary from 0 to 140 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2013, the payout would have been 60 percent of target.

[3] SVAs granted for the 2012-2014 performance period. The number of shares reported in the table reflects the maximum payout, which will be made if the average closing stock price in November and December 2014 is over $49.64. Actual payouts may vary from 0 to 140 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2013, the payout would have been 140 percent of target.

[4] This number represents the threshold value of PA shares that could pay out in January 2015 for 2013-2014 performance, provided performance goals are met. Any shares resulting from this award will pay out in the form of RSUs, vesting February 2016. Actual payouts may vary from 0 to 150 percent of target. The number of shares recorded in the table reflects the payout if the combined cumulative EPS for 2013 and 2014 falls between the range of $3.39 and $6.96.

[5] The 2012-2013 PA paid out at 50 percent of target in January 2014 in the form of RSUs, vesting February 2015.

[6] PA shares paid out in January 2013 for the 2011-2012 performance period. These shares vested in February 2014.

[7] These options expired with no value to the holder.

[8] This grant was made in 2008 outside of the normal annual cycle and will vest on May 1, 2018.

Options Exercised and Stock Vested in 2013

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($) [1]
Dr. Lechleiter	0	$0	132,367 [2]	$7,106,784
			209,331 [3]	$11,352,020
Mr. Rice	0	$0	52,947 [2]	$2,842,724
			106,061 [3]	$5,751,688
Dr. Lundberg	0	$0	44,122 [2]	$2,368,910
			76,755 [3]	$4,162,424
			33,334 [4]	$1,789,702
Mr. Harrington	0	$0	3,498 [5]	$189,697
			10,634 [3]	$576,682
Mr. Conterno	0	$0	31,768 [2]	$1,705,624
			55,821 [3]	$3,027,173
			10,000 [6]	$553,800

[1] Amounts reflect the market value of the stock on the day the stock vested.

[2] PAs paid out in January 2012 (as RSUs) for company performance during 2010-2011 and subject to forfeiture until vesting in February 2013.

[3] Payout of the 2011-2013 SVA at 140 percent of target.

[4] The last installment of a one-time RSU awarded to Dr. Lundberg when he joined the company in 2010.

[5] This amount reflects shares paid to Mr. Harrington from the 2012-13 PA, which paid out at 50% of target in January 2014. Since Mr. Harrington was not an executive officer when the award was granted, he received freely traded shares rather than RSUs. Mr. Harrington must hold the net shares from this payout for one year as required by the Share Ownership and Retention Guidelines.

[6] The first installment of a one-time RSU awarded to Mr. Conterno in 2008 outside of the normal grant cycle.

Retirement Benefits

We provide retirement income to 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 salary to the plan, and the company provides matching contributions on employees' contributions up to 6 percent of base salary. 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 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 2013" 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 ($210,000 in 2013) as well as the amount of annual earnings that can be used to calculate a pension benefit ($260,000 in 2014). However, since 1975, the company has maintained a nonqualified pension plan that pays 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.

The following table shows benefits that the named executive officers have accrued under the retirement plan and the nonqualified pension plan.

Pension Benefits in 2013

Name	Plan	Number of Years of Credited Service	Present Value of Accumulated Benefit ($) [1]	Payments During Last Fiscal Year ($)
Dr. Lechleiter [2]	retirement plan (pre-2010)	30	$1,388,042	
	retirement plan (post-2009)	4	$108,207	
	nonqualified plan (pre-2010)	30	$25,846,526	
	nonqualified plan (post-2009)	4	$1,582,929	
	total		$28,925,704	$0
Mr. Rice	retirement plan (pre-2010)	20	$606,778	
	retirement plan (post-2009)	4	$62,281	
	nonqualified plan (pre-2010)	20	$4,943,284	
	nonqualified plan (post-2009)	4	$474,030	
	total		$6,086,373	$0
Dr. Lundberg	retirement plan (post-2009)	4	$114,124	
	nonqualified plan (post-2009)	4	$736,369	
	total		$850,493	$0
Mr. Harrington	retirement plan (pre-2010)	18	$579,032	
	retirement plan (post-2009)	4	$68,861	
	nonqualified plan (pre-2010)	18	$1,200,933	
	nonqualified plan (post-2009)	4	$135,856	
	total		$1,984,682	$0
Mr. Conterno	retirement plan (pre-2010)	17	$513,885	
	retirement plan (post-2009)	4	$59,231	
	nonqualified plan (pre-2010)	17	$2,154,069	
	nonqualified plan (post-2009)	4	$235,108	
	total		$2,962,293	$0

[1] The following standard actuarial assumptions were used to calculate the present value of each individual's accumulated pension benefit:

Discount rate:	5.15 percent
Mortality (post-retirement decrement only):	RP 2000CH
Pre-2010 joint and survivor benefit (% of pension):	50% until age 62; 25% thereafter
Post-2009 benefit payment form:	life annuity

[2] Dr. Lechleiter is currently eligible for full retirement benefits under the old plan formula (pre-2010 benefits) and qualifies for early retirement under the new plan formula (post-2009 benefits) as described below.

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 formulae, 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 formulae. 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 6 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 are closer to retirement or have been with the company longer. For the transition group, early retirement benefits are reduced 3 percent for each year from age 65 to age 60 and 6 percent for each year under age 60. All named executive officers except Dr. Lundberg are in this transition group.

Pre-2010 Plan Information*:* Employees hired prior to February 1, 2008 accrued benefits under both plan formulae. 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 3 percent for each year under 90 points or age 62.
- The benefit for employees who have less 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 6 percent for each year under 80 points or age 65.

Nonqualified Deferred Compensation in 2013

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]
Dr. Lechleiter	nonqualified savings	$74,700	$74,700	$332,386		$2,395,774
	deferred compensation	$745,500		$298,316		$10,899,537
	total	$820,200	$74,700	$630,702	$0	$13,295,311
Mr. Rice	nonqualified savings	$45,585	$45,585	$122,482		$963,155
	deferred compensation	$0		$0		$0
	total	$45,585	$45,585	$122,482	$0	$963,155
Dr. Lundberg	nonqualified savings	$44,878	$44,878	$12,740		$407,286
	deferred compensation	$0		$0		$0
	total	$44,878	$44,878	$12,740	$0	$407,286
Mr. Harrington	nonqualified savings	$30,600	$30,600	$12,101		$155,937
	deferred compensation	$0		$3,739		$134,943
	total	$30,600	$30,600	$15,840	$0	$290,880
Mr. Conterno	nonqualified savings	$25,540	$25,540	$43,261		$414,720
	deferred compensation	$100,000		$20,345		$752,209
	total	$125,540	$25,540	$63,606	$0	$1,166,929

[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	2013 ($)	Previous Years ($)	Total ($)
Dr. Lechleiter	$894,900	$8,868,881	$9,763,781
Mr. Rice	$91,170	$523,004	$614,174
Dr. Lundberg	$89,756	$259,038	$348,794
Mr. Harrington	$61,200	N/A	$61,200
Mr. Conterno	$151,080	$150,340	$301,420

The "Nonqualified Deferred Compensation in 2013" 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 regard 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 2.9 percent for 2013 and is 3.9 percent for 2014. Participants may elect to receive the funds in a lump sum or in up to 10 annual installments following retirement, but may not make withdrawals during their employment, 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 bankruptcy.

Potential Payments Upon Termination or Change in Control (as of December 31, 2013)

The following table describes the potential payments and benefits under the company's compensation and benefit plans and arrangements to which the named executive officers 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.

	Cash Severance Payment [1]	Incremental Pension Benefit (present value)	Continuation of Medical / Welfare Benefits (present value) [2]	Value of Acceleration of Equity Awards [3]	Excise Tax Gross-Up [4]	Total Termination Benefits
Dr. Lechleiter						
• Voluntary retirement	$0	$0	$0	$0	$0	$0
• Involuntary retirement or termination	$0	$0	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$7,200,000	$0	$14,815	$9,402,890	$0	$16,617,706
Mr. Rice						
• Voluntary termination	$0	$0	$0	$0	$0	$0
• Involuntary retirement or termination	$0	$0	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$3,856,050	$0	$33,344	$4,579,002	$0	$8,468,396
Dr. Lundberg						
• Voluntary termination	$0	$0	$0	$0	$0	$0
• Involuntary retirement or termination	$0	$0	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$3,811,259	$0	$25,244	$3,330,561	$0	$7,167,065
Mr. Harrington						
• Voluntary retirement	$0	$0	$0	$0	$0	$0
• Involuntary retirement or termination	$0	$0	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$1,835,948	$0	$33,344	$814,904	$0	$2,684,196
Mr. Conterno						
• Voluntary retirement	$0	$0	$0	$0	$0	$0
• Involuntary retirement or termination	$0	$0	$0	$0	$0	$0
• Involuntary or good-reason termination after change in control	$1,805,339	$0	$28,806	$3,023,787	$0	$4,857,933

[1] See "Change-in-Control Severance Pay Plan" below.

[2] See "Accrued Pay and Regular Retirement Benefits" and "Change-in-Control Severance Pay Plan—Continuation of medical and welfare benefits" below.

[3] Equity grants include an individual performance criterion to vest. As a result, even retirement-eligible employees have the possibility of forfeiting their grants.

[4] The company eliminated excise tax gross-ups in 2012.

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 and vacation pay.
- 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 and the nonqualified savings plan. See the narrative following the "Nonqualified Deferred Compensation in 2013" table for information about these plans.

Deferred Compensation. The amounts shown in the table do not include distributions of plan balances under the deferred compensation plan. Those amounts are shown in the "Nonqualified Deferred Compensation in 2013" table.

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 "Compensation Discussion and Analysis" under "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 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 of Directors; (iii) consummation of a merger, share exchange, or consolidation of the company; 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, 2013. 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 2013 annual base salary plus two times the executive officer's bonus target for 2013 under the bonus plan.

- Continuation of medical and welfare benefits. This amount represents the present value of the change-in-control plan's guarantee, 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 vest upon consummation of a change in control and a partial payment of outstanding PAs would be made, reduced to reflect the portion of the performance period worked prior to the change in control. Likewise, in the case of a change in control in which Lilly is not the surviving entity, SVAs would pay out based on the change-in-control stock price and be prorated for the portion of the three-year performance period elapsed. The amount in this column represents the value of the acceleration of unvested equity grants.

- 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. There are limited exceptions for PAs and SVAs as noted above under "Acceleration of equity awards."

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 21, 2014. None of the stock, stock options, 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]	Options Exercisable/ Stock Units Distributable Within 60 Days [3]	Stock Units Not Distributable Within 60 Days [4]
Ralph Alvarez	—	—	22,172
Katherine Baicker, Ph.D.	—	—	6,041
Sir Winfried Bischoff	2,000	—	40,819
Enrique A. Conterno	102,317	14,029	33,990
Michael L. Eskew	—	—	25,809
J. Erik Fyrwald	100	—	44,639
Alfred G. Gilman, M.D., Ph.D.	—	—	48,740
Michael J. Harrington	31,205	8,746	—
R. David Hoover	1,000	—	25,335
Karen N. Horn, Ph.D.	—	—	65,825
William G. Kaelin, Jr., M.D.	—	—	4,708
John C. Lechleiter, Ph.D.	769,976 [5]	268,775	52,462
Jan M. Lundberg, Ph.D.	156,044	—	20,985
Ellen R. Marram	1,000	—	38,632
Douglas R. Oberhelman	—	—	20,032
Franklyn G. Prendergast, M.D., Ph.D.	—	—	56,284
Derica W. Rice	285,100	80,185	26,581
Marschall S. Runge, M.D., Ph.D.	—	—	947
Kathi P. Seifert	3,533	—	50,983
Jackson P. Tai	14,811	—	473
All directors and executive officers as a group (29 people):	1,815,850	511,627	768,906

[1] The sum of the "Shares Owned" and "Options Exercisable/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 0.1 percent of the outstanding common stock of the company. All directors and executive officers as a group own approximately 0.2 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 includes stock options exercisable within 60 days and RSUs that vest within 60 days.

[4] For the executive officers, this column reflects RSUs that will not vest within 60 days. For the independent directors, this column includes the number of stock units credited to the directors' accounts in the Lilly Directors' Deferral Plan.

[5] The shares shown for Dr. Lechleiter include 44,865 shares that are owned by a family foundation for which he is a director. Dr. Lechleiter has shared voting power and shared investment power with respect to the shares held by the foundation. Also included are 1,100 shares held in family trusts. Pursuant to the terms of the trusts, Dr. Lechleiter has shared investment power and no voting power over the shares held in the trusts.

Principal Holders of Stock

To the best of the company's knowledge, the only beneficial owners of more than 5 percent of the outstanding shares of the company's common stock, as of December 31, 2013, are the shareholders listed below:

Name and Address	Number of Shares Beneficially Owned	Percent of Class
Lilly Endowment, Inc. (the Endowment) 2801 North Meridian Street Indianapolis, Indiana 46208	135,670,804	12.1%
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	65,667,264	5.8%
Wellington Management Company, LLP 280 Congress Street Boston, MA 02210	63,571,417	5.6%

The Endowment has sole voting and sole investment power with respect to its shares. The Board of Directors of the Endowment is composed of Thomas M. Lofton, chairman; N. Clay Robbins, president and chief executive officer; Mary K. Lisher; William G. Enright; Daniel P. Carmichael; Charles E. Golden; Eli Lilly II; David N. Shane; and Craig R. Dykstra. Each of the Endowment board members, with the exception of Mr. Dykstra, is either directly or indirectly, a shareholder of the company.

BlackRock, Inc. provides investment management services for various clients. It has sole voting power for 54,237,349 of its shares, and has sole dispositive power with respect to its shares.

Wellington Management Company, LLP provides investment management services for various clients. It has shared voting power for 14,947,751 of its reported shares and has shared dispositive power with respect to its shares.

Items of Business To Be Acted Upon at the Meeting

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 elected this year will expire at the annual meeting of shareholders held in 2017. Each of the nominees listed below has agreed to serve that term. If any director is unable to stand for election, the Board may, by resolution, provide for a lesser number of directors or designate a substitute.

Board Proposal on Item 1

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

- **Michael L. Eskew**
- **Karen N. Horn, Ph.D.**
- **William G. Kaelin, Jr., M.D.**
- **John C. Lechleiter, Ph.D.**
- **Marschall S. Runge, M.D., Ph.D.**

Biographical information and a statement of their qualifications for each of the nominees may be found in the "Director Biographies" section.

Item 2. Proposal to Ratify the Appointment of Principal Independent Auditor

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 committee has met and held discussions with management and the independent auditor. Management represented to the committee that the company's consolidated financial statements 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.

The committee has discussed with the independent auditor matters required to be discussed with the Audit Committee by the standards of the Public 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 committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the PCAOB 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 committee determined, among other things, that the nonaudit services provided by Ernst & Young LLP ("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 committee has adopted policies to ensure the independence of the independent auditor, such as prior committee approval of nonaudit services and required audit partner rotation.

The 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 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 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 financial statements be included in the company's annual report on Form 10-K for the year ended December 31, 2013, for filing with the SEC.

The committee has also appointed the company's independent auditor, subject to shareholder ratification, for 2014.

Audit Committee
Michael L. Eskew, Chair
Katherine Baicker, Ph.D.
Douglas R. Oberhelman
Kathi P. Seifert
Jackson P. Tai

Services Performed by the Independent Auditor
The Audit Committee preapproves all services performed by the independent auditor, in part to assess whether the provision of such services might impair the auditor's independence. The committee's policy and procedures are as follows:

- The 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 committee may also preapprove other audit services, which are those services that only the independent auditor reasonably can provide.
- Audit-related services are assurance and related services that are reasonably related to the performance of the audit, and that are traditionally performed by the independent auditor. The committee believes that the provision of these services does not impair the independence of the auditor.
- The 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.
- The 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 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.
- At the beginning of each audit year, management requests prior committee approval of the annual audit, statutory audits, and quarterly reviews for the upcoming audit year as well as any other engagements known at that time. Management will also present at that time an estimate of all fees for the upcoming audit year. As specific engagements are identified thereafter, they are brought forward to the committee for approval. To the extent approvals are required between regularly scheduled committee meetings, preapproval authority is delegated to the committee chair.

For each engagement, management provides the 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 the company's independent auditor, EY in 2013 and 2012. All such services were pre-approved by the committee in accordance with the pre-approval policy.

	2013 ($ millions)	2012 ($ millions)
Audit Fees • Annual audit of consolidated and subsidiary financial statements, including Sarbanes-Oxley 404 attestation • Reviews of quarterly financial statements • Other services normally provided by the auditor in connection with statutory and regulatory filings	$8.7	$8.8
Audit-Related Fees • Assurance and related services reasonably related to the performance of the audit or reviews of the financial statements – 2013 and 2012: primarily related to employee benefit plan and other ancillary audits, and due diligence services on potential acquisitions	$0.7	$0.7
Tax Fees • 2013 and 2012: primarily related to consulting and compliance services	$1.3	$2.2
All Other Fees • 2013 and 2012: primarily related to compliance services outside the U.S.	$0	$0.4
Total	$10.7	$12.1

Audit Committee Oversight of Independent Auditor

The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent external audit firm retained to audit the company's financial statements. Further information regarding the committee's oversight of the independent auditor can be found in the Audit Committee charter, available online at http://investor.lilly.com/governance.cfm, or upon request to the company's corporate secretary.

In accordance with the SEC rules and EY policies, audit partners are subject to rotation requirements to limit the number of years an individual partner may provide service to the company. For lead and concurring partners, the maximum number of consecutive years in that capacity is five years. The committee oversees the process for selecting the new lead partner and for reviewing and evaluating the lead partner once retained. The committee also periodically considers whether a rotation of the company's independent auditor is advisable.

Board Proposal on Item 2

The Audit Committee believes that the continued retention of EY to serve as the company's independent external auditor is in the best interests of the company and its investors, and has therefore appointed the firm of EY as principal independent auditor for the company for the year 2014. In accordance with the bylaws, this appointment is being submitted to the shareholders for ratification.

EY also served as the principal independent auditor for the company in 2013. Representatives of EY are expected to be present at the 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.

The Board recommends that you vote FOR ratifying the appointment of Ernst & Young LLP as principal independent auditor for 2014.

Item 3. Advisory Vote on Compensation Paid to Named Executive Officers

Section 14A of the Securities Exchange Act of 1934, as amended, provides the Company's shareholders with the opportunity to approve, on an advisory basis, the compensation of the Company's NEOs as disclosed in the proxy statement. As described in the "Compensation Discussion and Analysis" section, above, and

elsewhere in this proxy statement, we believe our compensation philosophy is designed to attract 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 of Directors 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 dialog with our shareholders in order 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 in the CD&A, the compensation tables, and related narratives. 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 Proposal on Item 3

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 CD&A, the compensation tables, and related narratives in this proxy statement.

Meeting and Voting Logistics

Additional items of business

We do not expect any items of business other than those 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 February 28, 2014 (the record date) may vote at the 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 401(k) plan.

If you are a shareholder of record, you may vote your shares in person at the meeting. However, we encourage you to vote by mail, by telephone, or on the Internet 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:
    - ratification of the appointment of principal independent auditor; and
    - advisory approval of executive compensation.

  Abstentions will not be counted either for or against these proposals.

Quorum

A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the annual meeting. As of the record date, 1,119,757,288 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:

On the Internet. You may vote online at www.proxyvote.com. Follow the instructions on your proxy card or notice. If you received these materials electronically, follow the instructions in the e-mail message that notified you of their availability. Voting on the Internet has the same effect as voting by mail. If you vote on the Internet, 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 e-mail 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, we will vote on your behalf with the Board's recommendations.

If you did not receive a proxy card in the materials you received from the company and you wish to vote by mail rather than by telephone or on the Internet, you may request a paper copy of these materials and a proxy card by calling 317-433-5112. If you received a notice or an e-mail message notifying you of the electronic availability of these materials, please provide the control number, along with your name and mailing address.

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 via the Internet, 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 on the Internet.

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 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 401(k) plan

You may instruct the plan trustee on how to vote your shares in the 401(k) plan via the Internet, 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 by 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 e-mail 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 on the Internet, you will need to vote once for each proxy card, notice, or e-mail 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 e-mail 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 317-433-5112.

Vote tabulation
Votes are tabulated by an independent inspector of election, IVS Associates, Inc.

Attending the annual meeting
Attendance at the meeting will be limited to shareholders, those holding proxies, and invited guests from the media and financial community. All shareholders as of the record date may attend by presenting the admission ticket that appears at the end of this proxy statement. Please fill it out and bring it with you to the meeting. The meeting will be held at the Lilly Center Auditorium. Please use the Lilly Center entrance to the south of the fountain at the intersection of Delaware and McCarty streets. You will need to pass through security, including a metal detector. Present your ticket to an usher at the meeting.

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, you may call 317-433-5112 (prior to the annual meeting).

The 2015 annual meeting
The company's 2015 annual meeting is currently scheduled for May 4, 2015.

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 24, 2014. 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 annual meeting must give the company written notice by November 24, 2014 and no earlier than September 21, 2014. That notice must provide certain other information as described in the bylaws. Copies of the bylaws are available online at http://investor.lilly.com/governance.cfm or upon request to the company's corporate secretary.

Other Matters

Other information regarding the company's proxy solicitation
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, but directors, officers, and other employees of the company may also solicit in person or by telephone, fax, or electronic mail. We have retained Georgeson Inc. to assist in the distribution and solicitation of proxies. Georgeson may solicit proxies by personal interview, telephone, fax, mail, and electronic mail. We expect that the fee for those services will not exceed $17,500 plus reimbursement of customary out-of-pocket expenses.

Section 16(a) beneficial ownership reporting compliance

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.

Certain legal matters

In 2011, the company received a letter sent on behalf of shareholder Kim Barovic demanding that the board of directors cause the company to take (1) legal action against certain of its current and former officers and board members for allegedly causing damage to the company by failing to exercise proper oversight over the company's compliance with the Foreign Corrupt Practices Act, and (2) all necessary actions to reform and improve certain corporate governance and internal procedures.The board established a committee of disinterested directors to consider the demands and determine what action, if any, the company should take in response. In February 2013, following its investigation, the committee determined, among other things, that it would not be in the best interests of the company to take any of the actions demanded by Ms. Barovic.

In August 2013, Ms. Barovic brought a shareholder derivative suit (*Barovic v. Lechleiter, et al.*), filed in Marion County (Indiana) Superior Court. The suit seeks to maintain the action purportedly on behalf of the company against certain current and former directors and officers of the company and alleges breach of fiduciary duty, waste of corporate assets, and unjust enrichment. The company is named in the suit as a nominal defendant. The suit does not seek damages from the company, but instead requests damages in an unspecified amount and certain equitable relief on the company's behalf. The company believes the suit is without merit and all of the individual defendants intend to defend themselves vigorously against the allegations in the complaint.

By order of the Board of Directors,

James B. Lootens
Secretary

March 24, 2014

Appendix A—Summary of Adjustments to EPS Related to the Annual Bonus and PA

Consistent with past practice, the Compensation Committee adjusted the results on which 2012-2013 PAs and the 2013 bonus were determined to eliminate the distorting effect of certain unusual income or expense items on year-over-year growth percentages. 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 either the award year or 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.

To assure the integrity of the adjustments, the Compensation Committee establishes adjustment guidelines at the beginning of the year. These guidelines are generally consistent with the company guidelines for reporting non-GAAP earnings to the investment community, which are reviewed by the Audit Committee of the Board. 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 2013 Bonus Plan. For the 2013 bonus calculations, the Compensation Committee made the following adjustments to reported EPS:

- Eliminated the EPS impact of the charge recognized for acquired in-process research and development related to the CGRP antibody.
- Eliminated the EPS impact of significant asset impairments and restructuring charges.
- Eliminated the EPS impact of the income received related to the termination of the exenatide collaboration with Amylin.

Reconciliations of these adjustments to our reported EPS are below.

	2013
EPS as reported	$4.32
Eliminate IPR&D charges for the acquisition of the CGRP antibody	$0.03
Eliminate asset impairments, restructuring, and other special charges	$0.08
Eliminate income from of the termination of the exenatide collaboration with Amylin	$(0.29)
Non-GAAP EPS	$4.15

Numbers do not add due to rounding

Adjustments for 2012-2013 PA. When the Compensation Committee set EPS growth goals for the 2012-2013 PA, the termination of our exenatide alliance with Amylin and the associated revenue-sharing obligation was not contemplated and therefore, the 2012-2013 PA goals assumed ongoing net income from sales of exenatide during 2012 and 2013. The Compensation Committee decided to neutralize the impact of the termination of the exenatide collaboration with Amylin. In addition, although the company excluded the impact of the Xigris product withdrawal that occurred in 2011 in its published non-GAAP earnings, the committee chose to include the negative impact on sales and EPS for 2012 when determining EPS for purposes of paying the 2012-2013 PA.

For the 2012-2013 PA payout calculations, the Compensation Committee made the following adjustments to reported EPS:

- For 2012 and 2013: (i) Eliminated the EPS impact of the income received related to the termination of the exenatide collaboration with Amylin; (ii) Added back the planned income from exenatide for the period after the termination of the collaboration with Amylin;
- For 2011 and 2013: Eliminated one-time accounting charges for acquired in-process research and development; and
- For 2011, 2012, and 2013: Eliminated the impact of significant asset impairment and restructuring charges.

Reconciliations of these adjustments to our EPS and our published non-GAAP EPS are below.

	2013	2012	% Growth 2013 vs. 2012	2011	% Growth 2012 vs. 2011
EPS as reported	$4.32	$3.66	18.0%	$3.90	(6.2)%
Eliminate IPR&D charges for acquisitions and in-licensing transactions	$0.03	—		$0.23	
Eliminate asset impairments, restructuring and other special charges (including Xigris withdrawal)	$0.08	$0.16		$0.29	
Eliminate income from the termination of the exenatide collaboration with Amylin	$(0.29)	$(0.43)			
Non-GAAP EPS	$4.15	$3.39	22.3%	$4.41	(23.1)%
Xigris withdrawal adjustment	—	$(0.01)		$(0.05)	
Pro-rata portion of Amylin Net Income	$0.10	$0.09		—	
Non-GAAP EPS—adjusted	$4.25	$3.47	22.4%	$4.36	(20.4)%

Numbers may not add due to rounding

Annual Meeting Admission Ticket

Eli Lilly and Company 2014 Annual Meeting of Shareholders
Monday, May 5, 2014
11:00 a.m. EDT

Lilly Center Auditorium
Lilly Corporate Center
Indianapolis, Indiana 46285

The top portion of this page will be required for admission to the meeting.

Please write your name and address in the space provided below and present this ticket when you enter the Lilly Center.

Doors open at 10:15 a.m.

Name

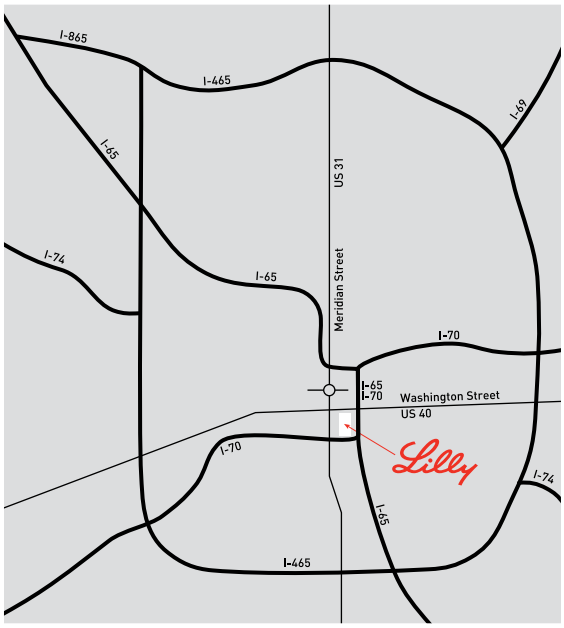
Address

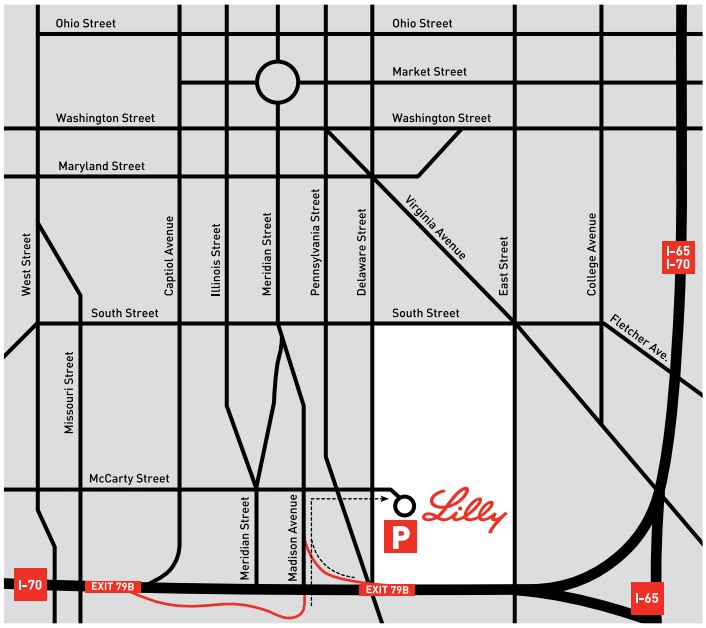
City, State, and Zip Code

Detach here

Detach here

Parking Pass





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. **Be sure to take the admission ticket (the top portion of this page) with you to the meeting and leave this parking pass on your dashboard.**

Take the top portion of this page with you to the meeting.

Detach here

Detach here

Eli Lilly and Company
Annual Meeting of Shareholders
May 5, 2014

Complimentary Parking
Lilly Corporate Center

Please place this identifier on the dashboard of your car as you enter Lilly Corporate Center so it can be clearly seen by security and parking personnel.

Executive Committee

John C. Lechleiter, Ph.D.
Chairman, President, and Chief Executive Officer

Melissa Stapleton Barnes
Senior Vice President, Enterprise Risk Management, and Chief Ethics and Compliance Officer

Enrique A. Conterno
Senior Vice President, and President, Lilly Diabetes

Maria Crowe
President, Manufacturing Operations

Stephen F. Fry
Senior Vice President, Human Resources and Diversity

Michael J. Harrington
Senior Vice President and General Counsel

Jan M. Lundberg, Ph.D.
Executive Vice President, Science and Technology, and President, Lilly Research Laboratories

Susan Mahony, Ph.D.
Senior Vice President, and President, Lilly Oncology

Barton R. Peterson
Senior Vice President, Corporate Affairs and Communications

Derica W. Rice
Executive Vice President, Global Services, and Chief Financial Officer

David A. Ricks
Senior Vice President, and President, Lilly Bio-Medicines

Jeffrey N. Simmons
Senior Vice President, and President, Elanco Animal Health

Fionnuala Walsh, Ph.D.
Senior Vice President, Global Quality

Alfonso G. Zulueta
Senior Vice President, and President, Emerging Markets

Senior Leadership

E. Paul Ahern, Ph.D.
Senior Vice President, Global API and Dry Products Manufacturing

Alex M. Azar II
President, Lilly USA

Robert B. Brown
Senior Vice President, Marketing, and Chief Marketing Officer

Thomas F. Bumol, Ph.D.
Senior Vice President, Biotechnology and Autoimmunity Research, and President, Applied Molecular Evolution

Timothy J. Garnett, M.D.
Senior Vice President, Development Center of Excellence, Lilly Research Laboratories, and Chief Medical Officer

Richard B. Gaynor, M.D.
Senior Vice President, Global Oncology Development and Medical Affairs

Thomas W. Grein
Senior Vice President, Finance, and Treasurer

William F. Heath Jr., Ph.D.
Senior Vice President, Product and Clinical: Design, Development, and Delivery

Andrew Hotchkiss
President, Europe/Australia/Canada Operations

Myles O'Neill
Senior Vice President, Global Parenteral Drug Product and Delivery Devices Manufacturing

Joshua L. Smiley
Senior Vice President, Finance, and Chief Financial Officer, Lilly Research Laboratories

Thomas R. Verhoeven, Ph.D.
Senior Vice President, Development Center of Excellence, Lilly Research Laboratories

J. Anthony Ware, M.D.
Senior Vice President, Product Development, Lilly Bio-Medicines

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 5, 2014, 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: **http://investor.lilly.com/sec.cfm**.

Stock listings

Eli Lilly and Company common stock is listed on the New York Stock Exchange, NYSE Euronext, and SIX Swiss Exchange. NYSE ticker symbol: LLY. Most newspapers list the stock as "Lilly (Eli) and Co."

CEO and CFO certifications

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

Wells Fargo Shareowner Services
Mailing address:
Shareowner Relations Department
P.O. Box 64854
St. Paul, Minnesota 55164-0854
Overnight address:
Shareowner Relations Department
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120
Telephone: 1-800-833-8699
E-mail: stocktransfer@wellsfargo.com
Internet: **www.shareowneronline.com**

Dividend reinvestment and stock purchase plan

Wells Fargo 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:

Wells Fargo Shareowner Services
Shareowner Relations Department
P.O. Box 64854
St. Paul, Minnesota 55164-0854
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 **http://investor.lilly.com/services.cfm** and follow the directions provided.

For information on Lilly's commitment to corporate responsibility, see **www.lilly.com/responsibility**

For information on Lilly's commitment to transparency and links to Lilly Clinical Trial Registry, Lilly Grant Registry, Lilly Physician Payment Registry, Lilly Political Contributions, see **www.lilly.com/about/business-practices/Pages/transparency.aspx**

For information on Lilly and pharmaceutical industry patient-assistance programs, see Lilly TruAssist: **www.lillytruassist.com** or call toll-free **1.855.LLY.TRUE** (**1.855.559.8783**)

For the Partnership for Prescription Assistance (sponsored by America's pharmaceutical research companies), see **www.pparx.org**

For more information about Lilly on social media, you can follow **Eli Lilly and Company** on Facebook, or **@EliLillyCo** on Twitter. LillyPad, our blog focusing on public policy issues, is at **lillypad.lilly.com**, and **@LillyPad** on Twitter.

Advancing Health. Improving Life.

Lilly's greatest contribution to society is making medicines that help people live longer, healthier, more active lives. But our company's vision—to improve global health in the 21st century—demands that we do even more.

Over the last decade, we've transformed our corporate responsibility efforts, focusing on improving health for people in low- and middle-income countries and strengthening our communities. We're balancing traditional philanthropy with novel approaches that put to work our expertise and resources. We're increasingly linking our corporate responsibility efforts together—and to our business—for greater impact.

Our approach can be seen in our global health programs focused on diabetes and tuberculosis.

The Lilly NCD Partnership was launched in 2011 to help fight the rising tide of noncommunicable diseases. NCDs—which include heart disease, cancer, chronic respiratory diseases, and diabetes—are the leading cause of deaths worldwide. We're investing $30 million over five years to strengthen diabetes care for people in Brazil, Mexico, India, and South Africa. Working with our partners, we're leveraging our nearly 100 years of diabetes experience and knowledge to test new approaches, report on what works, and then advocate for replicating the best solutions.

The Lilly MDR-TB Partnership was launched in 2003 to fight multidrug-resistant TB. MDR-TB is preventable and curable if patients get the right medicine at the right time—yet it needlessly kills more than 150,000 people each year. The partnership is our largest philanthropic effort ever—a $170 million commitment from 2003 to 2016. We've given away our technology for manufacturing two antibiotics that are still critical to curing MDR-TB; we've joined with global health organizations to strengthen awareness, prevention, and care; and we've funded research to find new treatment options.

Our Elanco animal health business, through its partnership with Heifer International, aims to lift 100,000 families out of hunger through the donation of livestock, training, and tools.

At the heart of our efforts to strengthen communities are Lilly employees. Each year on our Global Day of Service, more than 20,000 Lilly volunteers in their communities accomplish what would otherwise take months or years.

Through our Connecting Hearts Abroad program, we send at least 100 employees each year to volunteer for two weeks in impoverished communities. These Lilly volunteers forge lasting relationships and bring back insights that make us a stronger, more globally aware company.

Corporate responsibility is part of who we are and what we do at Lilly—from the medicines we make, to how we interact with each other and the customers we serve, to our environmental practices, and more.

You can review our performance across all areas of our business in our 2012–13 Corporate Responsibility Report at **www.lilly.com/responsibility/our-approach**.

As part of an assignment with the Lilly NCD Partnership, Lilly Connecting Hearts Abroad ambassadors Sandra James (seated, on left) and Taylor Burch (standing, on right) helped train workers for Project HOPE—a Lilly partner since 1959—on ways to improve diabetes care for people in need in South Africa.

Eli Lilly and Company
Lilly Corporate Center
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