SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 COMMISSION FILE NUMBER 1-6351

ELI LILLY AND COMPANY

AN INDIANA CORPORATION I.R.S. EMPLOYER NUMBER 35-0470950

ADDRESS: LILLY CORPORATE CENTER, INDIANAPOLIS, INDIANA 46285

TELEPHONE NUMBER, INCLUDING AREA CODE: (317) 276-2000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock	New York and Pacific Stock Exchanges
Preferred Stock Purchase Rights	New York and Pacific Stock Exchanges
8-1/8% Notes Due December 1, 2001	New York Stock Exchange
8-3/8% Notes Due December 1, 2006	New York Stock Exchange
6.57% Notes Due January 1, 2016	New York Stock Exchange
6.77% Notes Due January 1, 2036	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of voting stock of the Registrant held by non-affiliates as of February 13, 1998 (Common Stock): $59,637,592,293.

Number of shares of common stock outstanding as of February 13, 1998: 1,111,258,506.

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

DOCUMENT	PARTS INTO WHICH INCORPORATED
Registrant's Annual Report to Shareholders for fiscal year ended December 31, 1997	Parts I, II, and IV
Registrant's Proxy Statement dated March 4, 1998	Part III

PART I

ITEM 1. BUSINESS

Eli Lilly and Company was incorporated in 1901 under the laws of Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. The Company*, including its subsidiaries, discovers, develops, manufactures, and sells products and provides services in one industry segment--Life Sciences. Products are manufactured or distributed through owned or leased facilities in the United States, Puerto Rico, and 27 other countries. Its products are sold in approximately 160 countries. Through its PCS Health Systems ("PCS") and Integrated Medical Systems ("IMS") subsidiaries, the Company provides health care management services in the United States.

Most of the Company's products were discovered or developed through the Company's research and development activities, and the success of the Company's business depends to a great extent on the continued introduction of new products resulting from these research and development activities. Research efforts are primarily directed toward discovering and developing products to diagnose and treat diseases in human beings and animals and to increase the efficiency of animal food production.

FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS AND CLASSES OF PRODUCTS

Financial information relating to industry segments and classes of products, set forth in the Company's 1997 Annual Report at pages 32-33 under "Segment Information" (pages 14-15 of Exhibit 13 to this Form 10-K), is incorporated herein by reference.

Due to several factors, including the introduction of new products by the Company and other manufacturers, the relative contribution of any particular Company product to consolidated net sales is not necessarily constant from year to year, and its contribution to net income is not necessarily the same as its contribution to consolidated net sales.

PRODUCTS AND SERVICES

PHARMACEUTICAL PRODUCTS

Pharmaceutical products include

Central-nervous-system agents, the Company's largest-selling product group, including Prozac'r', a selective serotonin reuptake inhibitor, indicated for the treatment of depression and, in many countries, for bulimia and obsessive-compulsive disorder; Zyprexa'r', a product for the treatment of schizophrenia; the Darvon'r' line of analgesic products; and Permax'r', a treatment for Parkinsonis disease;

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*The terms "Company" and "Registrant" are used interchangeably herein to refer to Eli Lilly and Company or to Eli Lilly and Company and its consolidated subsidiaries, as the context requires.

Endocrine products, including Humulin'r', human insulin produced through recombinant DNA technology; Humalog'r', a rapid-acting injectable human insulin analog of recombinant DNA origin; Iletin'r', animal-source insulin in its various pharmaceutical forms; Humatrope'r', human growth hormone produced by recombinant DNA technology; and Evista'r', cleared for marketing in the United States in late 1997 and launched in early 1998 for the prevention of osteoporosis in post-menopausal women;

Anti-infectives, including the oral cephalosporin antibiotics Ceclor'r' (cefaclor), Keflex'r', and Keftab'r', used in the treatment of a wide range of bacterial infections; the oral carbacephem antibiotic Lorabid'r', used to treat a variety of bacterial infections; the oral macrolide antibiotic Dynabac'r'; the injectable cephalosporin antibiotics Tazidime'r', Kefurox'r', and Kefzol'r', used to treat a wide range of bacterial infections in the hospital setting; Nebcin'r', an injectable aminoglycoside antibiotic used in hospitals to treat various infections caused by staphylococci and Gram-negative bacteria; and Vancocin'r' HCI, an injectable antibiotic used primarily to treat staphylococcal infections;

An antiulcer agent, Axid'r', an H2 antagonist, indicated for the treatment of active duodenal ulcer, for maintenance therapy for duodenal ulcer patients after healing of an active duodenal ulcer, for reflux esophagitis, and for benign gastric ulcer;

Cardiovascular agents, including ReoPro'r', a monoclonal antibody product developed and manufactured by Centocor, Inc. and marketed by the Company for use in all patients undergoing angioplasty and patients with unstable angina who are not responding to conventional therapy and who are scheduled to have angioplasty within 24 hours; Dobutrex'r', an inotropic agent; and Cynt'tm', marketed outside the United States for treatment of hypertension; and

Oncolytic agents, including Gemzar'r', indicated for treatment of advanced or metastatic pancreatic cancer, and, in many countries outside the United States, for treatment of non-small-cell lung cancer; Oncovin'r', indicated for treatment of acute leukemia and, in combination with other oncolytic agents, for treatment of several different types of advanced cancers; Velban'r', used in a variety of malignant neoplastic conditions; and Eldisine'r', indicated for treatment of acute childhood leukemia resistant to other drugs.

ANIMAL HEALTH PRODUCTS

Animal health products include Tylan'r', an antibiotic used to control certain diseases in cattle, swine, and poultry and to improve feed efficiency and growth; Rumensin'r', a cattle feed additive that improves feed efficiency and growth; Coban'r', Monteban'r' and Maxiban'r', anticoccidial agents for use in poultry; Apralan'r', an antibiotic used to control enteric infections in calves and swine; Micotil'r' and Pulmotil'r', antibiotics used to treat respiratory disease in cattle and swine, respectively; and other products for livestock and poultry.

HEALTH CARE MANAGEMENT SERVICES

PCS provides computer-based prescription drug claims processing, pharmacy benefit administration and management services, mail order pharmacy services, data management and disease-management services to health plan sponsors, including insurance companies, third-party administrators, self-insured employers, health maintenance organizations, and Blue

Cross/Blue Shield organizations that underwrite or administer prescription benefit plans. PCS helps these customers manage prescription benefit costs by providing drug utilization reviews, clinically-based formularies, generic substitution programs, and disease-management programs. RECAP'r', PCS's on-line prescription claims management system, is linked with over 95% of retail pharmacies in the U.S. In 1996, PCS introduced a mail order pharmacy program for its customers known as Performance Mail. Integrated Medical Systems operates physician-based electronic communication networks, called IMS MEDACOM'r' networks, that deliver clinical, administrative, and financial information to hospitals, payers/managed-care plans, laboratories, and physicians. In March 1998, the Company and Electronic Data Systems Corporation (EDS) formed Kinetra, a joint venture to develop a comprehensive, interactive electronic health information network for physicians and other health care professionals. IMS operations will become part of Kinetra, which is 51 percent owned by EDS and 49 percent owned by the Company.

MARKETING

Most of the Company's major products are marketed worldwide. Health care management services are marketed primarily in the United States.

Pharmaceuticals -- United States

In the United States, the Company distributes pharmaceutical products principally through approximately 195 independent wholesale distributing outlets. Marketing policy is designed to assure that products are immediately available to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Five wholesale distributors in the United States accounted for approximately 15%, 12%, 11%, 11%, and 6%, respectively, of the Company's consolidated net sales in 1997. No other distributor accounted for as much as 2% of consolidated net sales. The Company also sells pharmaceutical products directly to the United States government and other manufacturers, but those direct sales are not material to consolidated net sales.

The Company's major pharmaceutical products are promoted in the United States under the Lilly and Dista trade names by Company sales forces employing salaried sales representatives. These sales representatives, many of whom are registered pharmacists, call upon physicians, wholesalers, hospitals, managed-care organizations, retail pharmacists, and other health care professionals. Their efforts are supported by the Company through advertising in medical and drug journals, distribution of literature and samples of certain products to physicians, and exhibits for use at medical meetings. In 1997, the Company began advertising certain of its products directly to consumers in the United States. The Company has created specialized sales forces dedicated to specific products and product lines, such as diabetes care, Gemzar, ReoPro, and Zyprexa. The Company has entered into licensing arrangements under which certain products manufactured by the Company, such as Ceclor CD, Dynabac, Keftab, and Permax, are marketed by other pharmaceutical companies.

Large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, now account for a significant portion of total pharmaceutical purchases in the United States. The Company has created special sales groups to service managed-care organizations, government and long-term care institutions, hospital contract administrators, and certain retail pharmacies. In response to competitive pressures, the Company has entered into arrangements with a number of these organizations providing for

discounts or rebates on one or more Company products or other cost-sharing arrangements. The Company has also entered into agreements with generic pharmaceutical companies for the promotion, distribution and/or supply of generic forms of certain of the Company's products.

Pharmaceuticals -- Outside the United States

Outside the United States, pharmaceutical products are promoted primarily by salaried sales representatives. While the products marketed vary from country to country, anti-infectives constitute the largest single group in total sales. Distribution patterns vary from country to country. In recent years, the Company has significantly expanded its marketing efforts in a number of overseas markets, including emerging markets in Central and Eastern Europe, Latin America, Asia and Africa.

Animal Health Products

Elanco Animal Health, a division of the Company, employs field salespeople throughout the United States to market animal health products. Sales are made to wholesale distributors, retailers, feed manufacturers, or producers in conformance with varying distribution patterns applicable to the various types of products. The Company also has an extensive sales force outside the United States to market its animal health products.

RAW MATERIALS

Most of the principal materials used by the Company in manufacturing operations are chemical, plant, and animal products that are available from more than one source. Certain raw materials are available or are purchased principally from only one source. Unavailability of certain materials from present sources could cause an interruption in production pending establishment of new sources or, in some cases, implementation of alternative processes.

Although the major portion of the Company's sales abroad are of products manufactured wholly or in part abroad, a principal source of active ingredients for these manufactured products continues to be the Company's facilities in the United States.

PATENTS AND LICENSES

Patent protection is important to the Company's ability to successfully commercialize its life sciences innovations. The Company owns, has applications pending for, or is licensed under, a substantial number of patents, both in the United States and in other countries, relating to products, product uses, and manufacturing processes. There can be no assurance that patents will result from the Company's pending applications. Moreover, patents relating to particular products, uses, or processes do not preclude other manufacturers from employing alternative processes or from successfully marketing substitute products to compete with the patented products or uses. Outside the United States, patent protection varies widely. In many countries, patent protection is weak or nonexistent.

Patent protection of certain products, processes, and uses--particularly that relating to Prozac, Axid, Gemzar, Lorabid, Zyprexa, and Evista--is considered to be important to the operations of the Company. The United States compound patent covering Prozac expires in 2001 and a patent for the process by which Prozac works expires in 2003. See "Legal Proceedings" at pages 10-11 for a discussion of certain litigation involving these two patents. In other countries, Prozac patents generally either have expired or will expire over the next

several years. Other U.S. compound patent expirations include the following: Axid, 2002; Lorabid, 2006; and Zyprexa, 2011. The Gemzar compound patent in the U.S. expires in 2006, but a use patent covering treatment of neoplasms with Gemzar is in force until 2012. The Company holds a number of U.S. patents covering Evista that the Company believes will provide exclusivity in the United States until at least 2012.

The Company also grants licenses under patents and know-how developed by the Company and manufactures and sells products and uses technology and know-how under licenses from others. Royalties paid by the Company in relation to pharmaceuticals amounted to approximately $140 million in 1997 and royalties received were not material.

COMPETITION

The Company's pharmaceutical products compete with products manufactured by many other companies in highly competitive markets in the United States and throughout the world. The Company's animal health products compete on a worldwide basis with products of pharmaceutical, chemical, and other companies that operate animal health divisions or subsidiaries. PCS faces strong competition from other pharmacy benefit management companies and claims processors in the United States. For certain accounts, PCS competes with some retail pharmacy chains, mail order programs and organized groups of independent pharmacists.

Important competitive factors include price and demonstrated cost-effectiveness, product characteristics and dependability, service, and research and development of new products and processes. The introduction by competitors of new products and processes with therapeutic or cost advantages can result in progressive price reductions or decreased volume of sales of the Company's products, or both. New products introduced with patent protection usually must compete with other products already on the market at the time of introduction or products developed by competitors after introduction. Manufacturers of generic products typically invest far less in research and development than research-based pharmaceutical companies and accordingly are able to price their products significantly lower than branded products. Therefore, upon patent expiration, branded products often face intense price competition from generic forms of the product. In many countries outside the United States, patent protection is weak or nonexistent. The growth of managed care organizations has intensified price competition significantly in the United States and in varying degrees in some other countries.

The Company believes its long-term competitive position depends upon the success of its research and development endeavors in discovering and developing innovative, demonstrably cost-effective products, together with increased productivity resulting from improved manufacturing methods, marketing efforts, and the provision of value-added services to its customers. There can be no assurance that the Company's research and development efforts will result in commercially successful products or that products manufactured or processes used by the Company will not become outmoded from time to time as a result of products or processes developed by its competitors.

GOVERNMENTAL REGULATION

For many years the Company's operations have been regulated extensively by the federal government, to some extent by state governments, and in varying degrees by foreign governments. The Federal Food, Drug, and Cosmetic Act, other federal statutes and regulations, various state statutes and regulations, and laws and regulations of foreign

governments govern testing, approval, production, labeling, distribution, post-market surveillance, advertising, and promotion of most of the Company's products. The lengthy process of laboratory testing, clinical testing, data analysis and regulatory review necessary for required governmental approvals is extremely costly and can significantly delay product introductions in a given market. In addition, the Company's operations are subject to complex federal, state, local, and foreign environmental and occupational safety laws and regulations. PCS and its customers operate in a rapidly-changing regulatory environment affecting all aspects of the health insurance and managed care marketplace. It is anticipated that compliance with regulations affecting the manufacture and sale of current products and services and the introduction of new products and services will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, the Omnibus Budget Reconciliation Act of 1990 requires the Company to provide rebates to state governments on their purchases of certain Company products under state Medicaid programs. Other cost containment measures have been adopted or proposed by federal, state, and local government entities that provide or pay for health care. In most international markets, the Company operates in an environment of government-mandated cost containment programs, which may include price controls, discounts and rebates, restrictions on physician prescription levels, compulsory licenses and generic substitution. The Company expects that governments inside and outside the United States will continue to adopt a variety of measures to contain health care costs, including pharmaceutical costs. Recently, the U.S. FDA issued for comment a draft guidance in which FDA has asserted that it has the authority to regulate certain communications of pharmacy benefit managers (PBMs) owned by pharmaceutical manufacturers (such as PCS) as if those communications were made by the manufacturer. The draft guidance also extends to certain PBMs that are not owned by manufacturers but have contracts with them. The Company cannot predict the extent to which its business may be affected by these or other potential future legislative or regulatory developments.

RESEARCH AND DEVELOPMENT

The Company's research and development activities are responsible for the discovery or development of most of the products the Company offers today. Its commitment to research and development dates back more than 100 years. The Company invests heavily in research and development, which management believes is critical to long-term competitiveness in the pharmaceutical industry. The growth in research and development expenditures and personnel over the past several years demonstrates both the continued vitality of the Company's commitment and the increasing costs and complexity of bringing new products to the market. At the end of 1997, approximately 5,750 people, including a substantial number who are physicians or scientists holding graduate or postgraduate degrees or highly skilled technical personnel, were engaged in pharmaceutical and animal health research and development activities. The Company expended $1.04 billion on these research and development activities in 1995, $1.19 billion in 1996, and $1.38 billion in 1997.

The Company's research is concerned primarily with the effects of synthetic chemicals and natural products on biological systems. The results of that research are applied to develop products to treat diseases in humans and animals. The primary effort is devoted to human pharmaceutical products. The Company concentrates its pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular diseases. The Company is engaged in biotechnology research programs

involving recombinant DNA, proteins, and genomics (the development of therapeutics through identification of disease-causing genes and their cellular function).

In addition to the research carried on in the Company's own laboratories, the Company sponsors and underwrites the cost of research and development by independent organizations, including educational institutions and research-based human health care companies, and contracts with others for the performance of research in their facilities. It utilizes the services of physicians, hospitals, medical schools, and other research organizations in the United States and many other countries to establish through clinical evidence the safety and effectiveness of new products. The Company actively seeks out opportunities to invest in external research and technologies that hold the promise to complement and strengthen the Company's own research efforts. These investments can take many forms, including licensing arrangements, co-development and co-marketing agreements, and outright acquisitions.

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

QUALITY ASSURANCE

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

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

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information regarding the executive officers of the Company. All but three of the executive officers have been employed by the Company in executive or managerial positions during the last five years. Randall L. Tobias became Chairman of the Board and Chief Executive Officer in June 1993. He had served as Vice Chairman of the Board of AT&T from 1986 until he assumed his present position. He has been a member of the Board of Directors of the Company since 1986. Charles E. Golden joined the Company as Executive Vice President and Chief Financial Officer and was elected to the Board of Directors in March 1996. He previously had held a number of executive positions with General Motors Corporation ("GM") including Vice President of GM and Chairman and

Managing Director of Vauxhall Motors Limited, a GM subsidiary in the United Kingdom, from 1993 to 1996, Vice President and Treasurer from 1992 to 1993, and Treasurer from 1989 to 1992. Thomas Trainer joined the Company in January 1995. Since 1991 he had served as Vice President and Chief Information Officer of Reebok International Ltd. Prior to joining Reebok, he was Senior Vice President of Operations of A.C. Nielson Co.

Except as indicated in the following table, the term of office for each executive officer expires on the date of the annual meeting of the Board of Directors, to be held on April 20, 1998, or on the date his or her successor is chosen and qualified. No director or executive officer of the Company has a "family relationship" with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer of the Company and any other person pursuant to which the executive officer was selected.

NAME	AGE	OFFICES
Randall L. Tobias	56	Chairman of the Board and Chief Executive Officer (since June 1993) and a Director
Sidney Taurel	49	President and Chief Operating Officer (since February 1996) and a Director
Charles E. Golden	51	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
August M. Watanabe, M.D.	56	Executive Vice President, Science and Technology (since February 1996) and a Director
Mitchell E. Daniels, Jr.	48	Vice President, Corporate Strategy and Policy (since January 1997)
Rebecca O. Goss	50	Vice President and General Counsel (since March 1995)
Pedro P. Granadillo	50	Vice President, Human Resources (since April 1993)
Bryce D. Carmine	46	President and General Manager, Eli Lilly Japan K.K. (since May 1995)*
Alan S. Clark	63	President, U.S. Operations (since January 1997)*
Michael L. Eagle	50	Vice President, Manufacturing (since January 1994)*
Brendan P. Fox, D.V.M.	54	President, Elanco Animal Health Business Unit (since January 1991)*
Michael E. Hanson	50	President, Internal Medicine Business Unit (since August 1994)(retired December 31, 1997)

* Serves in office until successor is appointed.

NAME	AGE	OFFICES
James A. Harper	50	President, Endocrine Business Unit (since August 1994)*
Gerhard N. Mayr	51	President, Intercontinental Operations (since September 1997)*
Richard D. Pilnik	41	Vice President, Strategy and Marketing (since January 1998)*
Robert N. Postlethwait	49	President, Neuroscience Business Unit (since August 1994)*
William R. Ringo, Jr.	52	President, Internal Medicine Business Unit (since January 1998)*
Gino Santini	41	President, Women's Health Business Unit (since August 1997)*
Thomas Trainer	51	Vice President, Information Technology, and Chief Information Officer (since January 1995)*
Albertus Van den Bergh	44	President, European Operations (since September 1997)*

EMPLOYEES

At the end of 1997, the Company had approximately 31,100 employees, including approximately 15,100 employees outside the United States. A substantial number of the Company's employees have long records of continuous service.

FINANCIAL INFORMATION RELATING TO FOREIGN AND DOMESTIC OPERATIONS

Financial information relating to foreign and domestic operations, set forth in the Company's 1997 Annual Report at pages 32-33 under "Segment Information" (pages 14-15 of Exhibit 13), is incorporated herein by reference.

Eli Lilly International Corporation, a subsidiary, coordinates the Company's manufacture and sale of products outside the United States.

Local restrictions on the transfer of funds from branches and subsidiaries located abroad (including the availability of dollar exchange) have not to date been a significant deterrent in the Company's overall operations abroad. The Company cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on its future operations or what other restrictions may be imposed in the future. In addition, changing currency values can either favorably or unfavorably affect the financial position and results of operations of the Company. The Company actively manages its foreign exchange risk through various hedging techniques including the use of foreign currency contracts.

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* Serves in office until successor is appointed.

ITEM 2. PROPERTIES

The Company's principal domestic and international executive offices are located in Indianapolis. At December 31, 1997, the Company owned 14 production and distribution facilities in the United States and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 9.5 million square feet of floor area. Major production sites include Indianapolis; Clinton and Lafayette, Indiana; and Carolina and Mayaguez, Puerto Rico. The Company also leases sales offices in a number of cities located in the United States and abroad. PCS owns or leases administrative facilities in Scottsdale, Arizona, containing an aggregate of approximately 480,000 square feet, and leases a 94,000 square foot mail-order pharmacy facility in Fort Worth, Texas. It also leases administrative space in other cities in the United States. Integrated Medical Systems leases administrative space in a number of locations.

The Company owns production and distribution facilities in 18 countries outside the United States and Puerto Rico, containing an aggregate of approximately 4.0 million square feet of floor space. Leased production and warehouse facilities are utilized in Puerto Rico and 17 countries outside the United States.

The Company's research and development facilities in the United States consist of approximately 3.7 million square feet and are located primarily in Indianapolis and Greenfield, Indiana. Its major research and development facilities abroad are located in Belgium, Germany, and the United Kingdom and contain approximately 387,000 square feet. The Company also owns two tracts of land, containing an aggregate of approximately 1,700 acres, a portion of which is used for field studies of products.

The Company believes that none of its properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business of the Company. The buildings owned by the Company are of varying ages and in good condition.

ITEM 3. LEGAL PROCEEDINGS

Prozac Patent Litigation. In March 1996 the Company was informed by Barr Laboratories, Inc. ("Barr") that it had submitted an abbreviated new drug application ("ANDA") to the U.S. FDA seeking to market a generic form of Prozac in the United States several years before the expiration of the Company's patents. Barr has alleged that the Company's U.S. patents covering Prozac are invalid and unenforceable. On April 11, 1996, the Company filed suit in the United States District Court for the Southern District of Indiana seeking a ruling that Barr's challenge to the Company's patents is without merit. In the second quarter of 1997, the Company was informed that Geneva Pharmaceuticals, Inc. ("Geneva") had submitted a similar ANDA and, like Barr, had asserted that the Company's U.S. Prozac patents are invalid and unenforceable. On June 23, 1997, the Company sued Geneva in the same court seeking a similar ruling as in the Barr suit. The two suits have been consolidated and discovery is proceeding. The compound patent expires in February 2001 and a patent for the process by which Prozac operates expires in December 2003. These patents are material to the Company. The Company believes that the claims of Barr and Geneva are without merit and that the Company should be successful in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the

Company will prevail. An unfavorable outcome could have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

Product Liability Litigation. The Company is currently a defendant in a variety of product litigation matters involving primarily diethylstilbestrol ("DES") and Prozac. In approximately 170 actions, including several with multiple claimants, plaintiffs seek to recover damages on behalf of children or grandchildren of women who ingested DES during pregnancy. In another approximately 15 actions, plaintiffs seek to recover damages as a result of the ingestion of Prozac.

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

The federal suits include a certified class action on behalf of a majority of retail pharmacies in the United States (the "Federal Class Action"). The class plaintiffs allege an industrywide agreement in violation of the Sherman Act to deny favorable pricing on sales of brand-name prescription pharmaceuticals to certain retail pharmacies in the United States. The other federal suits, brought as individual claims by several thousand pharmacies, allege price discrimination in violation of the Robinson-Patman Act as well as Sherman Act claims. The suits seek treble damages and injunctive relief against allegedly discriminatory pricing practices.

The Company and several other manufacturers have agreed to settle the Federal Class Action and that settlement is now final. The settlement amount, which is not material, was accrued by the Company in the fourth quarter of 1995. In addition, in June 1997 the Company reached a confidential settlement with a number of retail pharmacy and supermarket chains that were plaintiffs in the federal actions but had opted out of the Federal Class Action. With respect to the remaining Robinson-Patman Act claims, the District Court has designated certain plaintiffs and defendants named in the individual suits (not including the Company) to participate in an initial trial or trials of the claims. No trial dates have been set. Robinson-Patman claims asserted in the suits against nondesignated defendants, including the Company, are stayed.

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

classes of consumer plaintiffs, while the Maine, Michigan, and Minnesota courts have denied class certification. The New York case has been dismissed and an appeal is pending.

Other Matters. In March 1996, the Federal Trade Commission ("FTC") commenced a non-public investigation focusing on the pricing practices described under "Pricing Litigation" above. The Company has responded to two subpoenas from the FTC requesting production of certain documents and other discovery responses. The Company believes that all of its actions have been lawful and proper and is cooperating with the investigation.

In October 1996, the FTC issued a subpoena to the Company and PCS requesting production of certain documents in connection with a non-public investigation reviewing whether the relationships and activities between pharmacy benefit management companies and pharmaceutical companies have violated federal antitrust law, including a review of whether the Company has violated the consent decree it entered into at the time it acquired PCS in 1994. The Company believes that all its actions and those of PCS have been lawful, proper and in compliance with the PCS consent decree. The Company and PCS are cooperating with the FTC's investigation.

The Company is also a defendant in other litigation, including product liability and patent suits, of a character regarded as normal to its business.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 1997, no matters were submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Information relating to the principal market for the Company's common stock and related stockholder matters, set forth in the Company's 1997 Annual Report under "Selected Quarterly Data (unaudited)," at page 34 (page 16 of Exhibit 13), and "Selected Financial Data (unaudited)," at page 35 (page 17 of Exhibit 13), is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for each of the Company's five most recent fiscal years, set forth in the Company's 1997 Annual Report under "Selected Financial Data (unaudited)," at page 35 (page 17 of Exhibit 13), are incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following portions of the Company's 1997 Annual Report (found at pages 1-8 and 36-38 of Exhibit 13) constitute management's discussion and analysis of results of operations and financial condition and are incorporated herein by reference:

"Review of Operations--Stock split and per-share data" (page 22)
"Review of Operations--Operating results and net income--1997" (pages 22-25)
"Review of Operations--Operating results and net income--1996" (pages 25-26)
"Review of Operations--Financial condition" (pages 26-27)
"Review of Operations--Environmental and legal matters" (pages 27 and 30)
"Review of Operations--Private Securities Litigation Reform Act of 1995 -- a caution concerning forward-looking statements" (page 30)

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk (e.g., interest rate risk and foreign currency exchange risk) are set forth in the Company's 1997 Annual Report at "Review of Operations--Financial Condition" at page 27 (pages 5-6 of Exhibit 13) and are incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and its subsidiaries, listed in Item 14(a)1 and included in the Company's 1997 Annual Report at pages 24, 28, 29, and 31 (Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows), pages 32 and 33 (Segment Information), and pages 36-51 (Notes to Consolidated Financial Statements) (together, pages 10-15 and 18-33 of Exhibit 13), and the Report of Independent Auditors set forth in the Company's 1997 Annual Report at page 53 (page 35 of Exhibit 13), are incorporated herein by reference.

Information on quarterly results of operations, set forth in the Company's 1997 Annual Report under "Selected Quarterly Data (unaudited)," at page 34 (page 16 of Exhibit 13), is incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the Company's directors, set forth in the Company's Proxy Statement dated March 4, 1998 (the "Proxy Statement"), under "Item 1. Election of Directors" at pages 3-6, is incorporated herein by reference. Information relating to the Company's executive officers is set forth at pages 7-9 of this Form 10-K under "Executive Officers of the Company." Information relating to certain filing obligations of directors and executive officers under the federal securities laws, set forth in the Proxy Statement under "Other Matters--Section 16(a) Beneficial Ownership Reporting Compliance" at page 25, is also incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation, set forth in the Proxy Statement under "Directors' Compensation", "Executive Compensation", "Compensation Committee Interlocks", "Retirement Plan", and "Change-in-Control Severance Pay Arrangements" at pages 9-18, is incorporated herein by reference, except that the Compensation and Management Development Committee Report and Performance Graph are not so incorporated.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to ownership of the Company's common stock by persons known by the Company to be the beneficial owners of more than 5% of the outstanding shares of common stock and by management, set forth in the Proxy Statement under "Common Stock Ownership by Directors and Executive Officers," at page 8, and "Principal Holders of Common Stock," at page 9, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in the Proxy Statement entitled "Certain Business Relationships" at page 18 is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)1. FINANCIAL STATEMENTS

The following consolidated financial statements of the Company and its subsidiaries, included in the Company's 1997 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income--Years Ended December 31, 1997, 1996, and 1995 (page 24)(page 10 of Exhibit 13)

Consolidated Balance Sheets--December 31, 1997 and 1996 (pages 28-29) (pages 11-12 of Exhibit 13)

Consolidated Statements of Cash Flows--Years Ended December 31, 1997, 1996, and 1995 (page 31)(page 13 of Exhibit 13)

Segment Information (pages 32-33)(pages 14-15 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 36-51)(pages 18-33 of Exhibit 13)

(a)2. FINANCIAL STATEMENT SCHEDULES

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

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

(a)3. EXHIBITS

3.1 Amended Articles of Incorporation

3.2 By-laws

4.1 Rights Agreement dated as of July 18, 1988, between Eli Lilly and Company and Bank One, Indianapolis, NA

4.2 Form of Indenture dated as of February 21, 1989, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee

4.3 Form of Eli Lilly and Company Five Year Convertible Note

4.4 Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee

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

4.6 Form of Fiscal and Paying Agency Agreement dated July 8, 1993, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 5-1/2% Notes Due 1998 (1)

4.7 Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-1/8% Notes Due February 7, 2000(1)

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(1) These exhibits are not filed with this Report. Copies will be furnished to the Securities and Exchange Commission upon request.

4.8	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005 (1)
10.1	1984 Lilly Stock Plan, as amended (2)
10.2	1989 Lilly Stock Plan, as amended (2)
10.3	1994 Lilly Stock Plan, as amended (2)
10.4	The Lilly Deferred Compensation Plan, as amended (2)
10.5	The Lilly Directors' Deferral Plan, as amended (2)
10.6	The Eli Lilly and Company EVA'r'Bonus Plan, as amended (2), (3)
10.7	Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees (2)
12.	Computation of Ratio of Earnings to Fixed Charges
13.	Annual Report to Shareholders for the Year Ended December 31, 1997 (portions incorporated by reference into this Form 10-K)
21.	List of Subsidiaries
23.	Consent of Independent Auditors
27.1	Financial Data Schedule
27.2-27.9	Restated Financial Data Schedules for Years ended December 31, 1995 and 1996 and Periods ended March 31, 1996 and 1997, June 30, 1996 and 1997, and September 30, 1996 and 1997
99.	Cautionary Statement under Private Securities Litigation Reform Act of 1995--"Safe Harbor" for Forward-Looking Disclosures

(b) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the fourth quarter of 1997.

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

(2) Indicates management contract or compensatory plan.

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

SIGNATURES

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

ELI LILLY AND COMPANY

By s/Randall L. Tobias
(Randall L. Tobias, Chairman of the Board and Chief Executive Officer)

March 19, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 19, 1998 by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
s/Randall L. Tobias (RANDALL L. TOBIAS)	Chairman of the Board, Chief Executive Officer, and a Director (principal executive officer)
s/Charles E. Golden (CHARLES E. GOLDEN)	Executive Vice President, Chief Financial Officer, and a Director (principal financial officer)
s/Arnold C. Hanish (ARNOLD C. HANISH)	Chief Accounting Officer (principal accounting officer)
s/Evan Bayh (EVAN BAYH)	Director
s/Steven C. Beering, M.D. (STEVEN C. BEERING, M.D.)	Director
s/Karen N. Horn (KAREN N. HORN, Ph.D.)	Director

SIGNATURE	TITLE
s/Alfred G. Gilman, M.D., Ph.D. (ALFRED G. GILMAN, M.D., Ph.D.)	Director
s/J. Clayburn La Force, Jr., Ph.D. (J. CLAYBURN LA FORCE, JR., Ph.D.)	Director
s/Kenneth L. Lay, Ph.D. (KENNETH L. LAY, Ph.D.)	Director
s/Franklyn G. Prendergast, M.D., Ph.D. (FRANKLYN G. PRENDERGAST, M.D., Ph.D.)	Director
s/Kathi P. Seifert (KATHI P. SEIFERT)	Director
s/Sidney Taurel (SIDNEY TAUREL)	Director
s/August M. Watanabe, M.D. (AUGUST M. WATANABE, M.D.)	Director
s/Alva O. Way (ALVA O. WAY)	Director

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 'r' or 'tm', as applicable. In subsequent uses of the marks in the Report, the symbols are omitted.

INDEX TO EXHIBITS

The following documents are filed as part of this report:

Exhibit		Location
3.1	Amended Articles of Incorporation	Incorporated by reference from Exhibit 3.1 to the Company's Report on Form 10-Q for the quarter ended March 31, 1996
3.2	By-laws	Incorporated by reference from Exhibit 3 to the Company's Report on Form 10-Q for the quarter ended September 30, 1997
4.1	Rights Agreement dated as of July 18, 1988, between Eli Lilly and Company and Bank One, Indianapolis, N.A.	Incorporated by reference from Exhibit 4.11 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1993
4.2	Form of Indenture dated as of February 21, 1989, between Eli Lilly and Company and Merchants National Bank & Trust Company of Indianapolis, as Trustee	Incorporated by reference from Exhibit 4.3 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1994
4.3	Form of Eli Lilly and Company Five Year Convertible Note	Incorporated by reference from Exhibit 4.4 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1994
4.4	Form of Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Citibank, N.A., as Trustee	Incorporated by reference from Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 33-38347
4.5	Form of Standard Multiple-Series Indenture Provisions dated, and filed with the Securities and Exchange Commission on February 1, 1991	Incorporated by reference from Exhibit 4.2 to the Company's Registration Statement on Form S-3, Registration No. 33-38347

Exhibit		Location
4.6	Form of Fiscal and Paying Agency Agreement dated July 8, 1993, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 5-1/2% Notes Due 1998	*
4.7	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-1/8% Notes Due February 7, 2000	*
4.8	Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 2005	*
10.1	1984 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.1 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1994
10.2	1989 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10.2 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1993
10.3	1994 Lilly Stock Plan, as amended	Incorporated by reference from Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 1996
10.4	The Lilly Deferred Compensation Plan, as amended	Incorporated by reference from Exhibit 10.4 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1994

Exhibit		Location
10.5	The Lilly Directors' Deferral Plan, as amended	Incorporated by reference from Exhibit 10.5 to the Company's Report on Form 10-K for the fiscal year ended December 31, 1996
10.6	The Eli Lilly and Company EVA'r' Bonus Plan, as amended	Attached
10.7	Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees	Incorporated by reference from Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended March 31, 1995
12.	Computation of Ratio of Earnings to Fixed Charges	Attached
13.	Annual Report to Shareholders for the Year Ended December 31, 1997 (portions incorporated by reference in this Form 10-K)	Attached
21.	List of Subsidiaries	Attached
23.	Consent of Independent Auditors	Attached
27.1	Financial Data Schedule	Attached
27.2-27.9	Restated Financial Data Schedules for Years ended December 31, 1995 and 1996 and Periods ended March 31, 1996 and 1997, June 30, 1996 and 1997, and September 30, 1996 and 1997	Attached
99.	Cautionary Statement Under Private Securities Litigation Reform Act of 1995 -- "Safe Harbor" for Forward-Looking Disclosures	Attached

STATEMENT OF DIFFERENCES

The trademark symbol shall be expressed as.....'tm'
The registered trademark symbol shall be expressed as.....'r'
Characters normally expressed as subscript shall be expressed as baseline characters.

ELI LILLY AND COMPANY EVA'r' BONUS PLAN

(As amended and restated effective January 1, 1998)

ARTICLE I

BONUS PLAN STATEMENT OF PURPOSE AND SUMMARY

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

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

ARTICLE II

DEFINITIONS OF CERTAIN TERMS

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

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

2.2 "Committee" means the Compensation and Management Development Committee, the members of which shall be selected by the Board of Directors from among its members.

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

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

2.5 "Plan Year" means the applicable calendar year.

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

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

ARTICLE III

DEFINITION AND COMPONENTS OF EVA

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

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

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

3.3 "Capital Charge" means the deemed opportunity cost of employing Capital for the Company. The Capital Charge is calculated by multiplying Capital times Cost of Capital (C*).

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

3.5 "Cost of Capital" or "C*" is the percentage calculated from the weighted average of Cost of Debt and Cost of Equity. Cost of Capital for each Plan Year is determined by reference to the percentage calculated at the end of October of the prior Plan Year.

3.6 "Cost of Debt" capital is the marginal long-term borrowing rate of the Company times (one minus the tax rate).

3.7 "Cost of Equity" capital is the risk-free rate plus (beta times the market risk premium). For this purpose, (i) "risk free rate" is the 30-year U.S. Treasury Bond rate, (ii) "beta" represents the 5 year historical average variation of the Company's earnings versus the S&P 500, and (iii) "market risk premium" represents the average risk of an equity return versus a bond return.

ARTICLE IV

DEFINITION AND COMPUTATION OF THE EVA BONUS

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

4.1 Target Bonus. The Target Bonus Awards will be determined by the Committee on a basis that takes into consideration a Participant's salary grade level, job responsibilities, as well as past and expected future job performance. Target Bonus Awards are expressed as a percentage of annual base salary as in effect on the first day of the Plan Year. If a Participant moves from any salary grade level to a G-6 or above salary grade level during a Plan Year, he/she will receive an award that is pro-rated according to time based on the Target Bonus percentage and base salary applicable to each such salary grade. The Target Bonus will be based on the currency in which the highest portion of base pay is regularly paid. The Committee shall determine the appropriate foreign exchange conversion methodology in its discretion.

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

4.3 Bonus Multiple. The Bonus Multiple is the difference (positive or negative) between Actual EVA and Target EVA, divided by the Leverage Factor, plus one.

4.4 Bonus Bank. All bonus payments are made from the Bonus Bank. Each Participant's beginning Bonus Bank balance in his/her first year of participation is zero. The Bonus Bank is increased or decreased for any plan year by the amount of Declared Bonus. If the available Bonus Bank balance is positive, the Participant will be paid from such balance up to the Target Bonus amount, plus one third of any such balance that remains after subtracting the Target Bonus from available Bonus Bank balance. If the available Bonus Bank balance is negative, no payment will occur.

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

$$\text{Target EVA} = \frac{[\text{Prior Year's Actual EVA} + \text{Prior Year's Target EVA}]}{2} + \text{Expected Improvement}$$

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

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

4.8 Working Plan Example. Examples of the mechanics of the Plan are shown on Schedule A.

ARTICLE V

PLAN ADMINISTRATION

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

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

5.3 New Hires, Promotions. New hires or individuals promoted who are first selected for participation by the Committee effective on a date other than January 1 will participate on a pro-rata basis in their first year of participation, based on the Declared Bonus determined for the Plan Year, pro-rated for that period of the year during which the Participant was selected for participation in the Plan. Any such Participant's Target Bonus Award will be determined based on his or her annual base salary as in effect on the date of hire or promotion, as applicable.

5.4 Termination of Employment, Demotions. If a Participant ceases employment with the Company before the end of a Plan Year for reasons other than Retirement, Disability or death, or is demoted to a non-global job level with the Company during a Plan Year, the Participant shall receive no Declared Bonus for that Plan Year, and his/her Bank Balance shall be forfeited. The Committee may make complete or partial exceptions to this rule, in its sole discretion.

5.5 Leave of Absence. If a Participant takes an approved leave of absence from employment during a Plan Year, the Participant will not be eligible for the Declared Bonus for the Plan Year. The Committee may make complete or partial exceptions to this rule, in whatever manner it deems appropriate. The Participant will retain his Bonus Bank balance if he returns to employment following the period of leave of absence.

5.6 Retirement, Disability or Death. If a Participant ceases employment with the Company because of Retirement, Disability or death, the Participant or personal representative, as the case may be, shall receive full payment of his/her Bank Balance and a bonus based on the Declared Bonus determined for the Plan Year but pro-rated for that period of the year during which the Participant was an active employee of the Company.

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

5.8 Forfeiture Events. Notwithstanding any other provision of this Plan to the contrary, the Committee may, in its sole discretion, upon the occurrence of a Forfeiture Event (as defined below), forfeit all or any portion of a Participant's Declared Bonus and Bonus

Bank balance and terminate such Participant's future participation in the Plan. For purposes hereof, a "Forfeiture Event" shall mean the occurrence of one or more of the following events with respect to a Participant: (i) the termination or forced resignation from employment of the Participant for "misconduct" (as defined in the Company's Employee Information Handbook), (ii) any violation by the Participant of the Guidelines of Company Policy (the "Redbook") that is detrimental to the Company, (iii) any breach of a noncompetition, nonsolicitation, nondisclosure or other restrictive covenant that may apply by written agreement between the Company and the Participant or (iv) Participant's having engaged in any other activity that, in the judgment of the committee, is detrimental to the business, affairs or reputation of the Company (including, without limitation, engaging in any criminal activity).

ARTICLE VI

GENERAL PROVISIONS

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

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

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

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

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

ARTICLE VII

LIMITATIONS

7.1 No Continued Employment. Neither the establishment of the Plan nor the grant of an award thereunder shall be deemed to constitute an express or implied contract of

employment of any Participant for any period of time or in any way abridge the rights of the Company to determine the terms and conditions of employment or to terminate the employment of any employee with or without notice or cause at any time.

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

7.3 Non-alienation. Except as provided in Subsection 5.1, no Participant or other person shall have any right or power, by draft, assignment, or otherwise, to mortgage, pledge or otherwise encumber in advance any payment under the Plan, and every attempted draft, assignment, or other disposition thereof shall be absolutely void.

ARTICLE VIII

COMMITTEE AUTHORITY

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

8.2 Committee Discretion to Revise Rates and Amounts. The committee may, in its sole discretion, revise the various rates, amounts and percentages provided in the Plan from time to time (including, without limitation, with respect to each of the foregoing defined terms), provided that the methods and assumptions used in making such determinations shall be established and applied by the Committee on the basis of reasonable, objective criteria that are applied in a uniform manner from Plan Year to Plan Year.

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

ARTICLE IX

NOTICE

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

ARTICLE X

EFFECTIVE DATE

10.1 This Plan shall be effective as of January 1, 1995, as amended and restated effective January 1, 1998.

ARTICLE XI

AMENDMENTS AND TERMINATION

11.1 This Plan may be amended, suspended or terminated at any time at the discretion of the Board of Directors of Eli Lilly and Company, and may, except for this Section 11.1, be amended at any time by the Committee.

ARTICLE XII

APPLICABLE LAW

12.1 This Plan shall be governed by and construed in accordance with the provisions of the laws of the State of Indiana.

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EVA'r' is a registered trademark of Stern Stewart & Co.

SCHEDULE A

Year One

Target EVA = $150MM
Actual EVA = $200MM
Leverage Factor = $100MM

[GRAPHIC]

Economic Value Added Grid

EVA	Bonus Multiple
$250 MM	2.0
$200 MM	1.5
$150 MM	1.0
$ 50 MM	0

Declared Bonus
- ---
Actual EVA - Target EVA = $50MM
Bonus Multiple = 1 + (Actual EVA - Target EVA)/ Leverage Factor
1.5 = 1 + 50/100

Target Bonus = $20,000
Declared Bonus = $30,000 (1.5 x $20,000)

Bonus Bank
- ---

Declared Bonus	$30,000
Beginning Bank Balance	$0
Available Bank Balance	$30,000
Target Bonus Paid	$20,000*
Remaining Balance	$10,000
Pay 1/3 Remaining Balance	$3,333*
Ending Bank Balance	$6,667

*Total bonus paid = $20,000 + $3,333 = $23,333

EVA Target Reset (for year two) = ($200MM + $150MM)/2 + 0
= $175MM

Schedule A (Cont.)

Year Two

Target EVA = $175MM
Actual EVA = $140MM
Leverage Factor = $100MM

[GRAPHIC]

Economic Value Added Grid

EVA	Bonus Multiple
$275 MM	2.0
$175 MM	1.0
$140 MM	0.65
$ 75 MM	0

Declared Bonus

Actual EVA - Target EVA = ($35MM)
Bonus Multiple = 1 + (Actual EVA - Target EVA)/ Leverage Factor
0.65 = 1 + (35)/100

Target Bonus = $20,000
Declared Bonus = $13,000 (0.65 x $20,000)

Bonus Bank

Declared Bonus	$13,000
Beginning Bank Balance	$6,667
Available Bank Balance	$19,667
Target Bonus Paid	$19,667*
(up to available balance)	
Remaining Balance	$0
Pay 1/3 Remaining Balance	$0*
Ending Bank Balance	$0

*Total bonus paid = $19,667 + $0 = $19,667

EVA Target Reset (for year three) = ($140MM + $175MM)/2 + 0
= $157.5MM

EXHIBIT 12. STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS
FROM CONTINUING OPERATIONS TO FIXED CHARGES
(Dollars in Millions)

	Years Ended December 31,				
	1997	1996	1995	1994	1993
Consolidated Pretax Income from Continuing Operations before Accounting Changes.....	$ 510.2	$2,031.3	$1,765.6	$1,698.6	$ 662.8
Interest from Continuing Operations and Other Fixed Charges.....	260.0	324.9	324.6	129.2	96.1
Less Interest Capitalized during the Period from Continuing Operations.....	(23.8)	(36.1)	(38.3)	(25.4)	(25.5)
Earnings.....	$ 746.4	$2,320.1	$2,051.9	$1,802.4	$ 733.4
Fixed Charges(1).....	$ 264.2	$ 329.6	$ 324.6	$ 129.2	$ 96.1
Ratio of Earnings to Fixed Charges.....	2.8(2)	7.0	6.3	14.0	7.6

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

(2)Included in the 1997 earnings is a noncash charge of $2,443 million due to an asset impairment. See notes to consolidated financial statements. If the asset impairment charge had not occurred, the ratio of earnings to fixed charges would have been 12.1.

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1997

REVIEW OF OPERATIONS

STOCK SPLIT AND PER-SHARE DATA

On September 15, 1997, the company's board of directors declared a two-for-one stock split payable to shareholders of record on September 24, 1997. The outstanding and weighted-average number of shares of common stock and per-share data herein have been adjusted to reflect the impact of the stock split for all periods presented. Treasury shares held by the company were not split.

In 1997, the company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which requires presentation of both basic earnings per share and diluted earnings per share in the income statement. Further, the SFAS requires restatement of previously reported earnings-per-share data. Unless otherwise noted, all per-share amounts are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares and the effect of all potentially dilutive common shares (primarily unexercised stock options).

OPERATING RESULTS AND NET INCOME--1997

The company's operating results for both 1997 and 1996 reflect the impact of several significant transactions that make comparisons difficult. The company's reported results for 1997 include the following significant transactions: a $2.4 billion noncash charge to adjust the carrying value of the long-lived assets of PCS' health-care-management businesses, a pretax gain of $631.8 million from the sale of the company's interest in the DowElanco joint venture, a charge for the settlement of a significant portion of the company's remaining retail pharmacy pricing litigation and a $24 million charge for the discontinuance of the research collaboration with Somatogen, Inc. The company's reported tax rate for 1997 was also affected by these transactions. As a consequence, 1997 reflected a net loss of $385.1 million, or $.35 per share.

Excluding the significant items noted above, net income for 1997 would have been $1.77 billion, or $1.57 per share. After excluding the income from the sale of the U.S. marketing rights for Ceclor'r' CD and Keftab'r' to Dura Pharmaceuticals, Inc., from the 1996 amounts, 1997 net income and earnings per share, without the significant items, reflect increases from 1996 of 22 and 21 percent, respectively. The 1997 increases are attributed to increased sales, improved gross margin, and reduced interest expense and goodwill, partially offset by decreased other income.

The company's sales for 1997 increased 16 percent, to $8.52 billion. Sales in the United States were $5.41 billion, a 27 percent increase, while sales outside the United States were $3.11 billion, a 1 percent increase. Worldwide sales volume growth of 18 percent and a 2 percent increase in global selling prices were partially offset by unfavorable exchange rates, which decreased sales by 4 percent.

Worldwide pharmaceutical sales increased 17 percent, to $7.92 billion. The sales growth was led by three of the company's newer products, Gemzar'r', ReoPro'r' and Zyprexa'r', as well as increased sales of Prozac'r' and insulin products and additional health-care-management revenues. The 1997 growth was achieved despite lower sales of anti-infective products. Total U.S. pharmaceutical sales increased 28 percent ($1.12 billion) primarily as a result of increased volume. International pharmaceutical sales increased 1 percent. Sales volume growth outside the U.S. of 12 percent was offset largely by unfavorable exchange rates (9 percent) and decreased selling prices (2 percent).

Worldwide sales of the antidepressant Prozac in 1997 were $2.56 billion, an increase of 9 percent. Prozac sales in the U.S. increased 17 percent, to $2.02 billion. International sales of Prozac experienced a decline of 14

percent due largely to the effects of unfavorable exchange rates, continuing generic competition in Canada and competitive pressures in France. The company expects moderate growth in worldwide Prozac sales in 1998.

Three of the company's newer products contributed significantly to the worldwide pharmaceutical sales growth. Specifically, in 1997, Zyprexa, a treatment for schizophrenia and related psychoses launched in the fourth quarter of 1996, contributed $730.2 million to worldwide sales and $590.0 million to U.S. sales, which represent increases of $643.3 million and $511.7 million, respectively. ReoPro, a cardiovascular product launched in 1995, reported worldwide sales of $254.4 million, reflecting an increase of $105.1 million. U.S. ReoPro sales increased $85.6 million, to $218.6 million. Worldwide sales of Gemzar, an oncolytic launched in the U.S. in May 1996, grew to $174.8 million, representing an increase over 1996 of $113.0 million. Gemzar sales in the U.S. increased $63.4 million, to $95.0 million.

Among other major products, worldwide sales of Humulin'r', the company's biosynthetic human insulin, increased 6 percent, to $936.0 million, for 1997. U.S. Humulin sales increased 4 percent, to $586.8 million, with growth due to wholesaler buying patterns being offset partially by the combined effect of competition from oral antidiabetic agents and increased sales of the company's insulin analog, Humalog'r'. International Humulin sales increased 9 percent. In addition, health-care-management revenues increased 47 percent, to $548.5 million, largely due to increased mail order pharmacy sales. Worldwide sales of the antiulcer agent Axid'r' decreased 1 percent, to $526.5 million. Axid sales declined 2 percent in the U.S. and increased 3 percent outside the U.S. Worldwide sales of the human growth hormone Humatrope declined 3 percent.

Compared with 1996, worldwide anti-infective sales in 1997 decreased $178.9 million (12 percent). This decline was due primarily to continued generic competition in certain markets and the impact of unfavorable exchange rates. Sales of the oral antibiotic cefaclor decreased 18 percent, to $442.2 million, accounting for the majority of this decline. Both U.S. and international anti-infectives sales reflected declines. The company anticipates that 1998 worldwide sales of anti-infectives will be below 1997 levels largely due to continued pricing pressures as a result of generic competition.

The company's payments under federally mandated Medicaid rebate programs reduced 1997 sales by approximately $200 million. The company anticipates that rebates associated with Medicaid rebate programs will increase in 1998.

Worldwide sales of animal health products increased 8 percent over 1996, driven by volume growth of 10 percent. Sales increased 15 percent in the U.S. and 2 percent outside the U.S. The worldwide sales increase was primarily due to increased sales of Micotil'r', an antibiotic for bovine respiratory disease, and Tylan'r', an antibiotic for promoting feed efficiency and growth in swine and cattle.

Gross margin improved to 72.3 percent of sales compared with 71.2 percent for 1996. This increase was primarily the result of favorable pharmaceutical product mix, production efficiencies and procurement savings. These improvements were offset, in part, by increased health-care-management revenues, which have lower margins than pharmaceutical products. The company anticipates that the gross margin percentage will increase slightly in 1998 due largely to continued improvement in pharmaceutical product mix.

Research and development expenses in 1997 increased 16 percent. Expenses in support of global clinical trials, as well as an increase in external research collaborations relating to the discovery and development of new technologies, compounds and delivery systems, drove this increase. The company expects spending in research and development to increase at a greater rate during 1998 and likely at a rate above that of sales growth. The actual 1998 increase will vary depending upon a number of factors, particularly the level of research collaboration activity.

Marketing and administrative expenses increased 16 percent over 1996. Overall, the increase was largely due to increased expenditures to support continued new product launches around the world, including the January 1998 launch of Evista'r', a product for the prevention of osteoporosis; the Prozac

direct-to-consumer advertising campaign; enhancements of the company's global information technology capabilities; and increased compensation accruals due to the company's performance-based bonus programs. The charge for the settlement of a significant portion of the company's remaining retail pharmacy pricing litigation also contributed to the 1997 increase. Excluding that charge, marketing and administrative expenses would have increased at a rate below that of sales.

Many of the company's computer systems will require modification or replacement over the next two years in order to render the systems ready for the year 2000. Key information, financial, research and operational systems have been assessed and plans have been formulated to address system modifications required by December 31, 1999. Systems deemed most critical will be addressed in 1998; all others are expected to be modified or replaced in 1999. Modifications of some systems have already occurred. The company is also assessing how it could be affected by the failure of third parties (e.g., vendors and customers) to mitigate their own Year 2000 issues. The company will utilize both internal and external resources to reprogram, or replace, and test the software for Year 2000 modifications. Expenses associated with addressing the Year 2000 issues are being recognized as incurred. Although it is difficult to estimate future costs precisely, management currently believes that the incremental costs of addressing these issues will not materially affect the company's consolidated financial position, liquidity or results of operations through December 31, 1999. The company believes it will be able to resolve all major Year 2000 issues. However, if the company is not able to do so, the impact on business operations could be material to the company's consolidated results of operations.

The asset impairment represents a noncash charge of approximately $2.4 billion ($2.21 per share), recorded in the second quarter of 1997, to adjust the carrying value of PCS health-care-management businesses' long-lived assets, primarily goodwill, to their fair value of approximately $1.5 billion. While revenues and profits are growing and new capabilities are being developed at PCS, the rapidly changing, competitive and highly regulated environment in which PCS operates has prevented the company from significantly increasing PCS' operating profits from levels that existed prior to the acquisition. In addition, since the acquisition, the health-care-industry trend toward highly managed care has been slower than originally expected and the possibility of selling a portion of PCS' equity to a strategic partner has not been realized. Therefore, in the second quarter, concurrent with PCS' annual planning process, the company determined that PCS' estimated future undiscounted cash flows were below the carrying value of PCS' long-lived assets. As a consequence, the carrying value was adjusted to estimated fair value based on anticipated future cash flows, discounted at a rate commensurate with the risk involved.

On June 30, 1997, The Dow Chemical Company acquired the company's 40 percent interest in the DowElanco joint venture. The cash purchase price was $1.2 billion, resulting in an after-tax gain of $303.5 million, or $.28 per share.

Interest expense in 1997 decreased $54.7 million (19 percent) due primarily to a decline in the company's borrowings.

Net other income for 1997 amounted to $97.2 million, which was $176.1 million lower than in 1996. The decrease was primarily the result of several nonrecurring items reflected in the 1996 amount, including the sale of the U.S. marketing rights for Ceclor CD and Keftab (approximately $100 million), income from codevelopment and comarketing contracts, the sale of marketing rights for ReoPro in Japan and Tapazole'r' in the U.S., and a higher level of sales of certain equity securities held by the company. Net other income for 1997 benefited by reduced goodwill amortization as a result of the asset impairment and income from outlicensing activity. These increases were partially offset by the charge for the discontinuance of the collaboration with Somatogen, Inc.

The company's reported tax rate for 1997 reflects the effects of the significant transactions that occurred during the year. The company's tax rate, excluding the impact of these items, was 25.0 percent, the same as the

tax rate for 1996. The company expects to sustain a comparable effective tax rate for 1998.

OPERATING RESULTS AND NET INCOME--1996

Income from continuing operations in 1996 was $1.52 billion, or $1.36 per share, which represents increases of 17 percent and 20 percent, respectively, from 1995. These increases reflect the favorable effects of increased sales and other income and a lower effective tax rate, offset, in part, by reduced gross margins and higher operating expenses. Earnings per share from continuing operations also benefited from a reduced average number of shares of stock outstanding as a result of the Guidant splitoff. Reported net income and earnings per share for 1996 include the impact of the sale of the U.S. marketing rights for Ceclor CD and Keftab. Excluding this transaction, 1996 net income and earnings per share would have been $1.45 billion and $1.30, respectively.

In 1995, the company completed the divestiture of all its Medical Devices and Diagnostics (MDD) Division subsidiaries, realizing a net gain of $922 million. This gain and the results of operations of MDD through the date of divestiture added $984 million ($.86 per share) to net income in 1995. Reported net income and earnings per share in 1996 do not include income from discontinued operations.

Worldwide sales rose 9 percent in 1996, to $7.35 billion. An 11 percent growth in unit volume was partially offset by foreign exchange rates and selling prices, each of which decreased sales by 1 percent.

Sales in the United States in 1996 were $4.27 billion, a 12 percent increase. Sales outside the United States were $3.08 billion, an increase of 4 percent from 1995.

Pharmaceutical sales for 1996 increased 9 percent, to $6.79 billion, led by Prozac (up $290 million, or 14 percent). Prozac sales increased despite continuing competition from generics in Australia and Canada and competitive pressures in France. Other products contributing significantly to the worldwide pharmaceutical sales growth included Humulin (up 11 percent, to $884 million) and three of the company's newer products, Gemzar, ReoPro and Zyprexa. Gemzar, launched in the U.S. in May 1996, contributed $62 million to sales, and sales of ReoPro increased $127 million over 1995. Zyprexa had a very strong first three months after its October launch with sales of $87 million. The company's sales also benefited from increased health-care-management revenues, which rose $112 million. The pharmaceutical sales growth for the year was partially offset by a reduction in worldwide anti-infectives sales, discussed further below, and slightly lower sales of Axid (down 3 percent) as a result of increased competitive pressures.

Worldwide anti-infectives sales of $1.5 billion reflected a 13 percent decline. In the U.S., the company experienced a decline of 37 percent due largely to continued generic competition. Sales of anti-infectives outside the U.S. reflected a 2 percent decline compared with 1995. The primary contributor to this worldwide decline was cefaclor, which experienced a decrease in sales of 25 percent. All the company's other anti-infective products, except Dynabac'r', experienced declines in the U.S. due to competition from both generic products and newer branded products.

Pharmaceutical sales in the United States increased 12 percent, to $4.02 billion, all due to increased volume. Major products contributing to this growth were Humulin (up $37 million), Prozac (up $292 million), ReoPro (up $112 million) and Zyprexa, which had U.S. sales of $78 million. Also, Gemzar contributed $32 million in U.S. sales. This growth was offset, in part, by the decline in anti-infectives sales and an increase in Medicaid rebates.

Pharmaceutical sales outside the U.S. increased 4 percent, to nearly $2.77 billion. The increase reflects volume growth of 10 percent offset, in part, by price decreases and the negative effects of exchange rates. Major products contributing to this increase were Gemzar, Humulin, Permax'r' and ReoPro. These sales increases were partially offset by declines in anti-infectives and Axid.

Increases in Prozac sales achieved in most countries outside the U.S. were more than offset by declines in certain countries, primarily Australia, Canada and France.

Worldwide sales of animal health products increased 7 percent, to $547 million. Sales increased 10 percent outside the U.S. and 3 percent in the U.S. The worldwide sales increase occurred across a majority of the product line.

Gross margin was 71.2 percent of sales for 1996 compared with 72.1 percent in 1995. This decline primarily reflects the impact of increased health-care-management revenues and reduced production volumes of certain products as the company endeavors to reduce inventory levels (which resulted in greater amounts of overhead costs being charged against income). These decreases were partially offset by productivity improvements and an improved pharmaceutical sales mix.

Research and development expenses increased 14 percent in support of global clinical trials and an increase in external research collaborations.

Marketing and administrative expenses increased 7 percent. Overall, marketing and administrative expenses increased largely due to costs associated with the launches of the company's new products, continued efforts to expand globally, the development of enhanced information technology capabilities, and increased compensation accruals due to the company's performance-based bonus programs.

Interest expense of $289 million was approximately the same as in 1995. Net other income of $273 million was $203 million higher than 1995. The increase was primarily the result of several nonrecurring items, including the sale of the U.S. marketing rights for Ceclor CD and Keftab; income from royalty, codevelopment and comarketing contracts; the sale of marketing rights for ReoPro in Japan and Tapazole in the U.S.; and gains from the sale of certain equity securities.

The effective tax rate for 1996 was 25 percent compared with 26 percent in 1995. The decline was primarily the result of changes in the mix of earnings between jurisdictions having lower tax rates compared with those having higher rates and the effectiveness of various tax-planning strategies.

FINANCIAL CONDITION

As of December 31, 1997, cash, cash equivalents and short-term investments totaled approximately $2.02 billion compared with $955 million at December 31, 1996. Total debt at December 31, 1997, was $2.55 billion, a decrease of $1.18 billion. These improvements in cash, cash equivalents, short-term investments and debt are primarily due to positive operating cash flows and the proceeds from the sale of DowElanco, a portion of which was used to pay down short-term borrowings (primarily commercial paper). The company believes that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund essentially all the company's operating needs, including debt service, capital expenditures and dividends in 1998.

The company believes that amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. The outstanding commercial paper is also backed by $2 billion of committed bank credit facilities.

Following the company's announcement in June 1997 of the noncash charge for the PCS asset impairment, the credit rating agencies affirmed the company's existing commercial paper ratings (A1+ rating by Standard & Poor's, Prime-1 rating by Moody's) and long-term debt ratings (AA rating by Standard & Poor's, Aa3 rating by Moody's).

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

controlling these risks is to limit the impact on earnings of fluctuations in interest and currency exchange rates. All derivative activities are for purposes other than trading.

The company's primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, the company strives to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate swaps to help maintain that balance. Based on the company's overall interest rate exposure at December 31, 1997, including derivatives and other interest rate sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 1997, would have no material impact on earnings, cash flows or fair values of interest rate risk sensitive instruments over a one-year period.

The company's foreign currency risk exposure results from fluctuating currency exchange rates, primarily the strengthening of the U.S. dollar against the Japanese yen and European currencies. The company faces transactional currency exposures that arise when its foreign subsidiaries (or the company itself) enter into transactions, generally on an intercompany basis, denominated in currencies other than their local currency. The company also faces currency exposure that arises from translating the results of its global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. The company uses forward contracts and purchased options to manage its foreign currency exposures. Company policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative positions offset, in part, the impact of currency fluctuations on the existing assets, liabilities, commitments and anticipated revenues. Considering the company's derivative financial instruments outstanding at December 31, 1997, a hypothetical 10 percent weakening in the exchange rates (primarily the U.S. dollar) over a one-year period would decrease earnings by $51.0 million while a 10 percent strengthening in the exchange rates would increase earnings by $67.8 million. This calculation does not reflect the impact of exchange gains/losses on the underlying positions that would be offset, in part, by the results of the derivative instruments.

In 1997, a subsidiary of the company issued $160 million (160 shares) of convertible Class B stock to an institutional investor. The stock pays dividends on a quarterly basis and is convertible at any time on a one-to-one basis into the subsidiary's Class A stock at the option of the holder. The Class B stock may be redeemed for $1 million per share plus accrued and unpaid dividends by the subsidiary at specified periods or upon various redemption events or at the option of the holder seven years from the date of issuance.

During 1997, the company continued to implement previously announced restructuring and streamlining initiatives. Of these charges, approximately $31 million and $33 million were paid in cash in 1997 and 1996, respectively. Charges yet to be paid in cash total approximately $125 million and are expected to be funded from operations primarily over the next few years.

Capital expenditures of $366.3 million during 1997 were $77.6 million less than in 1996 as construction was completed on new manufacturing, research and development facilities early in 1997. The company expects near-term capital expenditures to increase from 1997 levels but to remain well below the historical peaks of the early 1990s. Sufficient cash flows exist to meet these near-term requirements.

In the fourth quarter of 1997, the quarterly dividend was increased $.02 per share (11 percent), which was the second increase in dividends for 1997 compared with 1996. As a consequence, dividends of $.74 per share were paid in 1997, an increase of approximately 8 percent from 1996. The indicated annual rate for 1998 is $.80 per share. The year 1997 was the 113th consecutive year in which the company made dividend payments and the 30th consecutive year in which dividends have been increased.

ENVIRONMENTAL AND LEGAL MATTERS

As with other industrial enterprises, the company's operations are subject to complex and changing federal, state, and local environmental laws and regulations, which will continue to require capital investment and operational expenses. The company also has been designated a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund, with respect to approximately 10 sites with which the company had varying degrees of involvement. Further, the company continues remediation of certain of its own properties consistent with current environmental practices. The company has accrued for estimated Superfund costs and remediation of its own properties, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs and the extent to which other parties can be expected to contribute to those costs. The company reached a settlement with its primary liability insurance carrier providing for coverage for certain environmental liabilities and has instituted litigation seeking coverage from certain excess carriers. In addition, the company has accrued for certain other environmental matters.

During 1997, the company continued to be named as a defendant in lawsuits involving Prozac. However, continuing a trend seen in each of the past two years, the number of pending cases declined significantly from levels of the previous year.

The company has been named, together with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions in federal courts and the courts of several states brought by retail pharmacies and, in some cases, consumers, alleging violations of federal and state antitrust and pricing laws. The plaintiffs generally allege an industrywide agreement to deny favorable prices on prescription drugs to retail pharmacies that manufacturers grant to managed care organizations and certain other purchasers. Other suits involve claims of price discrimination under the federal Robinson-Patman Act or other pricing laws. In addition, claims have been brought on behalf of consumers of prescription drugs in several states. A federal class action case involving a majority of U.S. retail pharmacies was settled in 1995 and finalized in 1997. In June 1997, the company settled with a number of retail pharmacy and supermarket chains that were plaintiffs in the federal actions but had opted out of the federal class. Those claims represented a significant portion of the remaining federal claims. The settlement resulted in a charge in the second quarter of 1997.

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that Lilly's U.S. patents covering Prozac are invalid and unenforceable. In April 1996, the company filed suit against Barr in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In June 1997, the company filed a similar suit against Geneva in the same court. While the company believes that the claims of Barr and Geneva are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the company's consolidated financial position, liquidity or results of operations.

While it is not possible to predict or determine the outcome of the patent, product liability, antitrust or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period. For additional information on litigation and environmental matters, see Note 14 to the consolidated financial statements.

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

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

1997 Financial Highlights
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

December 31	1997(1)	1996(1)	Change (Percent)
Net sales	$8,517.6	$7,346.6	16
Research and development expenses	1,382.0	1,189.5	16
Asset impairment	2,443.0	-	-
Gain on sale of DowElanco	631.8	-	-
Net income (loss)	(385.1)	1,523.5	N/M(3)
Earnings (loss) per share	$ (.35)	$ 1.39	N/M(3)
Earnings (loss) per share - diluted	(.35)	1.36	N/M(3)
As adjusted(2):			
Net income	$1,774.4	$1,454.6	22
Earnings per share	1.61	1.33	21
Earnings per share - diluted	1.57	1.30	21
Net income as a percent of sales	20.8%	19.8%	-
Dividends paid per share	$ .74	$ .685	8
Capital expenditures	$ 366.3	$ 443.9	(17)
Economic Value Added (EVA'r')	$ 751	$ 460	63

(1) Per-share data for both years reflect the two-for-one stock split in September 1997. See Note 9 to the consolidated financial statements.

(2) Reflects the results of operations excluding the impacts in 1997 of the asset impairment, the gain on sale of DowElanco, settlement of a significant portion of the remaining pricing litigation, a charge for discontinuance of a research collaboration and the impact in 1996 of the sale of U.S. marketing rights to Ceclor'r' CD and Keftab'r'. See notes to the consolidated financial statements.

(3) Not meaningful

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

Year Ended December 31	1997	1996	1995
Net sales	$8,517.6	$7,346.6	$6,763.8
Cost of sales	2,362.9	2,118.4	1,885.7
Research and development	1,382.0	1,189.5	1,042.3
Marketing and administrative	2,314.4	1,991.9	1,854.0
Asset impairment (Note 2)	2,443.0	-	-
Gain on sale of DowElanco (Note 4)	(631.8)	-	-
Interest expense	234.1	288.8	286.3
Other income--net	(97.2)	(273.3)	(70.1)
	8,007.4	5,315.3	4,998.2
Income from continuing operations before income taxes	510.2	2,031.3	1,765.6
Income taxes (Note 12)	895.3	507.8	459.0
Income (loss) from continuing operations	(385.1)	1,523.5	1,306.6
Discontinued operations, net of tax (Note 4)	-	-	984.3
Net income (loss)	$(385.1)	$1,523.5	$2,290.9
Earnings (loss) per share (Note 11):			
Income (loss) from continuing operations	$ (.35)	$ 1.39	$ 1.15
Discontinued operations	-	-	.86
Net income (loss)	$ (.35)	$ 1.39	$ 2.01
Earnings (loss) per share - diluted (Note 11):			
Income (loss) from continuing operations	$ (.35)	$ 1.36	$ 1.13
Discontinued operations	-	-	.86
Net income (loss)	$ (.35)	$ 1.36	$ 1.99

See notes to consolidated financial statements.

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

December 31	1997	1996
Assets		
Current Assets		
Cash and cash equivalents	$ 1,947.5	$ 813.7
Short-term investments	77.1	141.4
Accounts receivable, net of allowances of $53.3 (1997) and $82.4 (1996)	1,544.3	1,474.6
Other receivables	338.9	262.5
Inventories (Note 1)	900.7	881.4
Deferred income taxes (Note 12)	325.7	145.2
Prepaid expenses	186.5	172.5
Total current assets	5,320.7	3,891.3
Other Assets		
Prepaid retirement (Note 13)	579.1	512.9
Investments (Note 6)	465.6	443.5
Goodwill and other intangibles, net of allowances for amortization of $119.3 (1997) and $311.0 (1996) (Note 2)	1,550.5	4,028.2
Sundry	559.8	1,124.3
	3,155.0	6,108.9
Property and Equipment (Note 1)	4,101.7	4,307.0
	$12,577.4	$14,307.2

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

December 31	1997	1996
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 7)	$ 227.6	$ 1,212.9
Accounts payable	985.5	829.3
Employee compensation	456.6	388.4
Dividends payable	221.7	198.8
Income taxes payable (Note 12)	1,188.0	691.8
Other liabilities	1,112.2	901.0
Total current liabilities	4,191.6	4,222.2
Other Liabilities		
Long-term debt (Note 7)	2,326.1	2,516.5
Deferred income taxes (Note 12)	215.5	376.0
Retiree medical benefit obligation (Note 13)	118.3	136.4
Other noncurrent liabilities	920.3	956.0
	3,580.2	3,984.9
Commitments and contingencies (Note 14)	-	-
Minority interest in subsidiary (Note 10)	160.0	-
Shareholders' Equity (Notes 8 and 9)		
Common stock--no par value		
Authorized shares: 1,600,000,000		
Issued shares: 1,111,521,927	694.7	355.6
Additional paid-in capital	-	67.4
Retained earnings	4,483.1	7,207.3
Deferred costs--ESOP	(155.7)	(176.9)
Currency translation adjustments	(267.0)	(57.4)
	4,755.1	7,396.0
Less cost of common stock in treasury:		
1997 -- 1,000,000 shares		
1996 -- 16,079,323 shares	109.5	1,295.9
	4,645.6	6,100.1
	$12,577.4	$14,307.2

See notes to consolidated financial statements.

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

Year Ended December 31	1997	1996	1995
Cash Flows From Operating Activities			
Net income (loss)	$ (385.1)	$1,523.5	$2,290.9
Adjustments To Reconcile Net Income (Loss) to Cash Flows From Operating Activities			
Depreciation and amortization	509.8	543.5	553.7
Change in deferred taxes	(293.0)	207.3	144.0
Gain on sale of DowElanco, net of tax	(303.5)	-	-
Asset impairment, net of tax	2,429.6	-	-
Net gain on disposition of discontinued operations	-	-	(921.5)
Other noncash income--net	(37.8)	(97.8)	(9.8)
	1,920.0	2,176.5	2,057.3
Changes in operating assets and liabilities:			
Receivables--(increase) decrease	(4.7)	104.4	(189.3)
Inventories--(increase)	(65.8)	(42.2)	(22.1)
Other assets--(increase)	(22.2)	(51.7)	(114.5)
Accounts payable and other liabilities--increase (decrease)	573.1	(195.6)	93.2
	480.4	(185.1)	(232.7)
Net Cash From Operating Activities	2,400.4	1,991.4	1,824.6
Cash Flows From Investing Activities			
Acquisitions	-	(97.1)	(36.8)
Additions to property and equipment	(366.3)	(443.9)	(551.3)
Disposals of property and equipment	11.5	11.2	21.5
Additions to other assets	(34.2)	(40.8)	(54.1)
Reductions of investments	365.7	396.9	430.8
Additions to investments	(388.5)	(294.3)	(372.9)
Proceeds from sale of DowElanco	1,221.5	-	-
Net Cash From (Used for) Investing Activities	809.7	(468.0)	(562.8)
Cash Flows From Financing Activities			
Dividends paid	(818.0)	(753.2)	(747.2)
Purchases of common stock and other capital transactions	(351.3)	(314.5)	(156.0)
Issuances under stock plans	205.4	218.4	54.7
Proceeds from issuance of subsidiary stock	160.0	-	-
Decrease in short-term borrowings	(1,146.0)	(801.4)	(967.7)
Additions to long-term debt	2.8	-	1,019.5
Reductions of long-term debt	(7.5)	(10.4)	(17.0)
Net Cash Used for Financing Activities	(1,954.6)	(1,661.1)	(813.7)
Effect of exchange rate changes on cash	(121.7)	(48.1)	14.5
Net increase (decrease) in cash and cash equivalents	1,133.8	(185.8)	462.6
Cash and cash equivalents at beginning of year	813.7	999.5	536.9
Cash and cash equivalents at end of year	$1,947.5	$ 813.7	$ 999.5

See notes to consolidated financial statements.

Segment Information

Industry Data (Dollars in millions)	1997	1996	1995
Net sales--to unaffiliated customers			
Life-sciences products and services			
Central nervous system	$3,519.7	$2,659.4	$2,266.4
Endocrine	1,386.3	1,302.2	1,179.1
Anti-infectives	1,272.5	1,451.4	1,673.9
Animal health	589.8	547.3	512.4
Health care management	548.5	372.2	259.4
Gastrointestinal	526.5	531.4	548.4
Cardiovascular	421.0	326.5	195.8
All other	253.3	156.2	128.4
Net sales	$8,517.6	$7,346.6	$6,763.8

Life-sciences products and services include a broad range of pharmaceuticals used for the treatment of human and animal diseases and the company's health-care-management activities. The largest category of the products is central-nervous-system agents, which include Prozac, Zyprexa, Darvon'r' and Permax. Endocrine products consist primarily of Humulin, Humatrope, Humalog and Iletin'r'. Anti-infectives include Ceclor, Keflex, Lorabid, Nebcin'r', Tazidime'r' and Vancocin. Animal health products include Tylan; Micotil; Rumensin'r', a nonhormonal cattle feed additive; anticoccidial agents for use in broilers and layer replacements, the largest of which is Coban'r'; and other products for livestock and poultry. Other major groups are health care management, of which PCS is the largest component, and gastrointestinal, all of which is Axid. PCS derives revenue from pharmacy benefit management, such as pharmacy claims processing and adjudication as well as physician-focused medical communications networks. Cardiovascular products consist primarily of ReoPro and Dobutrex. Products in the all-other category include oncology products, of which Gemzar is the largest, and other miscellaneous pharmaceutical products.

Most of the pharmaceutical products are distributed through wholesalers that serve physicians, dentists, pharmacies and hospitals. In 1997, the company's four largest wholesalers each accounted for between 11 and 15 percent of consolidated net sales. Animal health products are sold to wholesale distributors, retailers, manufacturers and producers.

Geographic Information (Dollars in millions)	1997	1996	1995
Net sales			
United States			
Sales to unaffiliated customers	$ 5,411.7	$ 4,265.6	$ 3,812.9
Transfers to other geographic areas	637.0	517.3	485.5
	6,048.7	4,782.9	4,298.4
Europe, Middle East and Japan			
Sales to unaffiliated customers	2,298.1	2,310.0	2,193.8
Transfers to other geographic areas	1,026.0	488.3	336.9
	3,324.1	2,798.3	2,530.7
Other			
Sales to unaffiliated customers	807.8	771.0	757.1
Transfers to other geographic areas	272.9	17.7	13.8
	1,080.7	788.7	770.9
Eliminations - transfers between geographic areas	(1,935.9)	(1,023.3)	(836.2)
	$ 8,517.6	$ 7,346.6	$ 6,763.8
Income (loss) from continuing operations before income taxes			
United States	$ (630.8)	$ 1,273.5	$ 997.8
Europe, Middle East and Japan	1,453.6	772.1	697.1
Other	300.1	58.9	92.1
Eliminations and adjustments	(612.7)	(73.2)	(21.4)
	$ 510.2	$ 2,031.3	$ 1,765.6
Total assets			
United States	$12,070.7	$11,101.3	$11,321.8
Europe, Middle East and Japan	2,792.3	3,332.6	3,178.0
Other	584.2	590.7	527.0
Eliminations and adjustments	(2,869.8)	(717.4)	(614.3)
	$12,577.4	$14,307.2	$14,412.5

Transfers between geographic areas are made at prices that are intended to reasonably approximate an arms-length value of the products. Remittances to the United States are subject to various regulations of the respective governments as well as to fluctuations in exchange rates. The 1997 loss from continuing operations in the United States is primarily a result of the asset impairment (see Note 2). In addition, due primarily to the remittance of intercompany dividends to the United States, total assets decreased in Europe, Middle East and Japan with a corresponding increase in the United States.

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

1997(1)	Fourth	Third	Second	First
Net sales	$2,415.8	$2,160.1	$1,988.7	$1,953.0
Cost of sales	685.0	587.8	548.8	541.3
Operating Expenses	1,091.5	932.6	899.4	772.9
Asset Impairment	-	-	2,443.0	-
Gain on sale of DowElanco	-	13.6	618.2	-
Other expense-net	(29.3)	(41.0)	(4.6)	(62.0)
Income (loss) before income taxes	610.0	612.3	(1,288.9)	576.8
Net income (loss)	457.5	456.9	(1,732.1)	432.6
Earning (loss) per share	.41	.41	(1.57)	.39
Earnings (loss) per share-diluted	.40	.40	(1.57)	.38
Dividends paid per share	.20	.18	.18	.18
Common stock prices:				
High	70.44	61.75	55.75	47.50
Low	60.00	50.41	38.69	35.56

1996(1)	Fourth	Third(2)	Second	First
Net sales	$2,061.1	$1,803.9	$1,698.3	$1,783.3
Cost of sales	592.4	502.9	505.1	518.0
Operating expenses	929.2	763.8	752.4	736.0
Other income (expense) - net	(56.7)	22.2	24.5	(5.5)
Income before income taxes	482.8	559.4	465.3	523.8
Net income	373.0	415.6	345.7	389.2
Earnings per share	.34	.38	.31	.36
Earnings per share-diluted	.33	.37	.31	.35
Dividends paid per share	.1713	.1713	.1713	.1713
Common stock prices:				
High	40.19	33.06	33.63	33.81
Low	31.75	26.75	26.75	24.69

(1) Per-share data and common stock prices for all periods reflect the two-for-one stock split in September 1997. See Note 9 to the consolidated financial statements.

(2) Third-quarter other income includes approximately $100 million for the sale of the U.S. marketing rights for Ceclor CD and Keftab to Dura Pharmaceuticals, Inc.

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

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

	1997	1996	1995	1994	1993
Operations					
Net sales	$8,517.6	$7,346.6	$6,763.8	$5,711.6	$5,198.5
Research and development expenses	1,382.0	1,189.5	1,042.3	838.7	755.0
Other costs and expenses	4,677.3	4,110.3	3,739.7	3,136.4	2,780.4
Asset impairment	2,443.0	-	-	-	-
Gain on sale of DowElanco	(631.8)	-	-	-	-
Restructuring and special charges	-	-	-	66.0	1,032.6
Income from continuing operations before taxes and accounting changes	510.2	2,031.3	1,765.6	1,698.6	662.8
Income taxes	895.3	507.8	459.0	513.5	198.0
Income (loss)from:					
Continuing operations before accounting changes	(385.1)	1,523.5	1,306.6	1,185.1	464.8
Discontinued operations	-	-	984.3	101.0	26.3
Net income (loss)	(385.1)	1,523.5	2,290.9	1,286.1	480.2
Income from continuing operations before accounting changes as a percent of sales	N/M3	20.7%	19.3%	20.7%	8.9%
Per-share data - diluted(1):					
Income (loss) from:					
Continuing operations before accounting changes	$ (.35)	$ 1.36	$ 1.13	$ 1.01	$ .39
Discontinued operations	-	-	.86	.09	.02
Net income (loss)	(.35)	1.36	1.99	1.10	.41
Dividends declared(1)	.76	.694	.665	.63	.61
Weighted-average number of shares-diluted(thousands)(1)	1,101,099	1,117,110	1,152,016	1,170,916	1,177,156
Financial Position					
Current assets	$5,320.7	$3,891.3	$4,138.6	$3,962.3	$3,697.1
Current liabilities	4,191.6	4,222.2	4,967.0	5,669.5	2,928.0
Property and equipment-net	4,101.7	4,307.0	4,239.3	4,411.5	4,200.2
Total assets	12,577.4	14,307.2	14,412.5	14,507.4	9,623.6
Long-term debt	2,326.1	2,516.5	2,592.9	2,125.8	835.2
Shareholders' equity	4,645.6	6,100.1	5,432.6	5,355.6	4,568.8
Supplementary Data(2)					
Return on shareholders' equity	N/M3	26.4%	42.5%	25.9%	10.2%
Return on assets	N/M3	10.7%	15.6%	11.8%	5.2%
Capital expenditures	$ 366.3	$ 443.9	$ 551.3	$ 576.5	$ 633.5
Depreciation and amortization	509.8	543.5	553.7	432.2	398.3
Effective tax rate	N/M3	25.0%	26.0%	30.2%	29.9%
Number of employees	31,100	29,200	28,500	26,400	26,200
Number of shareholders of record	58,200	54,500	52,600	55,900	59,300

(1) Adjusted to reflect the stock splits in 1995 and 1997. See Note 9.
(2) All supplementary financial data, other than the effective tax rate, have been computed using net income, which in 1995 includes a net gain of $921.5 million from the divestiture of discontinued operations. See Note 4. The effective tax rate reflects continuing operations only. The number of employees reflects continuing operations, including controlled joint ventures.
(3) Excluding the impacts of the significant transactions reflected in 1997, income from continuing operations before accounting changes as a percent of sales would have been 20.8 percent and the return on shareholders' equity, return on assets and effective tax rate would have been 33.0 percent, 13.5

percent and 25.0 percent, respectively.

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

Note 1: Summary of Significant Accounting Policies

Basis of Presentation: The accounts of all wholly owned and majority-owned subsidiaries are included in the consolidated financial statements. All intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

The outstanding and weighted-average number of shares of common stock and per-share data have been adjusted, for all periods presented, to reflect the impact of the company's November 1995 and September 1997 stock splits. Treasury shares held by the company were not split.

The company has adopted SFAS No. 128, "Earnings per Share," which requires that both basic earnings per share and diluted earnings per share be presented on the face of the income statement. Restatement of earnings-per-share data for previous periods is also required. All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares and the effect of all potentially dilutive common shares (primarily unexercised stock options).

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

Inventories: The company states all its inventories at the lower of cost or market. The company uses the last-in, first-out (LIFO) method for substantially all its inventories located in the continental United States, or approximately 55 percent of its total inventories. Other inventories are valued by the first-in, first-out (FIFO) method. Inventories at December 31 consisted of the following:

	1997	1996
Finished products	$262.0	$294.5
Work in process	459.4	423.4
Raw materials and supplies	191.0	171.7
	912.4	889.6
Less reduction to LIFO cost	11.7	8.2
	$900.7	$881.4

Investments: All short-term debt securities are classified as held-to-maturity because the company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Substantially all long-term debt and marketable equity securities are classified as available-for-sale at December 31, 1997. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The company owns no investments that are considered to be trading securities.

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

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

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

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

Intangible Assets: Intangible assets arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from five to 40 years, using the straight-line method. Impairments are recognized in operating results if impairment indicators are present and the fair value of the related assets is less than their carrying amounts.

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

	1997	1996
Land	$ 130.6	$ 143.9
Buildings	2,057.1	2,103.5
Equipment	4,373.8	4,247.0
Construction in progress	473.4	602.0
	7,034.9	7,096.4
Less allowances for depreciation	2,933.2	2,789.4
	$4,101.7	$4,307.0

Depreciation expense related to continuing operations for 1997, 1996 and 1995 was $397.5 million, $394.9 million and $371.4 million, respectively. Approximately $20.4 million, $35.8 million and $38.3 million of interest costs were capitalized as part of property and equipment in 1997, 1996 and 1995, respectively. Total rental expense for all leases related to continuing operations, including contingent rentals (not material), amounted to approximately $126.1 million for 1997, $119.6 million for 1996 and $106.8 million for 1995. Capital leases included in property and equipment in the consolidated balance sheets and future minimum rental commitments are not material. However, the company entered into capital lease obligations aggregating $8.8 million in 1997 and $27.4 million in 1996.

Revenue Recognition: Revenue from sales of products is recognized at the time products are shipped to the customer. Revenue from health-care-management services is recognized when the services are delivered.

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

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

Note 2: Asset Impairment

In November 1994, the company purchased PCS Health Systems, Inc. (PCS), McKesson Corporation's pharmaceutical-benefits-management business, for approximately $4.1 billion. Substantially all the purchase price was allocated to goodwill.

Subsequently, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the company evaluated the recoverability of the long-lived assets, including intangibles, of its PCS health-care-management businesses. While revenues and profits are growing and new capabilities are being developed at PCS, the rapidly changing, competitive and highly regulated environment in which PCS operates has prevented the company from significantly increasing PCS' operating profits from levels that existed prior to the acquisition. In addition, since the acquisition, the health-care-industry trend toward highly managed care has been slower than originally expected and the possibility of selling a portion of PCS' equity to a strategic partner has not been realized. In the second quarter of 1997, concurrent with PCS' annual planning process, the company determined that PCS' estimated future undiscounted cash flows were below the carrying value of PCS' long-lived assets. Accordingly, during the second quarter of 1997, the company adjusted the carrying value of PCS' long-lived assets, primarily goodwill, to their estimated fair value of approximately $1.5 billion, resulting in a noncash impairment loss of approximately $2.4 billion ($2.21 per share). The estimated fair value was based on anticipated future cash flows discounted at a rate commensurate with the risk involved.

Note 3: Restructuring and Special Charges

In both 1993 and 1992, the company announced major actions designed to enhance the company's competitiveness in the changing health care environment, reduce expenses and improve efficiencies. During 1997 and 1996, the company continued to take steps to complete these actions.

Significant components of these charges and their status at December 31, 1996 and 1997, respectively, are summarized as follows:

	Original Charges	1996	1997
1993			
Work force reductions	$ 534.5	$ 24.7	$ -
Manufacturing consolidations and other closings	204.3	91.8	48.1
Pharmaceutical streamlining	35.3	-	-
Asset write-downs, legal accruals and other	258.5	4.4	4.8
Total - continuing operations	$1,032.6	$120.9	$ 52.9
1992			
Global manufacturing strategy	$ 218.9	$ 59.1	$ 38.6
Legal, environmental, asbestos abatement and other	185.5	61.3	54.0
Total - continuing operations	$ 404.4	$120.4	$ 92.6

The 1993 restructuring actions consisted primarily of early-retirement and other severance programs associated with work force reductions as well as streamlining core pharmaceutical operations. In addition, restructuring actions in both 1993 and 1992 have resulted or will result in a consolidation of certain manufacturing operations and changes in the nature and/or location of certain manufacturing operations. Asset write-downs reflected changes in pharmaceutical markets. Special charges were established for patent and product liability matters in both 1993 and 1992.

Note 4: Divestitures

On June 30, 1997, The Dow Chemical Company acquired the company's 40 percent interest in the DowElanco joint venture. The cash purchase price was $1.2 billion, resulting in a gain of $631.8 million ($303.5 million after-tax, or $.28 per share).

During 1995, the company completed the divestiture of the Medical Devices and Diagnostics (MDD) Division businesses. In 1994, a separate company, Guidant Corporation (Guidant), was formed to be the parent company of five of the MDD companies. In December 1994, Guidant sold approximately 20 percent of its common stock in an initial public offering. In September 1995, the company distributed its remaining 80 percent interest in Guidant through a splitoff. Pursuant to the splitoff, 16,504,298 shares of the company's common stock (expressed on a pre-stock-split basis) were exchanged by company shareholders for the Guidant stock. The splitoff resulted in a tax-free gain calculated as the difference between the market and carrying values of the shares of Guidant common stock held by the company on the expiration date of the exchange offer. Sales of the other MDD companies were all finalized by January 1996.

The income from discontinued operations appearing on the consolidated statements of income represents the results of the MDD division for the periods presented and the net gain upon divestiture and is summarized as follows:

	1995
Net sales	$ 771.6
Cost of sales	258.2
Other operating expenses	356.8
Income before tax	111.9
Income from operations, net of tax	62.8
Net gain on disposition, net of tax ($88.1 million)	921.5
Discontinued operations	$ 984.3

Note 5: Implementation of New Financial Accounting Standards

In June 1997, SFAS No. 130, "Reporting Comprehensive Income," was issued. The statement must be adopted by the company in the first quarter of 1998. Under provisions of this statement, the company will be required to include a financial statement presentation of comprehensive income and its components to conform to these new requirements. As a consequence of this change, certain reclassifications will be necessary for previously reported amounts to achieve the required presentation of comprehensive income. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

In June 1997, SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," was issued. The statement must be adopted by the company on December 31, 1998. Under provisions of this statement, the company will be required to modify or expand the financial statement disclosures for operating segments, products and services, and geographic areas. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

In December 1997, SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," was issued and is effective for the company's

1998 fiscal year. The statement revises current disclosure requirements for employers' pensions and other retiree benefits. Implementation of this disclosure standard will not affect the company's financial position or results of operations.

Note 6: Financial Instruments

Risk-Management Instruments and Off-Balance-Sheet Risk

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

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

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

	1997	1996
Forward exchange contracts	$ 593.9	$ 688.2
Foreign currency options - purchased	504.5	331.9
Interest rate swaps	30.0	30.0

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

Fair Value of Financial Instruments

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

	1997		1996	
	Cost/Carrying Amount	Fair Value	Cost/Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 77.1	$ 76.9	$ 141.4	$ 144.5
Noncurrent investments:				
Marketable equity	77.7	86.0	72.0	91.4
Debt securities	93.0	93.3	56.9	57.0
Nonmarketable equity	34.2	33.7	20.3	19.0
Long-term debt	2,266.4	2,426.5	2,465.5	2,511.6

The company determines fair values based on quoted market values where available or discounted cash flow analyses (principally long-term debt). The fair values of nonmarketable equity securities, which represent either equity investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value

information provided by these ventures. The fair value and carrying amount of risk-management instruments were not material at December 31, 1997 or 1996.

At December 31, 1997 and 1996, the gross unrealized holding gains on available-for-sale securities were $19.1 million and $27.5 million, respectively, and the gross unrealized holding losses were $13.8 million and $9.4 million, respectively. Substantially all these gains and losses are associated with the marketable equity securities. The proceeds from sales of available-for-sale securities totaled $39.7 million and $102.1 million in 1997 and 1996, respectively. Realized gains and losses were $6.6 million and $25.3 million, respectively, in 1997. Purchases of available-for-sale securities were not significant in 1997 and 1996. The net adjustment to unrealized gains and losses on available-for-sale securities reduced shareholders' equity by $7.7 million and $39.0 million in 1997 and 1996, respectively.

The company is a limited partner in certain affordable housing investments that generate benefits in the form of tax credits. The determination of fair value of these investments is not practicable. The carrying value of such investments was $253.2 million and $276.3 million as of December 31, 1997 and 1996, respectively.

Note 7: Borrowings

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

	1997	1996
6.57 to 7.13 percent notes (due 2016-2036)	$1,000.0	$1,000.0
6.25 to 8.38 percent notes (due 1999-2006)	750.0	750.0
5.50 to 8.38 percent Eurodollar bonds (due 1998-2005)	500.0	500.0
7.10 percent medium-term notes (due 1999)	36.5	100.7
8.18 percent ESOP debentures (due 2006)	100.6	114.4
Other, including capitalized leases	137.3	178.6
	2,524.4	2,643.7
Less current portion	198.3	127.2
	$2,326.1	$2,516.5

The 8.18 percent Employee Stock Ownership Plan (ESOP) debentures are obligations of the ESOP but are shown on the consolidated balance sheet because they are guaranteed by the company. The principal and interest on the debt will be funded by contributions from the company and by dividends received on certain shares held by the ESOP. Because of the amortizing feature of the ESOP debt, bondholders will receive both interest and principal payments each quarter.

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 1998, $198.3 million; 1999, $167.9 million; 2000, $221.3 million; 2001, $168.6 million; and 2002, $17.7 million.

At December 31, 1997, short-term borrowings included $29.3 million of notes payable to banks. At December 31, 1996, commercial paper and notes payable to banks totaled $1 billion and $85.7 million, respectively, with a weighted-average interest rate of 5.7 percent. At December 31, 1997, unused committed lines of credit totaled $2 billion. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

Cash payments of interest on borrowings totaled $243.9 million, $292.9 million and $271.7 million in 1997, 1996 and 1995, respectively.

Note 8: Stock Plans

Stock options and performance awards have been granted to officers and other executive and key employees. Stock options are granted at exercise prices equal to the fair market value of the company's stock at the dates of grant. Generally, options vest 100 percent three years from the grant date and have a term of 10 years.

In October 1995, the company issued its second grant under the GlobalShares program. Essentially all employees were given an option to buy 400 shares of the company's common stock at a price equal to the fair market value of the company's stock at the date of grant. Options to purchase approximately 10.3 million shares were granted as part of the program. Individual grants generally become exercisable on or after the third anniversary of the grant date and have a term of 10 years.

The company has elected to follow Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock options. Under APB No. 25, because the exercise price of the company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Total compensation expense for stock-based awards reflected in income on a pretax basis was $242.1 million, $164.2 million, and $93.1 million in 1997, 1996 and 1995, respectively. However, SFAS No. 123, "Accounting for Stock-Based Compensation," requires presentation of pro forma information as if the company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the vesting period. Under the fair value method, the company's net income (loss) and earnings (loss) per share would have been as follows:

	1997	1996	1995
Net income (loss)	$(424.2)	$1,496.5	$2,285.3
Earnings (loss) per share - diluted	$(0.39)	$1.34	$1.98

Because SFAS No. 123 is applicable only to options granted subsequent to December 31, 1994, and the options have a three-year vesting period, the pro forma effect will not be fully reflected until 1998.

The weighted-average fair value of the individual options granted during 1997, 1996, and 1995 is estimated as $15.55, $8.25 and $5.03, respectively, on the date of grant. The fair values for both years were determined using a Black-Scholes option-pricing model with the following assumptions:

	1997	1996	1995
Dividend yield	3.14%	3.24%	3.28%
Volatility	21.5%	21.0%	19.7%
Risk-free interest rate	6.18%	6.36%	5.87%
Forfeiture rate	0	0	0
Expected life	7 years	7 years	7 years

Stock option activity during 1995-1997 is summarized below:

	Shares of Common Stock Attributable to Options	Weighted-Average Exercise Price of Options
Unexercised at January 1, 1995	62,162,720	$13.43
Granted	21,541,326	23.25
Exercised	(5,784,356)	10.60
Forfeited	(2,686,100)	12.12
Unexercised at December 31, 1995	75,233,590	16.51
Granted	6,340,874	33.55
Exercised	(14,583,420)	12.94
Forfeited	(1,081,168)	20.93
Unexercised at December 31, 1996	65,909,876	18.86
Granted	5,854,408	64.73
Exercised	(10,072,728)	13.88
Forfeited	(797,912)	22.30

Unexercised at December 31, 1997.....	60,893,644	24.05

The following table summarizes information concerning outstanding and exercisable options at December 31, 1997 (shares in millions, contractual life in years):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 5 - $15	20.9	5.5	$12.78	20.9	$12.78
$15 - $20	6.0	3.8	$17.04	5.6	$16.99
$20 - $30	22.2	7.2	$23.05	2.7	$20.47
$30 - $65	11.8	9.3	$49.33	.4	$32.14

Shares exercisable at December 31, 1997 were 29,559,024 (1996 - 30,565,500 shares, 1995 - 26,792,490 shares).

At December 31, 1997, additional options, performance awards or restricted stock grants may be granted under the 1994 Lilly Stock Plan for not more than 1,312,218 shares (1996 - 6,586,656 shares, 1995 - 14,732,006 shares).

Note 9: Shareholders' Equity

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

	Additional Paid-in Capital	Retained Earnings	Deferred Costs-- ESOP	Common Stock in Treasury	
				Shares	Amount
Balance at January 1, 1995	$ 421.7	$5,062.1	$(218.2)	871,514	$ 55.0
Net income		2,290.9			
Cash dividends declared per share: $.665		(747.8)			
Stock dividend declared		(172.6)			
Purchase for treasury				2,630,000	160.0
Increase in treasury shares from Guidant exchange transaction (Note 4)	10.9			16,504,298	1,533.6
Issuance of stock under employee stock plans	(24.1)			(1,841,175)	(122.0)
ESOP transactions	9.9		18.7		
Unrealized investment gains and losses, net of tax		52.9			
Other	(0.1)	(1.2)		(15,143)	(1.1)
Balance at December 31, 1995	418.3	6,484.3	(199.5)	18,149,494	1,625.5
Net income		1,523.5			
Cash dividends declared per share: $.695		(762.9)			
Purchase for treasury				5,315,000	318.5
Issuance of stock under employee stock plans	(368.4)			(7,384,672)	(648.0)
ESOP transactions	17.5		22.6		
Unrealized investment gains and losses, net of tax		(39.0)			
Other		1.4		(499)	(0.1)
Balance at December 31, 1996	67.4	7,207.3	(176.9)	16,079,323	1,295.9
Net loss		(385.1)			
Cash dividends declared per share: $0.76		(840.9)			
Stock dividend declared		(346.5)			
Retirement of treasury shares	(1,134.5)			(14,223,272)	(1,143.4)
Purchase for treasury				3,400,000	355.3
Issuance of stock under employee stock plans	(99.7)			(4,247,216)	(397.4)
ESOP transactions	39.6		21.2		
Unrealized investment gains and losses, net of tax		(7.7)			
Other	(0.3)	(16.5)		(8,835)	(0.9)
Reclassification	1,127.5	(1,127.5)			
Balance at December 31,1997	$ 0.0	$4,483.1	$(155.7)	1,000,000	$ 109.5

On September 15, 1997, the company's board of directors declared a two-for-one stock split to be effected in the form of a 100 percent stock dividend payable to shareholders of record at the close of business September 24, 1997. The outstanding and weighted-average number of shares of common stock and per-share data in these financial statements have been adjusted to reflect the impact of the stock split for all periods presented. The company now has 1,111,521,927 issued shares of common stock without par value, including 554,331,485 shares issued October 15, 1997, as a result of the stock split. Treasury shares held by the company were not split.

The company has an Employee Stock Ownership Plan (ESOP) as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from the company to purchase shares of common stock from the treasury. In 1991, the ESOP issued $200 million of third-party debt, repayment of which was guaranteed by the company (see Note 7). The proceeds were used to purchase shares of the company's common stock on the open market. Shares of common stock held by the

ESOP will be allocated to participating employees annually through 2006 as part of the company's savings plan contribution. The fair value of shares allocated each period is recognized as compensation expense.

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

Under the terms of the company's Shareholder Rights Plan, all shareholders of common stock received for each share owned a preferred stock purchase right entitling them to purchase from the company one four-hundredth of a share of Series A Participating Preferred Stock at an exercise price of $40.625. The rights are not exercisable until after the date on which the company's right to redeem has expired. The company may redeem the rights for $.00125 per right up to and including the tenth business day after the date of a public announcement that a person (the "Acquiring Person") has acquired ownership of stock having 20 percent or more of the company's general voting power (the "Stock Acquisition Date").

The plan provides that, if the company is acquired in a business combination transaction at any time after a Stock Acquisition Date, generally each holder of a right will be entitled to purchase at the exercise price a number of the acquiring company's shares having a market value of twice the exercise price. The plan also provides that, in the event of certain other business combinations, certain self-dealing transactions or the acquisition by a person of stock having 25 percent or more of the company's general voting power, generally each holder of a right will be entitled to purchase at the exercise price a number of shares of the company's common stock having a market value of twice the exercise price. Any rights beneficially owned by an Acquiring Person shall not be entitled to the benefit of the adjustments with respect to the number of shares described above. The rights will expire on July 28, 1998, unless redeemed earlier by the company.

Note 10: Minority Interest in Subsidiary

In October of 1997, a domestic subsidiary of the company issued $160 million (160 shares) of convertible Class B stock to an institutional investor. The Class B stock pays dividends on a quarterly basis at 25 basis points above the three-month LIBOR rate. The Class B stock is convertible on a one-to-one basis into the subsidiary's Class A stock at the option of the holder at any time. The subsidiary may redeem the Class B stock for $1 million per share plus accrued and unpaid dividends five years from the date of issuance and upon each fifth-year anniversary thereafter. Also, the stock may be redeemed by the subsidiary upon various redemption events, as defined in the stockholder's agreement, or at the option of the holder seven years from the date of issuance for $1 million per share plus accrued and unpaid dividends.

Note 11: Earnings (Loss) Per Share

The following is a reconciliation of the numerators and denominators used in computing earnings (loss) per share from continuing operations:

	1997	1996	1995
	(Shares in thousands)		
Income (Loss) Available to Common Shareholders:			
Income (loss) from continuing operations	$(385.1)	$1,523.5	$1,306.6
Preferred stock dividend	(2.6)	(3.6)	-
Income (loss) available to common shareholders	$(387.7)	$1,519.9	$1,306.6
Earnings (Loss) per Share:			
Weighted-average number of common shares outstanding, including incremental shares	1,101,099	1,093,920	1,138,376
Earnings (loss) per share from continuing operations	$ (0.35)	$ 1.39	$ 1.15
Diluted Earnings (Loss) per Share:			
Weighted-average number of common shares outstanding	1,101,099	1,093,654	1,138,052
Stock options and other incremental shares	-	23,456	13,964
Weighted-average number of common shares outstanding - diluted	1,101,099	1,117,110	1,152,016
Diluted earnings (loss) per share from continuing operations	$ (0.35)	$ 1.36	$ 1.13

For 1997, because the inclusion of stock options and other incremental shares would be antidilutive, earnings per share has been calculated assuming no incremental shares. For diluted earnings (loss) per share, stock options and other incremental shares aggregated 29,480,000 for 1997.

Note 12: Income Taxes

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

	1997	1996	1995
Current:			
Federal	$765.7	$306.0	$177.0
Foreign	392.3	143.1	140.1
State	52.3	7.4	3.8
	1,210.3	456.5	320.9
Deferred:			

Federal	(281.2)	26.6	114.2
Foreign	9.6	7.8	1.9
State	(43.4)	16.9	22.0
	(315.0)	51.3	138.1
Income taxes	$ 895.3	$ 507.8	$459.0

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

	1997	1996
Deferred tax assets:		
Foreign tax credit and other carryforwards	$ 451.7	$ 68.0
Inventory	248.7	73.6
Compensation and benefits	173.1	149.9
Litigation, environmental and asbestos	77.2	91.4
Restructuring and special charges	40.3	91.0
Other	263.4	266.5
	1,254.4	740.4
Valuation allowances	(110.2)	(63.0)
Total deferred tax assets	1,144.2	677.4
Deferred tax liabilities:		
Property and equipment	(555.9)	(570.0)
Prepaid employee benefits	(229.6)	(215.7)
Other	(213.3)	(61.4)
Total deferred tax liabilities	(998.8)	(847.1)
Deferred tax assets (liabilities)--net	$ 145.4	$ (169.7)

At December 31, 1997, the company had carryforwards for income tax purposes of $409.7 million: $290.9 million will expire within five years and $68 million thereafter; $50.8 million of the carryforwards will never expire.

Unremitted earnings of foreign subsidiaries that have been, or are intended to be, permanently reinvested for continued use in foreign operations and which, if distributed, would result in taxes at approximately the U.S. statutory rate, aggregated $115 million at December 31, 1997 ($1,883 million at December 31, 1996). However, the company expects to remit certain earnings in the future on which $152.0 million in deferred tax liabilities have been accrued. Cash payments of taxes totaled $542 million, $289 million and $449 million in 1997, 1996 and 1995, respectively.

Following is a reconciliation of the effective income tax of the continuing operations:

	1997	1996	1995
United States federal statutory tax	$178.6	$711.0	$618.0
Add (deduct):			
Asset impairment	841.6	-	-
General business credits	(64.3)	(35.0)	(21.5)
Sale of investments	(48.4)	-	-
International operations including Puerto Rico	(37.2)	(189.1)	(174.8)
Nondeductible goodwill amortization	25.9	40.3	36.8
Sundry	(0.9)	(19.4)	0.5
Effective income tax	$895.3	$507.8	$459.0

Excluding the impact of the asset impairment and gain on the sale of DowElanco, the effective income tax rate for 1997 would be 25 percent compared with 25

percent in 1996 and 26 percent in 1995.

Note 13: Retirement Benefits

Pension Plans:

The company has noncontributory defined benefit retirement plans that cover substantially all United States employees and a majority of employees in other countries. Benefits under the domestic plans are calculated by using one of several formulas. These formulas are based on a combination of the following: (1) years of service, (2) final average earnings, (3) primary social security

benefit and (4) age. The benefits for the company's plans in countries other than the United States are based on years of service and compensation.

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Generally, pension costs accrued are funded. Plan assets consist primarily of equity and fixed income instruments.

Net pension expense for the company's retirement plans included the following components related to continuing operations:

	1997	1996	1995
Service cost--benefits earned during the year	$ 89.2	$ 84.4	$ 69.8
Interest cost on projected benefit obligations	179.0	167.2	160.2
Actual return on assets	(407.7)	(356.1)	(434.8)
Net amortization and deferral	164.0	130.2	227.4
Net annual pension expense	$ 24.5	$ 25.7	$ 22.6

The funded status and amounts recognized in the consolidated balance sheets for the company's defined benefit retirement plans at December 31 were as follows:

	Assets Exceed Accumulated Benefits		Accumulated Benefits Exceed Assets	
	1997	1996	1997	1996
Plan assets at fair value	$2,923.2	$2,629.2	$ -	$ -
Actuarial present value of benefit obligations:				
Vested benefits	1,858.9	1,721.5	126.2	113.3
Nonvested benefits	126.8	112.7	5.4	2.5
Accumulated benefit obligation	1,985.7	1,834.2	131.6	115.8
Effect of projected future salary increases	420.7	348.2	12.9	5.3
Projected benefit obligation	2,406.4	2,182.4	144.5	121.1
Funded status	516.8	446.8	(144.5)	(121.1)
Unrecognized net (gain) loss	(44.5)	(43.1)	30.7	6.3
Unrecognized prior service cost	104.9	107.5	13.1	14.8
Unrecognized net obligation at January 1, 1986	1.9	1.7	1.1	1.4
Additional minimum liability	-	-	(32.0)	(17.2)
Prepaid (accrued) pension cost	$ 579.1	$ 512.9	$(131.6)	$(115.8)

The assumptions used to develop net periodic pension expense from continuing operations and the actuarial present value of projected benefit obligations are shown below:

(percents)	1997	1996	1995

Weighted-average discount rate.....	7.5	8.1	7.6
Rate of increase in future compensation levels.....	4.0-8.0	4.5-8.0	4.5-9.5
Weighted-average expected long-term rate of return on plan assets.....	10.5	10.5	10.5

The discount rate decrease at December 31, 1997, increased the projected benefit obligation by approximately $177.2 million.

The company has defined contribution savings plans that cover its eligible employees worldwide. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions and the level of company match. Expenses attributable to continuing operations under the plans totaled $46.8 million, $42.6 million and $38.3 million for the years 1997, 1996 and 1995, respectively.

Retiree Health Benefits:

The company's noncontributory defined benefit postretirement plans provide health benefits for the majority of the United States retirees and their eligible dependents. Certain of the company's non-U.S. subsidiaries have similar plans for retirees. Eligibility for these benefits is based upon retirement from the company. An eligible employee's credited service period begins when the combination of an employee's age and years of service equals 60.

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Plan assets consist primarily of equity and fixed income instruments.

Net postretirement benefit expense from continuing operations included the following components:

	1997	1996	1995
Service cost--benefits earned during the year	$ 11.2	$ 11.7	$ 9.8
Interest cost on accumulated postretirement benefit obligations	31.6	28.8	24.7
Actual return on assets	(30.1)	(29.7)	(20.4)
Net amortization and deferral	5.2	6.0	(4.9)
Net periodic postretirement benefit cost	$ 17.9	$ 16.8	$ 9.2

The funded status and amounts recognized in the consolidated balance sheets for the company's defined benefit postretirement plans at December 31 were as follows:

	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	$ 339.3	$308.4
Fully eligible active plan participants	66.7	35.9
Other active plan participants	71.5	67.8
	477.5	412.1
Plan assets at fair value	228.1	200.1
Accumulated postretirement benefit obligation in excess of plan assets	249.4	212.0
Unrecognized benefit of plan amendment	3.1	11.0
Unrecognized net loss	(134.2)	(86.6)
Accrued postretirement benefit cost	$ 118.3	$136.4

The assumptions used to develop the net postretirement benefit expense from continuing operations and the present value of the accumulated postretirement benefit obligations are shown below:

(percents)	1997	1996	1995
Weighted-average discount rate	7.5	8.0	7.5
Expected long-term rate of return	10.5	10.5	10.5
Health care cost trend rate for participants:			
Under age 65	7.0	7.0	7.0

Over age 65.....	5.0	5.0	5.0

If these trend rates were to be increased by one percentage point each future year, the December 31, 1997, accumulated postretirement benefit obligation would increase by 10 percent and the aggregate of the service and interest cost components of 1997 annual expense from continuing operations would increase by 14 percent. The decrease in the discount rate at December 31,

1997, increased the accumulated postretirement benefit obligation by approximately $27.5 million.

Postemployment Benefits:

The company provides certain other postemployment benefits, primarily related to disability benefits, and accrues for the related cost over the service lives of the employees. Expenses associated with these benefit plans in 1997, 1996 and 1995 were not significant.

Note 14: Contingencies

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac. The company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the company has accrued for certain future anticipated product liability claims to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

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

The company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The company and several other manufacturers have settled the federal class action case and the anticipated settlement was accrued in the fourth quarter of 1995. That settlement is now final. Separately, in June 1997 the company reached a settlement with a large number of the remaining plaintiffs in the federal case. Still pending are related suits brought in federal and several state courts by a large number of retail pharmacies involving claims of price discrimination or claims under other pricing laws. Additional cases have been brought on behalf of consumers in several states.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at the gross amount of approximately $365 million. Estimated insurance recoverables of approximately $240 million have been reflected as assets in the consolidated balance sheet.

Barr Laboratories, Inc. (Barr), and Geneva Pharmaceuticals, Inc. (Geneva), have each submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic forms of Prozac before the expiration of the company's patents. The ANDAs assert that Lilly's U.S. patents covering Prozac are invalid and unenforceable. In April 1996, the company filed suit against Barr in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. In June 1997, the company filed a similar suit against Geneva in the same court. While the company believes

that the claims of Barr and Geneva are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this litigation could have a material adverse effect on the company's consolidated financial position, liquidity or results of operations.

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

Responsibility for Financial Statements

Eli Lilly and Company and Subsidiaries

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

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

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

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

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

Randall L. Tobias
Chairman of the Board and
Chief Executive Officer

Charles E. Golden
Executive Vice President and Chief
Financial Officer

January 30, 1998

Report of Independent Auditors

Board of Directors and Shareholders
Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1997. 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 generally accepted auditing standards. 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, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Indianapolis, Indiana
January 30, 1998

Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 1997

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

Graph #1--Net Sales

($ millions)

Year	Amount
1988	$2,943.7
1989	3,391.0
1990	4,178.3
1991	4,533.4
1992	4,963.1
1993	5,198.5
1994	5,711.6
1995	6,763.8
1996	7,346.6
1997	8,517.6

Net sales increased 16 percent as strong worldwide volume growth of 18 percent and a slight increase in global selling prices were partially offset by unfavorable exchange rates.

Graph #2--Net Sales

($ millions; percentages represent changes from 1996)

Class	Amount	Percent Change from 1996
Prozac	$2,559.2	9%
Anti-Infectives	1,272.5	(12)%
Insulins	1,073.3	9%
Zyprexa	730.2	740%
Animal Health	589.8	8%
Axid	526.5	(1)%
Humatrope	259.7	(3)%
ReoPro	254.4	70%
Gemzar	174.8	183%

In 1997, sales of three of the company's newer products, Zyprexa, Gemzar, and ReoPro, and continued growth in sales of Prozac contributed to the 16 percent increase in net sales. In total, 14 products, spanning all therapeutic classes, had annual sales in excess of $100 million.

Appendix to Exhibit 13 Continued

Graph #3--Sales Outside the U.S.

($ millions)

Year	Amount
1988	$1,143.3
1989	1,335.7
1990	1,636.9
1991	1,807.0
1992	1,996.2
1993	2,097.5
1994	2,430.2
1995	2,950.9
1996	3,081.0
1997	3,105.9

Sales volume growth of 12 percent outside the U.S. was offset by an adverse exchange rate impact of 9 percent and price declines of 2 percent, resulting in net sales growth outside the U.S. of 1 percent in 1997.

Graph #4--Research and Development Expenses

($ millions)

Year	Amount
1993	$ 755.0
1994	838.7
1995	1,042.3
1996	1,189.5
1997	1,382.0

Worldwide research and development expenditures increased 16 percent in 1997, the same rate as sales, in support of the company's strong pipeline, which includes 16 compounds in Phase II or Phase III clinical trials.

Graph #5--Income (Loss) from Continuing Operations

($ millions)

Year	Amount
1993	$ 464.8
1994	1,185.1
1995	1,306.6
1996	1,523.5
1997 reported	(385.1)
1997 normalized	1,774.4

In 1997, the company recognized the first annual net loss in its history due to the asset impairment charge, which was offset somewhat by the DowElanco gain. Without these significant events, income from continuing operations would have increased 16 percent, to $1.77 billion. The year 1993 includes restructuring and special charges. See notes 2, 3 and 4 to the consolidated financial statements.

Appendix to Exhibit 13 Continued

Graph #6--Economic Value Added

($ millions)

Year	Amount
1995	$333
1996	460
1997	751

In 1997, Lilly's Economic Valued Added (EVA) was $751 million, an increase of 63 percent, reflecting the company's commitment to delivering exceptional shareholder value.

Graph #7--Capital Expenditures

($ millions)

Year	Amount
1993	$633.5
1994	576.5
1995	551.3
1996	443.9
1997	366.3

Capital expenditures declined 17 percent from the 1996 level to their lowest level in nine years.

Graph #8--Dividends Paid per Share

(dollars)

Year	Amount
1993	$.605
1994	.625
1995	.655
1996	.685
1997	.74

Dividends paid during 1997 were increased twice totaling 8 percent. Nineteen ninety-seven was the 30th consecutive year in which dividends were increased. These increases reflect the company's continued commitment to its shareholders.

Exhibit 21-List of Subsidiaries and Affliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1997.

Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY	Indiana
Eli Lilly International Corporation	Indiana
Eli Lilly Iran, S.A.	Iran
ELCO Insurance Company, Ltd.	Bermuda
Eli Lilly Interamerica, Inc.	Indiana
Eli Lilly do Brasil Limitada	Brazil
Elanco Quimica Limitada	Brazil
Darilor Sociedad Anonima	Uruguay
Beimirco Sociedad Anonima	Uruguay
Eli Lilly Interamerica Inc., y Compania Limitada	Chile
STC Pharmaceuticals, Inc.	Indiana
Dista, Inc.	Indiana
Eli Lilly de Centro America, S.A.	Guatemala
Eli Lilly de Centro America, Sociedad Anonima	Costa Rica
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico
Dista Mexicana, S.A. de C.V.	Mexico
Eli Lilly Industries, Inc.	Delaware
Lilly del Caribe, Inc.	Cayman Isls.
Eli Lilly and Company (Taiwan), Inc.	Taiwan
Control Diabetes Services, Inc.	Indiana
PCS Holding Corporation	Delaware
Clinical Pharmaceuticals, Inc.	Delaware
Convenience Office Prescriptions	California
PCS Health Systems, Inc.	Delaware
PCS of New York, Inc.	New York
PCS Services, Inc.	Delaware
PCS Mail Services, Inc.	Delaware
Integrated Medical Systems, Inc.	Colorado
IMS-NET of Arizona, Inc.	Arizona
IMS-NET of Illinois, Inc.	Illinois
Illinois Medical Information Network, Inc.	Illinois
IMS-NET of Northern California, Inc.	California
IMS-NET of Sacramento, Inc.	California
IMS-NET of Alabama, Inc.	Alabama
IMS-NET of Central Florida, Inc.	Colorado
IMS-NET of Colorado, Inc.	Colorado
IMS-NET of Kansas City, Inc.	Colorado
Indiana Medical Communication Network L.L.C.	Colorado
Medical Communication Networks, Inc.	California
Minnesota Medical Communication Network L.L.C.	Colorado

Exhibit 21-List of Subsidiaries and Affliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1997.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY AND COMPANY (Cont'd)	
ELCO Dominicana, S.A.	Dominican Rep.
ELCO International Sales Corporation	Virgin Is.-US
Eli Lilly Group Limited	England
Eli Lilly & Co. LTD.	England
Dista Products Limited	England
Eli Lilly & CO (Ireland) Trustee Limited	Ireland
Lilly Industries	England
Lilly Research Centre Limited	England
Elanco Products Limited	England
Creative Packaging Limited	England
Greenfield Pharmaceuticals Limited	England
Lilly Medical Instruments Limited	England
Eli Lilly (Basingstoke) Limited	England
Eli Lilly UK Limited	England
Eli Lilly Group Pension Trustees Limited	England
Lilly Deutschland GmbH	Germany
Eli Lilly (Suisse) S.A. & Co. Beteiligungs-KG	Germany
Beiersdorf-Lilly GmbH	Germany
LIGEMA Lilly Gesundheitsmanagement GmbH	Germany
Eli Lilly & Co. (Ireland) Limited	Ireland
Eli Lilly Asia, Inc.	Delaware
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Australia Custodian Pty. Limited	Bermuda
AZA Research Pty. Ltd.	Australia
Eli Lilly and Company (N.Z.) Limited	New Zealand
Eli Lilly (NZ) Staff Benefits Custodian Limited	New Zealand
Integrated Disease Management (NZ) Limited	New Zealand
E L Management Incorporated	Delaware/Nova Scotia
Eli Lilly Canada Inc.	Canada
Eli Lilly S.A.	Switzerland

Exhibit 21-List of Subsidiaries and Affliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1997.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY S.A. (Cont'd)	Switzerland
Eli Lilly Export S.A.	Switzerland
LDPR International, Inc.	Puerto Rico
GEMS Services, S.A.	Belgium
T. P. Eli Lilly and Elanco D.O.O.	Yugoslavia
Elanco Trustees Limited	Ireland
Kinsale Financial Services, Ltd.	Ireland
Eli Lilly (Suisse) S.A.	Switzerland
Eli Lilly Vostok SA, Geneva	Switzerland
Eli Lilly MHC S.A.R.L.	Switzerland
Eli Lilly Mauritius	Mauritius
Oldfields Financial Management S.A.	Switzerland
Eli Lilly Suzhou Pharmaceutical Company Limited	China
Eli Lilly Nederland B.V.	Netherlands
Eli Lilly Ges.m.b.H.	Austria
Lilly Development Centre S.A.	Belgium
Lilly Services S.A.	Belgium
Lilly Clinical Operations S.A.	Belgium
Eli Lilly Benelux, S.A.	Belgium
Eli Lilly CR s.r.o.	Czech Repub.
Eli Lilly Danmark A/S	Denmark
Eli Lilly Egypt	Egypt
OY Eli Lilly Finland Ab	Finland
Lilly France S.A.	France
Elsa France, S.A.	France
Pharmaserve - Lilly S.A.C.I.	Greece
Pharmabrand, S.A.C.I.	Greece
PRAXICO Ltd.	Hungary
Lilly Hungaria KFT	Hungary
Eli Lilly (Philippines), Incorporate	Philippines
Eli Lilly Ranbaxy Limited	India
Eli Lilly Israel Ltd.	Israel
Dista Italia S.r.l.	Italy
Eli Lilly Italia S.p.A.	Italy

Exhibit 21-List of Subsidiaries and Affliates

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1997.

	State or Jurisdiction of Incorporation or Organization
ELI LILLY S.A. (Cont'd)	
Eli Lilly Nederland B.V. (Cont'd)	Netherlands
Eli Lilly Japan K.K.	Japan
Daewoong Lilly Pharmaceutical Co., Ltd.	Korea
Elanco Animal Health, Korea, Ltd.	Korea
Eli Lilly Malaysia Sdn Bhd.	Malaysia
Damsen Trading Limited	Malta
Eli Lilly Maroc S.a.r.l.	Morocco
ELCO Production Services B.V.	Netherlands
Eli Lilly Norge A.S.	Norway
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan
Eli Lilly Polska Sp. z.o.o. (Ltd.)	Poland
Lilly Grodzisk Sp. z.o.o.	Poland
Vitalia Pharma Sp. Z.o.o.	Poland
Dista-Produtos Quimicos & Farmaceuticos, LDA	Portugal
Lilly-Farma, Produtos Farmaceuticos, Lda.	Portugal
Eli Lilly Asia Pacific Pte. Ltd.	Singapore
Lilly-NUS Centre for Clinical Pharmacology Pte. Ltd.	Singapore
Eli Lilly (S.A.) (Proprietary) Limited	South Africa
Elanco-Valquimica, S.A.	Spain
Dista, S.A.	Spain
Lilly, S.A.	Spain
Geserco, S.A.	Spain
Eli Lilly Sweden AB	Sweden
Lilly Ilac Ticaret A.S.	Turkey
Eli Lilly y Compania de Venezuela, S.A.	Venezuela
Dista Products & Compania Venezuela S.A.	Venezuela

EXHIBIT 23. CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Eli Lilly and Company of our report dated January 30, 1998, included in the 1997 Annual Report to Shareholders of Eli Lilly and Company.

We also consent to the incorporation by reference in Registration Statement Number 33-29482 on Form S-8 dated June 23, 1989, in Registration Statement Number 33-37341 on Form S-8 dated October 17, 1990, in Registration Statement Number 33-58466 on Form S-3 dated February 17, 1993, in Registration Statement Number 33-50783 on Form S-8 dated October 27, 1993, in Registration Statement Number 33-56141 on Form S-8 dated October 24, 1994 and in Registration Statement Number 333-02021 on Form S-8 dated March 28, 1996 of our report dated January 30, 1998 with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the consolidated financial statements incorporated by reference in the Annual Report (Form 10-K) of Eli Lilly and Company.

Ernst & Young LLP

Indianapolis, Indiana
March 20, 1998

5
1,000

YEAR
DEC-31-1997
DEC-31-1997
1,947,541
77,101
1,597,675
53,330
900,730
5,320,736
7,034,880
2,933,155
12,577,436
4,191,617
2,326,110
0
0
694,701
3,950,911
12,577,436
8,086,065
8,517,628
2,050,070
2,362,929
6,139,442
0
234,097
510,200
895,330
(385,130)
0
0
0
(385,130)
(.35)
(.35)

-The information called for is not given as the balances are not individually significant.
-Amounts include research and development, selling and general and administrative expenses and a $2,443 million noncash charge due to an asset impairment.
-Per-share amounts reflect the 2-for-1 stock split paid on October 15, 1997, to shareholders of record on September 24, 1997. Prior Financial Data Schedules have not been restated for the stock split.

5

1,000

YEAR
DEC-31-1995
DEC-31-1995
999,549
84,644
1,575,605
55,076
839,564
4,138,561
6,828,340
2,589,026
14,412,503
4,966,985
2,592,894
0
0
355,564
5,077,059
14,412,503
6,504,386
6,763,804
1,721,110
1,885,701
2,896,297
0
286,317
1,765,641
459,067
1,306,575
984,349
0
0
2,290,924
2.01
1.99

-The information called for is not given as the balances are not individually significant.
-Amounts include research and development, selling and general and administrative expenses.

5

1,000

3-MOS
DEC-31-1996
MAR-31-1996
898,400
95,004
1,552,083
57,415
843,670
3,847,465
6,837,463
2,623,341
14,160,373
4,436,476
2,576,183
0
0
355,564
5,490,036
14,160,373
1,705,525
1,783,268
460,376
517,932
736,046
0
69,880
523,793
134,611
389,182
0
0
0
389,182
.36
.35

-The information called for is not given as the balances are not individually significant.
-Amounts include research and development, selling and general and administrative expenses.

	5
	1,000
	6-MOS
	DEC-31-1996
	JUN-30-1996
	1,125,041
	95,054
	1,500,597
	64,680
	870,364
	4,058,896
	6,886,430
	2,645,695
	14,258,814
	4,517,243
	2,586,880
	0
	0
	355,564
	5,538,121
	14,258,814
	3,308,353
	3,481,579
	896,385
	1,023,136
	1,488,393
	0
	145,414
	989,113
	254,201
	734,912
	0
	0
	0
	734,912
	.67
	.66

-Amounts include research and development, selling and general and administrative expenses.
-The information called for is not given as the balances are not individually significant.

5

1,000

9-MOS
DEC-31-1996
SEP-30-1996
738,108
128,324
1,693,370
77,017
878,275
3,860,819
7,007,920
2,722,141
14,052,805
4,194,128
2,582,340
0
0
355,564
5,671,087
14,052,805
5,016,934
5,285,524
1,330,610
1,525,996
2,252,216
0
219,499
1,548,518
397,969
1,150,549
0
0
0
1,150,549
1.05
1.03

-Amounts include research and development, selling and general and administrative expenses.
-The information called for is not given as the balances are not individually significant.

5	
1,000	
YEAR	
DEC-31-1996	
DEC-31-1996	
813,678	
141,407	
1,556,990	
82,351	
881,397	
3,891,285	
7,096,400	
2,789,429	
14,307,170	
4,222,193	
2,516,484	
0	
0	
355,564	
5,744,576	
14,307,170	
6,974,347	
7,346,594	
1,848,282	
2,118,413	
3,181,397	
0	
288,835	
2,031,290	
507,821	
1,523,470	
0	
0	
0	
1,523,470	
1.39	
1.36	

-The information called for is not given as the balances are not individually significant.
-Amounts include research and development, selling and general and administrative expenses.

5

1,000

3-MOS
DEC-31-1997
MAR-31-1997
1,042,119
75,361
1,620,415
66,336
876,264
4,275,747
7,002,555
2,808,226
14,513,618
4,061,749
2,509,649
0
0
355,564
6,213,909
14,513,618
1,833,779
1,953,000
449,151
541,345
772,856
0
60,631
576,829
144,213
432,616
0
0
0
432,616
.39
.38

-Amounts include research and development, marketing and
administrative expenses.
-The information called for is not given as the balances
are not individually significant.

5

1,000

6-MOS
DEC-31-1997
JUN-30-1997
1,853,011
100,138
1,449,845
62,019
945,831
4,992,080
7,039,912
2,883,445
12,288,903
3,699,847
2,501,817
0
0
355,564
4,314,379
12,288,903
3,724,943
3,941,728
929,557
1,090,131
4,115,329
0
123,090
(712,096)
587,384
(1,299,480)
0
0
0
(1,299,480)
(1.18)
(1.19)

-Amounts include research and development, selling and
general administrative expenses, and asset impairment.
-The information called for is not given as the balances
are not individually significant.

5

1,000

9-MOS
DEC-31-1997
SEP-30-1997
1,504,144
36,775
1,641,117
61,444
914,719
4,609,102
7,023,242
2,928,055
11,819,157
3,647,031
2,343,798
0
0
702,020
3,688,873
11,819,157
5,783,936
6,101,770
1,442,998
1,677,886
5,047,876
0
180,432
(99,841)
742,722
(842,563)
0
0
0
(842,563)
(.77)
(.79)

-Amounts include research and development, selling and
general and administrative expenses, and asset impairment.
-The information called for is not given as the balances are
not individually significant.

EXHIBIT 99 CAUTIONARY STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 - "SAFE HARBOR" FOR FORWARD LOOKING DISCLOSURES

Certain forward-looking statements are included in this Form 10-K and may be made by Company spokespersons based on current expectations of management. All forward-looking statements made by the Company are subject to risks and uncertainties. Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations and historical results.

- - Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates.

- - Competitive factors including generic competition as patents on key products, such as Prozac, expire; pricing pressures, both in the U.S. and abroad, primarily from managed care groups and government agencies; and technological advances and patents obtained by competitors.

- - Governmental factors including laws and regulations and judicial decisions at the state and federal level related to Medicare, Medicaid and healthcare reform; and laws and regulations affecting international operations.

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

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

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

- - Legal factors including unanticipated litigation of product liability claims; antitrust litigation; environmental matters; and patent disputes with competitors which could preclude commercialization of products or negatively affect the profitability of existing products.

- - Future difficulties obtaining or the inability to obtain existing levels of product liability insurance.

- - Changes in tax laws, including the amendment to the Section 936 income tax credit, and future changes in tax laws related to the remittance of foreign earnings or investments in foreign countries with favorable tax rates.

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

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

- - The Company's statement that it expects to complete the Year 2000 modifications before December 31, 1999, is based on management's best estimate, which was derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no guarantee that timely completion will be achieved and actual results could differ

materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.