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, 1995 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 --

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 9, 1996 (Common Stock): $28,175,758,490

Number of shares of common stock outstanding as of February 9, 1996: 552,471,515

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, 1995	Parts I, II, and IV
Registrant's Proxy Statement dated March 4, 1996	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, is engaged in the discovery, development, manufacture, and sale of products and the provision of services in one industry segment--Life Sciences. Products are manufactured or distributed through owned or leased facilities in the

United States, Puerto Rico, and 29 other countries, in 19 of which the Company owns or has an interest in manufacturing facilities. Its products are sold in approximately 150 countries. Through its PCS Health Systems subsidiary, 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 the discovery of products to diagnose and treat diseases in human beings and animals and to increase the efficiency of animal food production.

RECENT DEVELOPMENTS

Divestiture of Medical Device and Diagnostics Businesses

In 1995 and early 1996, the Company completed the divestiture of its Medical Device and Diagnostics ("MDD") businesses. On September 25, 1995, the Company distributed its approximately 80% ownership interest in Guidant Corporation (a holding company comprising five of the MDD companies) to holders of Lilly common stock through a splitoff ---an exchange offer whereby Lilly shareholders were given the opportunity to exchange Lilly shares for Guidant shares. In January 1996, the Company completed the disposition of the last remaining MDD company, Hybritech Incorporated, to Beckman Instruments, Inc.

Acquisition of Integrated Medical Systems, Inc.

In December 1995, the Company acquired Integrated Medical Systems, Inc., which develops and operates physician-focused medical communication networks. For further information regarding the business of Integrated Medical Systems, see "Health Care Management Services" below.

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 1995 Annual Report at pages 26-27 under "Review of Operations--Segment Information" (pages 13-14 of Exhibit 13 to this Form 10-K), is incorporated herein by reference.

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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.

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, including the antidepressant agent ProzacR, a selective serotonin reuptake inhibitor, indicated for the treatment of depression and, in many countries, for bulimia and obsessive-compulsive disorder; the analgesic Darvocet-NR 100, which is indicated for the relief of mild-to-moderate pain; and PermaxR, a treatment for Parkinson's disease;

Anti-infectives, including the oral cephalosporin antibiotics CeclorR (cefaclor), KeflexR, and KeftabR, used in the treatment of a wide range of bacterial infections; the oral carbacephem antibiotic LorabidR, used to treat a variety of infections; the oral macrolide antibiotic DynabacR; the injectable cephalosporin antibiotics MandolR, TazidimeR, KefuroxR, and KefzolR, used to treat a wide range of infections in the hospital setting; NebcinR, an injectable aminoglycoside antibiotic used in hospitals to treat various infections caused by staphylococci and Gram-negative bacteria; and VancocinR HCl, an injectable antibiotic used primarily to treat staphylococcal infections;

Endocrine products, including HumulinR, human insulin produced through recombinant DNA technology; IletinR, animal-source insulin in its various pharmaceutical forms; HumatropeR, human growth hormone produced by recombinant DNA technology; and Humalog(TM), a rapid-acting injectable human insulin analog of recombinant DNA origin, cleared for marketing in certain overseas countries;

An antiulcer agent, AxidR, 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, and for reflux esophagitis;

Oncolytic agents, including OncovinR, indicated for treatment of acute leukemia and, in combination with other oncolytic agents, for treatment of several different types of advanced cancers; VelbanR, used in a variety of malignant neoplastic conditions; GemzarR, cleared for marketing in several overseas countries for treatment of non-small cell lung cancer and pancreatic cancer; and EldisineR, indicated for treatment of acute childhood leukemia resistant to other drugs; and

Additional pharmaceuticals, including cardiovascular therapy products, principally ReoPro(TM) and DobutrexR; hematinics; sedatives; and vitamins.

Animal Health Products

Animal health products include TylanR, an antibiotic used to control certain diseases in cattle, swine, and poultry and to improve feed efficiency

and growth; RumensinR, a cattle feed additive that improves feed efficiency and growth; CompudoseR, a controlled-release implant that improves feed efficiency and growth in cattle; CobanR, MontebanR and MaxibanR, anticoccidial agents for use in poultry; ApralanR, an antibiotic used to control enteric infections in calves and swine; MicotilR, an antibiotic used to treat bovine respiratory disease; and other products for livestock and poultry.

Health Care Management Services

PCS provides computer-based prescription drug claims processing, pharmacy benefit design, administration and management services, 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. RECAPR, PCS's on-line prescription claims management system, is linked with over 95% of retail pharmacies in the U.S. Integrated Medical Systems operates physician-based on-line electronic communication networks, called IMS MEDACOMR networks, that deliver clinical, administrative, and financial information to hospitals, payers/managed-care plans, laboratories, pharmacies, and physicians. Outside the United States the Company is developing pharmacy benefits management and disease-management programs in several countries, including Canada, the Netherlands, South Africa, and the United Kingdom.

MARKETING

Most of the Company's major products are marketed worldwide. Health care management services are marketed primarily in the United States, although in 1995 the Company launched pharmacy benefits management and disease-management initiatives in several other markets.

In the United States, the Company's Pharmaceutical Division distributes pharmaceutical products principally through approximately 229 wholesale distributing outlets. Marketing policy is designed to assure immediate availability of these products to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Five wholesale distributing companies in the United States accounted for approximately 11%, 9%, 9%, 7%, and 5% respectively, of consolidated net sales in 1995. No other distributor accounted for as much as 5% of consolidated net sales. The Company also makes direct sales of its pharmaceutical products to the United States government and to other manufacturers, but those direct sales do not constitute a material portion of consolidated net sales.

The Company's pharmaceutical products are promoted in the United States under the Lilly and Dista trade names by one hospital and three retail sales forces employing salaried sales representatives. These sales representatives, approximately half 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 1994, the Company created a new sales force dedicated to diabetes care.

In the past few years, large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, have begun to account for an increasing portion of total pharmaceutical purchases in the United States. The Company has created special sales groups to service government and long-term care institutions, and expanded its managed-care sales organization. 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 brand name products of both Lilly and other companies.

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.

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

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. Patent protection of certain products, processes, and uses--particularly that relating to Prozac, Axid, and Lorabid-is considered to be important to the operations of the Company. The United States compound patent covering Prozac expires in 2001, the Axid compound patent expires in 2002, and the Lorabid compound patent expires in 2006.

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 received by the Company in relation to licensed pharmaceuticals amounted to approximately $4 million in 1995, and royalties paid by it in relation to pharmaceuticals amounted to approximately $109 million in 1995.

COMPETITION

The Company's pharmaceutical products compete with products manufactured by numerous 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 of new products and processes by competitors with therapeutic or cost advantages can result in progressive price reductions or decreased volume of sales of competing 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 patent protection is weak or nonexistent. The Company believes its long-term competitive position is dependent upon the success of its research and development endeavors in discovering and developing innovative, 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

The Company's operations have for many years been subject to extensive regulation 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, promotion, and in some instances, pricing, 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. It is anticipated that compliance with regulations affecting the manufacture and sale of current products and

the introduction of new products will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, health care reform was not debated extensively at the federal level in 1995 and the Company does not expect major federal health care reform legislation to be adopted in the near future. However, various health care reform and pharmaceutical reimbursement measures are being considered in a number of states. Outside the United States, changes in health care delivery and pharmaceutical reimbursement are occurring to varying degrees which in some cases may adversely affect pharmaceutical industry revenues. The Company is unable to predict the extent to which its business may be affected by these or other future legislative and regulatory developments.

RESEARCH AND DEVELOPMENT

The Company's research and development activities are responsible for the discovery or development of most of the products offered by the Company 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 1995, approximately 4,800 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 $755.0 million on these research and development activities in 1993, $838.7 million in 1994, and $1,042.3 million in 1995.

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 the development of products for use by or on humans and animals, and for other uses. Major effort is devoted to 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, protein research, and genomics (the development of therapeutics through identification of disease-causing genes and their cellular function).

In addition to the research activities 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 numerous other countries to establish through clinical evidence the safety and effectiveness of new products. The Company's business-development groups actively seek out opportunities to invest in external research and technologies that hold the promise to complement and strengthen the Company's own research efforts in the five chosen therapeutic categories. Such 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 on March 4, 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 indicated herein expires on the date of the annual meeting of the Board of Directors, to be held on April 15, 1996, 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	54	Chairman of the Board and Chief Executive Officer (since June 1993) and a Director
Sidney Taurel	47	President and Chief Operating Officer (since February 1996) and a Director
Charles E. Golden	49	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
August M. Watanabe, M.D.	54	Executive Vice President, Science and Technology (since February 1996) and a Director
Mitchell E. Daniels, Jr.	46	President, North American Pharmaceutical Operations (since April 1993)1
Michael L. Eagle	48	Vice President, Manufacturing (since January 1994)
Brendan P. Fox	52	President, Elanco Animal Health Business Unit (since January 1991)1
Rebecca O. Goss	48	Vice President and General Counsel (since March 1995)
Michael E. Hanson	48	President, Internal Medicine Business Unit (since August 1994)1
James A. Harper	48	President, Endocrine Business Unit (since August 1994)1
Pedro P. Granadillo	48	Vice President, Human Resources (since April 1993)
Gerhard N. Mayr	49	President, European Pharmaceutical Operations (European, Middle East and African Operations) (since January 1993)1
Robert N. Postlethwait	47	President, Central Nervous System Business Unit (since August 1994)1
William R. Ringo	50	President, Infectious Diseases and Generics Business Unit (since September 1995)1
Gino Santini	39	Vice President, Corporate Strategy and Business Development (since September 1995)
Thomas Trainer	49	Vice President, Information Technology, and Chief Information Officer (since January 1995)1

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1 Serves in office until successor is appointed.

EMPLOYEES

At the end of 1995, the Company had approximately 26,800 employees, including approximately 11,500 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 1995 Annual Report at pages 26-27 under "Review of Operations--Segment Information" (pages 13-14 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.

Item 2. PROPERTIES

The Company's principal domestic and international executive offices are located in Indianapolis. At December 31, 1995, the Company owned 14 production plants and facilities in the United States and Puerto Rico. These plants and facilities contain an aggregate of approximately 12.2 million square feet of floor area. Most of the plants and facilities involve production of both pharmaceutical and animal health products. 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 475,000 square feet and leases administrative space in other cities in the United States. Integrated Medical Systems leases approximately 84,000 square feet of administrative space in a number of locations.

The Company has 23 production plants and facilities in 19 countries outside the United States, containing an aggregate of approximately 4.2 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 2.8 million square feet and are located primarily in Indianapolis and Greenfield, Indiana. Its major research and development facilities abroad are located in Belgium and the United Kingdom and contain approximately 435,000 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

Product Liability Litigation. The Company is currently a defendant in a variety of product litigation matters involving primarily diethylstilbestrol ("DES") and Prozac. In approximately 265 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 March 1996 a suit was filed in the federal district court for the Eastern District of New York against the Company and several other manufacturers purporting to be a nationwide class action on behalf of women who were exposed to DES in utero. The suit does not seek compensation for personal injuries but instead seeks establishment of a fund for various expenses allegedly incurred as a result of DES exposure. In another approximately 70 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 Federal Class Action is scheduled to begin trial May 7, 1996. The Company and eleven other manufacturers have agreed to settle the Federal Class Action. The settlement amount, which is not material, was accrued by the Company in the fourth quarter of 1995. The settlement is subject to approval of the District Court. A hearing on the proposed settlement is scheduled for March 27, 1996. 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. Defense motions for summary judgment on the Sherman Act claims in these suits are pending. With respect to the 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, and Wisconsin by large numbers of retail pharmacies alleging violations of various state antitrust and pricing laws, purporting to be class actions on behalf of retail pharmacies in those states. The court in California has certified a class of retail pharmacies. Cases have also been brought in state courts in Alabama, Arizona, California, Colorado, District of Columbia, Maine, Michigan, Minnesota, New York, Washington and Wisconsin that purport to be class actions on behalf of consumers of prescription pharmaceuticals, alleging violations of state antitrust and pricing laws. The courts in Alabama and California have

certified classes of consumer plaintiffs. The Colorado and Washington cases have been dismissed and appeals are pending. The Maine case has been removed to federal court but a motion to remand to the state court is pending.

Other Litigation. In June 1995, a California retail pharmacy filed an action in federal district court in the Northern District of California against the Company and PCS alleging that the Company's acquisition of PCS violated federal antitrust laws. The suit seeks divestiture of PCS by the Company. The Company's motion to dismiss is pending. In October 1995, Pfizer, Inc. sued PCS in the New York Supreme Court for New York County alleging that PCS breached a 1994 rebate agreement between the companies. The suit seeks injunctive relief and damages. Pfizer's request for a preliminary injunction was denied and trial is scheduled to begin March 19, 1996.

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 pending against the Company, in the opinion of the Company the costs associated with all such actions 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 1995, 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 1995 Annual Report under "Review of Operations--Selected Quarterly Data (unaudited)," at page 28 (page 15 of Exhibit 13), and "Review of Operations--Selected Financial Data (unaudited)," at page 29 (page 16 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 1995 Annual Report under "Review of Operations--Selected Financial Data (unaudited)," at page 29 (page 16 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 1995 Annual Report (found at pages 1-7 and 35-37 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--Strategic Actions" (page 16)
"Review of Operations--Stock Split" (page 16)
"Review of Operations--Operating Results of Continuing Operations and Net Income--1995" (pages 16, 17, 19 and 20)
"Review of Operations--Operating Results of Continuing Operations and Net Income--1994" (pages 20-21)
"Review of Operations--Financial Condition" (pages 21 and 24)
"Review of Operations--Environmental and Legal Matters" (page 24)

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 1995 Annual Report at pages 18, 22, 23, and 25 (Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows), pages 26 and 27 (Segment Information), and pages 30-43 (Notes to Consolidated Financial Statements) (together, pages 9-14 and 17-32 of Exhibit 13), and the Report of Independent Auditors set forth in the Company's 1995 Annual Report at page 45 (page 34 of Exhibit 13), are incorporated herein by reference.

Information on quarterly results of operations, set forth in the Company's 1995 Annual Report under "Review of Operations--Selected Quarterly Data (unaudited)," at page 28 (page 15 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 Section 1 of the Company's Proxy Statement dated March 4, 1996 (the "Proxy Statement"), under "Nominees for Election" and "Certain Information Concerning Director Nominees and Directors Continuing in Office," at pages 1-5, is incorporated herein by reference. Information relating to the Company's executive officers is set forth at pages 7-8 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" at page 25, is also incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information relating to executive compensation, set forth in Section 1 of the Proxy Statement under "Directors' Compensation", "Executive Compensation", "Compensation Committee Interlocks", "Retirement Plan" and "Change-in-Control Severance Pay Arrangements" at pages 7-18, 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 Section 1 of the Proxy Statement under "Common Stock Ownership by Directors and Executive Officers," at page 6, and "Principal Holders of Common Stock," at page 7, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

(a)1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries, included in the Company's 1995 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income--Years Ended December 31, 1995, 1994, and 1993 (page 18) (page 9 of Exhibit 13)

Consolidated Balance Sheets--December 31, 1995 and 1994 (pages 22-23) (pages 10-11 of Exhibit 13)

Consolidated Statements of Cash Flows--Years Ended December 31, 1995, 1994, and 1993 (page 25) (page 12 of Exhibit 13)

Segment Information (pages 26 and 27) (pages 13-14 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 30-43) (pages 17-32 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 Form of Indenture with respect to Contingent Payment Obligation Units dated March 18, 1986, between Eli Lilly and Company and Harris Trust and Savings Bank, as Trustee

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

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

4.4 Form of Eli Lilly and Company Five Year Convertible Note

4.5 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

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

4.7 Form of Indenture dated as of September 5, 1991, among the Lilly Savings Plan Master Trust Fund C, as Issuer; Eli Lilly and Company, as Guarantor; and Chemical Bank, as Trustee1

4.8 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 19981

4.9 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, 20001

4.10 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, 20051

10.1 1984 Lilly Stock Plan, as amended2

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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.

2 Indicates management contract or compensatory plan.

10.2 1989 Lilly Stock Plan, as amended2

10.3 1994 Lilly Stock Plan2

10.4 The Lilly Deferred Compensation Plan, as amended2

10.5 The Lilly Directors' Deferral Plan, as amended2

10.6 The Eli Lilly and Company EVA Bonus Plan, as amended2

10.7 Eli Lilly and Company Change in Control Severance Pay Plan for Select Employees2

10.8 Letter Agreement dated September 3, 1993, between the Company and Vaughn D. Bryson2

11. Computation of Earnings Per Share on Primary and Fully Diluted Bases

12. Computation of Ratio of Earnings to Fixed Charges

13. Annual Report to Shareholders for the Year Ended December 31, 1995 (portions incorporated by reference into this Form 10-K)

21. List of Subsidiaries

23. Consent of Independent Auditors

27. Financial Data Schedule

99. Report to Holders of Eli Lilly and Company Contingent Payment Obligation Units

(b) Reports on Form 8-K

On October 2, 1995, the Company filed a Form 8-K reporting the completion of its exchange offer pursuant to which holders of the Company's common stock exchanged 16,504,298 shares of such stock for all 57,600,000 shares of the common stock of Guidant Corporation owned by the Company.

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2 Indicates management contract or compensatory plan.

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 18, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 18, 1996 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/Steven C. Beering, M.D. (STEVEN C. BEERING, M.D.)	Director
s/James W. Cozad (JAMES W. COZAD)	Director
s/Karen N. Horn (KAREN N. HORN, Ph.D.)	Director
s/Alfred G. Gilman, M.D., Ph.D. (ALFRED G. GILMAN, M.D., Ph.D.)	Director

SIGNATURE	TITLE
s/J. Clayburn La Force, Jr., Ph.D. (J. CLAYBURN LA FORCE, JR., Ph.D.)	Director
(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

ApralanR (apramycin sulfate, Elanco)
AxidR (nizatidine, Lilly)
CeclorR (cefaclor, Lilly)
CobanR (monensin sodium, Elanco)
CompudoseR (estradiol controlled-release implant, Elanco)
Darvocet-NR (propoxyphene napsylate with acetaminophen, Lilly)
DobutrexR (dobutamine hydrochloride, Lilly)
DynabacR (dirithromycin, Lilly)
EldisineR (vindesine sulfate, Lilly)
GemzarR (gemcitabine hydrochloride, Lilly)
HumalogTM (insulin lispro, Lilly)
HumatropeR (somatropin of recombinant DNA origin, Lilly)
HumulinR (human insulin of recombinant DNA origin, Lilly)
lletinR (insulin, Lilly)
KeflexR (cephalexin, Dista)
KeftabR (cephalexin hydrochloride, Dista)
KefuroxR (cefuroxime sodium, Lilly)
KefzolR (cefazolin sodium, Lilly)
LorabidR (loracarbef, Lilly)
MandolR (cefamandole nafate, Lilly)
MaxibanR (narasin and nicarbazine, Elanco)
IMS MEDACOMR (Integrated Medical Systems)
MicotilR (tilmicosin phosphate, Elanco)
MontebanR (narasin, Elanco)
NebcinR (tobramycin sulfate, Lilly)
OncovinR (vincristine sulfate, Lilly)
PermaxR (pergolide mesylate, Lilly)
ProzacR (fluoxetine hydrochloride, Dista)
RECAPR (PCS)
ReoProTM (abciximab), Lilly
RumensinR (monensin sodium, Elanco)
TazidimeR (ceftazidime, Lilly)
TylanR (tylosin, Elanco)
VancocinR (vancomycin hydrochloride, Lilly)
VelbanR (vinblastine sulfate, Lilly)

THE LILLY DIRECTORS' DEFERRAL PLAN
(As amended and restated through February 1, 1996)

Section 1. Establishment of the Plan.

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

Section 2. Definitions.

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

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

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

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

2.4. Committee. The term "Committee" refers to the Compensation and Management Development Committee of the Board of Directors, provided that no Participant shall be considered to be a member of the Committee for purposes of the Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Each person who is

thereafter elected or appointed as a Director, and who is not and has never been a full-time salaried employee of the Company, shall become a Deferred Stock Participant beginning with the month in which such Director takes office. A Deferred Stock Participant shall cease to participate in the Plan when the Participant ceases to be a Director. For purposes of the Plan, a Deferred Stock Participant shall be deemed to cease to be a Director on the first day of the month next following the month in which he last serves as a Director.

Section 4. Deferred Compensation Participants.

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

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

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

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

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

election under section 5 with respect to his Deferred Amount for a future calendar year, the Participant's previous election shall remain in effect, provided that the Participant may amend his election with regard to a future calendar year at any time.

Section 5. Form of Deferred Compensation Credits.

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

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

5.3. Transfer of Deferred Compensation Account Balance to Share Account.

Prior to the effective date of the Plan, a Deferred Compensation Participant may elect to have all or a portion of his final credited account balance in The Lilly Directors' Deferred Compensation Plan converted to Shares and credited to the Participant's Share Account. Such conversion shall take place as of January 1, 1996 based upon the combined average of the high and low prices of Shares on The New York Stock Exchange on each of the last five (5) days of 1995 on which Shares are traded on The New York Stock Exchange. Such conversion shall, however, be contingent upon receipt by the Company of (a) a no-action letter from the Securities and Exchange Commission ("EC"), or (b) an opinion of counsel satisfactory to the Company, to the effect that such conversion shall not disqualify the participate from being a "is interested person" within the meaning of prior SEC Rule 16b-3(d)(3) and new SEC Rule 16b-3(c)(2)(i) for purposes of administering the Company's employee stock incentive plans.

Section 6. Allocations to Share Accounts.

6.1. Allocation of Shares. As of the Accrual Date of each calendar year, there shall be allocated to the Share Account of each Deferred

Stock Participant, as part of the compensation to such Deferred Stock Participant for service on the Board of Directors, eight hundred (800) Shares, or, if less, the number of Shares that could be purchased with the Participant's Compensation for the calendar year, assuming attendance at eight one-day meetings, at the average of the high and low prices of Shares on The New York Stock Exchange on the Accrual Date. Shares allocated to each Deferred Stock Participant's Share Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 8 hereof.

6.2. Special Allocation. As of February 1, 1996, there shall be allocated to the Share Account of each Deferred Stock Participant the number of Shares having a market value (calculated as set forth below) equal to the present value as of December 31, 1995 of the accrued benefit of the Participant in The Lilly Non-Employee Directors' Retirement Plan, whether or not such Participant was vested in such benefit on that date. Such present value calculation shall be performed by the Company in its discretion and shall be converted to Shares based upon the combined average of the high and low prices of Shares on The New York Stock Exchange on each of the last five (5) days preceding February 1, 1996 on which Shares are traded on The New York Stock Exchange. Such conversion shall, however, be contingent upon receipt by the Company of (a) a

no-action letter from the Securities and Exchange Commission ("EC"), or (b) an opinion of counsel satisfactory to the Company, to the effect that such conversion shall not disqualify the participate from being a "is interested person" within the meaning of prior SEC Rule 16b-3(d)(3) and new SEC Rule 16b-3(c)(2)(i) for purposes of administering the Company's employee stock incentive plans.

Section 7. Individual Accounts.

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

7.1. Deferred Compensation Account. The Company shall maintain a Deferred Compensation Account in the name of each Deferred Compensation Participant in respect of each calendar year the Deferred Compensation Participant elects to defer the receipt of Compensation pursuant to Section 4 hereof and does not elect to have the Deferred Amount for such calendar year credited in Shares pursuant to subsection 5.2 hereof. The opening balance of each Deferred Compensation Account on January 1, 1996 shall be equal to the closing balance on December 31, 1995 of the

corresponding account maintained under The Lilly Directors' Deferred Compensation Plan, less any portion of such account converted to Shares and allocated to the Participant's Share Account pursuant to subsection 5.3 hereof. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. A Deferred Amount allocated to a Deferred Compensation Account pursuant to subsection 5.1 hereof shall be credited to the Deferred Compensation Account as of the Deferral Allocation Date.

7.2. Share Account. The Company shall maintain a Share Account for each Deferred Stock Participant and for each Deferred Compensation Participant who elects to have a Deferred Amount credited in Shares pursuant to subsection 5.2 hereof, or who elects to convert all or a portion of his final account balance under The Lilly Directors' Deferred Compensation Plan to Shares pursuant to subsection 5.3 hereof. The opening balance of each Share Account on January 1, 1996, shall be equal to the closing balance on December 31, 1995, of the corresponding Share Account maintained under The Lilly Non-Employee Directors' Deferred Stock Plan. The Share Account shall be denominated in Shares, and shall be maintained in fractions rounded to three (3) decimal places.

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

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

7.4. Accrual of Company Credit. The Treasurer of the Company shall determine the annual rate of Company Credit on or before December 31 of each calendar year. This rate shall be effective for the following calendar year. The Company Credit shall accrue monthly, at one-twelfth of the applicable annual rate, on all amounts credited to a Participant's Deferred Compensation Account, including the Company Credits for prior

years. The Company Credit shall not accrue on any amount distributed to a Participant (or to the Participant's Beneficiary) during the month for which the accrual is determined, except where an amount is distributed to a Beneficiary in the month of the Participant's death. The Company Credit for each year shall be credited to each Deferred Compensation Account as of December 31 of that year and shall be compounded monthly.

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

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

extraordinary distributions, as if those Shares were actual Shares.

7.7. Account Statements. Within a reasonable time following the end of each calendar year, the Company shall render an annual statement to each Participant. The annual statement for each Deferred Stock Participant shall report the number of Shares credited to the Participant's Share Account as of December 31 of that year. The annual statement for each Deferred Compensation Participant shall report the dollar amount credited to the Participant's Deferred Compensation Account as of December 31 of that year, and, if the Deferred Compensation Participant elects to invest a Deferred Amount in Shares pursuant to subsection 5.2 hereof, or if the Deferred Compensation Participant elects to convert his final account balance under The Lilly Directors' Deferred Compensation Plan to Shares pursuant to subsection 5.3 hereof, the number of Shares credited to the Participant's Share Account as of December 31 of that year.

Section 8. Payment Provisions.

8.l. Method of Payment. All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Deferred

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

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

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

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

If the payment option described in paragraph (i), above, has been elected, the amount of the lump sum with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the December 31 next preceding the date of the payment, and the amount of the lump sum with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Share Account as of the December 31 next preceding the date of payment. If the payment option described in paragraph (ii), above, has been elected, the amount of each installment with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the last day of the month next preceding the date of a

monthly installment payment, or the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. The amount of each installment with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Participant's Share Account as of the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. A Participant may elect that his final payment election may control over all prior payment elections. If the Participant fails to elect a payment option, the amount credited to the Participant's Individual Account shall be distributed in a lump sum in accordance with the payment option described in paragraph (i), above. If the amount credited to a Participant's Deferred Compensation Account or the value of Shares credited to a Participant's Share Account is less than $25,000, the Committee, in its sole discretion, may pay out the amount credited to the Participant's Individual Account in a lump sum.

8.3. Payment Upon Death. Within a reasonable period of time following the death of a Participant, the amount credited to a Participant's Deferred Compensation Account and all of the Shares credited to the

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

8.4. Payment on Unforeseeable Emergency. The Administrator may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Individual Account balance, notwithstanding an election under subsection 8.2 above, at any time that it determines

that such Participant has an unforeseeable emergency, and then only to the extent reasonably necessary to meet the emergency. For purposes of this section, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is, or may be, relieved --

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

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

(iii) By cessation of deferrals under the Plan.

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

Section 9. Ownership of Shares.

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

Section 10. Prohibition Against Transfer.

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

Section 11. General Provisions.

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

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

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

11.4. Liability. Any decision made or action taken by the Board of Directors, the Committee, or any employee of the Company or any of its subsidiaries, arising out of or in connection with the construction,

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

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

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

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

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

Section 12. Amendment, Suspension, and Termination.

The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, provided that no

amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account, and provided further that the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year.

Section 13. Applicable Law.

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

Section 14. Effective Date.

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

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

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

2.5 "Plan Year" means the applicable calendar year.

2.6 "Retirement" means the cessation of employment upon the attainment of at least eighty age and 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 income (excluding interest income from operational 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 net 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, 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.

Cost of Debt capital is the marginal long-term borrowing rate of the Company times (one minus the tax rate). Cost of Equity capital is the risk-free rate plus (beta times the market risk premium).

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 according to a schedule that associates job responsibilities with a specified dollar amount of Target Bonus. If a Participant moves

from one global job level to another during a Plan Year by virtue of a change in job responsibilities (except for changes as a result of moves to certain global job levels designated by the Committee or changes between part-time and full-time status) his or her Target Bonus will not be changed for the Plan Year in which the move occurs. 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 Actual EVA minus Target EVA over 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 shall 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.

5.4 Termination of Employment. If a Participant ceases employment with the Company before the end of a Plan Year for reasons other than Retirement, Disability or

death, the Participant shall receive a fraction of a Bonus for that Plan Year equal to the number of days worked during the plan year divided by the total number of days in the Plan Year, and his/her Bank Balance shall be forfeited. The Committee may make complete or partial exceptions to this rule, with respect to the Bank Balance only, in its sole discretion.

5.5 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.

5.6 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.

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 Employment. 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 in 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 executive officers of the Company, 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, 1996.

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.

SCHEDULE A

YEAR ONE

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

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 + $150MM) / 2 + 0
= $175MM

YEAR TWO

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

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 (up to available balance)	$19,667*
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 11. COMPUTATION OF EARNINGS PER SHARE ON PRIMARY AND FULLY DILUTED BASES

Eli Lilly and Company and Subsidiaries

	Year Ended December 31		
	1995	1994	1993
	(Dollars in millions, except per-share data; shares in thousands)		
PRIMARY:			
Net income	$2,290.9	$1,286.1	$ 480.2
Average number of common shares outstanding	569,026	578,378	585,346
Add incremental shares:			
Stock plans and contingent payments	8,655	4,614	2,356
Adjusted average shares	577,681	582,992	587,702
Primary earnings per share	$3.97	$ 2.21	$ .82
FULLY DILUTED:			
Net Income	$2,290.9	$1,286.1	$ 480.2
Average number of common shares outstanding	569,026	578,378	585,346
Add incremental shares:			
Stock plans and contingent payments	15,023	7,080	3,232
Adjusted average shares	584,049	585,458	588,578
Fully diluted earnings per share	$ 3.92	$ 2.20	$ .82

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

	Years Ended December 31,				
	1995	1994	1993	1992	1991
Consolidated Pretax Income From Continuing Operations Before Changes in Accounting Principles	$1,765.6	$1,698.6	$ 662.8	$1,193.5	$1,626.3
Interest from Continuing Operations	324.6	129.2	96.1	108.4	87.1
Less Interest Capitalized During the Period from Continuing Operations	(38.3)	(25.4)	(25.5)	(35.2)	(48.1)
Earnings	$2,051.9	$1,802.4	$ 733.4	$1,266.7	$1,665.3
Fixed Charges:					
Interest Expense from Continuing Operations	$324.6	$ 129.2	$ 96.1	$ 108.4	$ 87.1
Ratio of Earnings to Fixed Charges	6.3	14.0	7.6	11.7	19.1

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1995

REVIEW OF OPERATIONS

STRATEGIC ACTIONS

During 1995, the company completed the divestiture of the nine 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: Advanced Cardiovascular Systems, Inc.; Cardiac Pacemakers, Inc.; Devices for Vascular Intervention, Inc.; Heart Rhythm Technologies, Inc.; and Origin Medsystems, Inc. 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, an exchange offer under which Lilly shareholders could exchange their Lilly shares for Guidant shares. Pursuant to the splitoff, approximately 16.5 million shares of the company's common stock (expressed on a pre-stock-split basis) were exchanged for the Guidant shares owned by the company, resulting in an increase in the company's treasury stock and a corresponding reduction of shares outstanding. 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 three of the MDD companies, IVAC Corporation, Pacific Biotech, Inc., and Physio-Control Corporation, were completed during 1994 and 1995, and the divestiture of Hybritech Incorporated was finalized in January 1996.

As a consequence of the divestiture, the operating results of the MDD companies have been reflected as "discontinued operations" in the company's financial statements and have been excluded from consolidated sales and expenses reflected therein. As a result of completion of the divestiture, the company recognized a net gain of $921.5 million. All assets, liabilities and equity of the MDD businesses have been removed from the company's balance sheet. See Note 4 to the consolidated financial statements for a further discussion.

In December 1995, the company acquired Integrated Medical Systems, Inc. (IMS), which develops and operates physician-focused medical communications networks. The acquisition will provide an opportunity to forge closer ties with the health care community, deliver health care information quickly to users of the network and provide disease-management utilization tools for current and future subscribers of the system. The company hopes to utilize the IMS networks in conjunction with the pharmacy-benefit-management capabilities of PCS Health Systems, Inc. (PCS), in an effort to create a nationally integrated information technology system for health care providers and payers. See Note 2 to the consolidated financial statements for a further discussion.

STOCK SPLIT

On October 16, 1995, 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 November 15, 1995. The outstanding and weighted-average number of shares of common stock and per-share data herein have been adjusted to reflect the stock split. Treasury shares held by the company were not split.

OPERATING RESULTS OF CONTINUING OPERATIONS AND NET INCOME--1995

Worldwide sales rose 18 percent in 1995, to nearly $6.8 billion. The factor that contributed most to the increase was a 17 percent rise in unit volume. Prices decreased 1 percent, while exchange rates increased sales by 2 percent.

The company achieved sales increases both in the United States and abroad. Sales in the United States were $3.8 billion, a 16 percent increase. Sales outside the United States were $3.0 billion, an increase of 21 percent from the previous year.

Pharmaceutical sales for the year increased approximately 19

percent, to approximately $6.3 billion, led by the antidepressant Prozac (up 24 percent, to approximately $2.1 billion). Other products contributing significantly to worldwide pharmaceutical sales growth included the antiulcer drug Axid (up 13 percent, to $548 million), the human insulin product Humulin (up 19 percent, to $794 million), the human growth hormone Humatrope (up 19 percent, to $269 million) and the oral antibiotic Lorabid (up 31 percent, to $169 million). Sales also benefited from the inclusion of PCS service revenue. All the company's therapeutic classes reflected increased sales compared with 1994 levels. Pharmaceutical sales in the United States increased 17 percent, to nearly $3.6 billion, in 1995 despite continued growth in product discounts and rebates associated with the company's increased participation in managed-care programs. The negative effects of federally mandated rebates to the states on sales to Medicaid recipients declined in 1995, to $143.1 million, a 14 percent decrease from 1994. This decline is primarily the result of changes in the mix of products sold to Medicaid recipients. The company anticipates product discounts and rebates associated with managed care and Medicaid programs to increase in 1996. Pharmaceutical sales outside the U.S. increased 22 percent, to nearly $2.7 billion, in 1995. The international sales growth relates largely to volume growth resulting from the company's continued globalization efforts and favorable exchange rates.

U.S. sales of the oral antibiotic cefaclor, which were $227.5 million in 1995 (approximately 3 percent of the company's worldwide sales), declined by 42 percent compared with 1994. This decline was offset in part by sales of cefaclor outside the U.S., which increased 18 percent, to $494.7 million. The decline in U.S. cefaclor sales is primarily due to pricing pressures and strong generic competition. Since May 1995, several companies have been marketing generic forms of cefaclor capsules in the United States.

Quantities of the competing generic product to date have been greater than anticipated by the company. The company expects that generic cefaclor competition, together with strong competition from other anti-infectives, will result in a continued decline in U.S. cefaclor sales in 1996. Although the impact of this competition cannot be predicted with certainty, it is not expected to have a material adverse effect on the company's 1996 consolidated results of operations.

Worldwide sales of Elanco Animal Health products increased 11 percent, to $512.4 million. Sales increased 6 percent in the United States and 14 percent outside the U.S. compared with 1994. The worldwide sales increase occurred across the entire product line but was led primarily by TylanR, an antibiotic for swine and cattle.

Cost of sales was 27.9 percent for 1995 compared with 29.4 percent in 1994. This decrease is primarily attributable to productivity improvements, increased production to meet larger product demands and favorable exchange rates that were partially offset by the inclusion of PCS.

Research and development expenses increased 24 percent in 1995. Research expenditures continue to increase primarily due to the growth of global clinical trials to support the company's extensive pipeline of potential new products, including olanzapine and raloxifene. The company anticipates that research and development expenses will grow at a rate in excess of sales for at least the next year as raloxifene moves into the final stages of clinical research.

Marketing and administrative expenses increased 33 percent in 1995. Marketing costs increased largely due to the continued efforts to expand the company's products globally, particularly in emerging markets. Administrative expenses increased primarily due to charges for anticipated settlements of certain pending litigation, the inclusion of PCS, increased compensation accruals due to the company's performance-based bonus programs and development of enhanced information technology capabilities.

The company implemented various restructuring and streamlining initiatives and strategic actions in both 1993 and 1992. These strategic actions were taken largely in response to the changing business environment in which the company operates and were designed to enhance the company's core competencies, enable the company to deliver more clinical and economic value to its customers worldwide, streamline global manufacturing operations and

improve the company's competitiveness. See Note 3 to the consolidated financial statements for a further discussion. Of the 1993 and 1992 restructuring charges, approximately $51 million and $110 million was paid in cash in 1995 and 1994, respectively. Charges yet to be paid in cash total approximately $253 million and are expected to be funded from operations primarily over the next few years.

Interest expense increased in 1995, to $286.3 million, due to increased debt levels associated with the purchase of PCS. Net other income of $70.1 million for 1995 was $61.8 million lower than in 1994 due primarily to the amortization of goodwill related to the PCS acquisition of approximately $100 million. The goodwill amortization was partially offset by nonrecurring income from the sale of the U.S. marketing rights to certain products and income received under a development contract.

The effective tax rate for 1995 was 26 percent compared with 30.2 percent in 1994. The 1995 tax rate had been forecasted to be 29 percent; however, after confirmation in the fourth quarter of evolving long-term operating and tax trends outside the United States, confidence in the sustainability of a lower level of taxation resulted in an effective tax rate for the year of 26 percent. The decline is 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. The full-year impact of the tax rate reduction was recognized in the fourth quarter, resulting in a benefit of $42.1 million in fourth-quarter income from continuing operations and net income. The company expects current tax strategies will allow its 1996 effective tax rate to remain approximately the same as the 1995 rate.

For 1995, increased sales-related gross margins and the favorable impact of the reduced estimated tax rate were partially offset by the growth in operating expenses, including PCS and the impact of PCS-acquisition-related expenses, resulting in a 10 percent increase in income from continuing operations and a 12 percent increase in earnings per share from continuing operations, to $1.3 billion and $2.30, respectively. The percentage increase would have been lower if not for the special charges of $66 million incurred in 1994 relating to a voluntary antibiotic recall and a charge of $58.4 million for acquired research associated with the acquisition of Sphinx Pharmaceuticals Corporation.

Net income and earnings per share increased $1.0 billion and $1.81, respectively, in 1995 compared with 1994. Net income was significantly affected by the net gain of $921.5 million realized from the company's divestiture of its MDD businesses, primarily Guidant.

For the fourth quarter, in addition to the previously noted benefit from the reduced effective tax rate, earnings per share from continuing operations of $.57 and net income per share of $.63 were favorably affected by the reduced number of shares outstanding as a consequence of the Guidant splitoff. The impact of the reduced shares outstanding was $.03 and $.04 on earnings per share from continuing operations and net income, respectively. The impact of the reduced number of shares outstanding on the annual per-share amounts was not material.

In the United States, significant health-care-reform legislation at the federal level does not appear likely in the near term. However, various reform measures are currently being debated in a number of states. Outside the United States, changes in health care delivery and pharmaceutical reimbursement policies are occurring to varying degrees. It is difficult to predict the impact these changes will have on the industry or the company. As previously noted, the company continues to position itself to be responsive to these changes.

OPERATING RESULTS OF CONTINUING OPERATIONS AND NET INCOME -- 1994

Worldwide sales rose 10 percent in 1994, to $5.7 billion. The factor that contributed most to the increase was an 11 percent rise in unit volume. Price declines reduced sales by 2 percent, while exchange rates increased sales by 1 percent. Sales in the United States were $3.3 billion, a 6 percent increase. Sales outside the United States were $2.4 billion, an increase of 16 percent from 1993.

Pharmaceutical sales for 1994 increased approximately 10 percent, to $5.2 billion, led by Prozac (up 39 percent, to approximately $1.7 billion). Other products contributing significantly to worldwide pharmaceutical sales growth included Axid, Humulin, Humatrope and Lorabid. Sales also benefited slightly from the inclusion of PCS. Sales of central-nervous-system, diabetes-care and gastrointestinal products, as therapeutic classes, increased from 1993 levels. However, sales of anti-infectives decreased as international sales growth was offset by a decline in the U.S. In addition, U.S. sales of DobutrexR declined approximately 91 percent compared with 1993 as a result of the product's patent expiration in October 1993. U.S. pharmaceutical sales increased 6 percent, to nearly $3.1 billion, in 1994 despite the growth in product discounts and rebates associated with the company's increased participation in managed-care programs and the negative effects of federally mandated rebates to the states on sales to Medicaid recipients. For 1994, Medicaid rebates totaled $166 million, a 6 percent increase over 1993. Pharmaceutical sales outside the U.S. increased 17 percent, to nearly $2.2 billion, in 1994. Contributing substantially to the international sales growth were strong results in emerging markets, including Eastern Europe, Asia and Latin America.

Sales of the oral antibiotic Ceclor in the United States, which accounted for approximately 7 percent of the company's worldwide sales in 1994, declined in both 1993 and 1994 primarily as a result of intense competition from other anti-infective products.

Worldwide sales of Elanco Animal Health products increased 6 percent, to $464 million. Sales increased 1 percent in the United States and 9 percent outside the U.S. compared with 1993. The worldwide sales increase was led by Tylan, an antibiotic for swine and cattle.

Manufacturing costs of products sold increased in 1994, to 29.4 percent of sales, from 27.9 percent of sales in 1993. The increase is due primarily to a decision in early 1994 to reduce certain in-process inventory levels, which resulted in greater amounts of overhead costs being charged against income. This increase was partially offset by a favorable product mix and continued reduction in spending.

Research and development expenses increased 11 percent in 1994, largely due to the growth of global clinical trials to support the company's extensive pipeline of potential new products. See Note 2 to the consolidated financial statements for a discussion of acquired research.

Marketing and administrative expenses increased 5 percent in 1994. Marketing costs increased largely due to the continued expansion of sales forces in emerging international markets. Administrative expenses reflected a decrease compared with 1993 due in part to the impact of special charges taken as part of the 1993 restructuring. This decrease was offset in part by increased legal expenses associated with litigation resolved during the year.

In the first half of 1994, the company incurred $66 million of pretax charges associated with the March 31 voluntary recall of three of the company's liquid oral antibiotics. The recall was made after four instances were reported of small plastic caps being found in the antibiotics. Shipments of these products were resumed during the second and third quarters.

Interest expense for 1994 reflected an increase compared with 1993 of approximately $33 million, or 47 percent. The increased interest expense was the result of higher debt levels, as a consequence of the PCS acquisition and borrowings made by Guidant as part of the company's divestiture strategy. Net other income for 1994 increased $29 million, or 28 percent, compared with 1993 primarily due to increased interest and joint venture income, offset in part by the amortization of goodwill from the acquisition of PCS.

The effective tax rate for 1994 was 30.2 percent compared with 29.9 percent in 1993. This increase was due largely to the impact of the Omnibus Budget Reconciliation Act (OBRA) of 1993, which reduced the tax benefit from operations in Puerto Rico.

Net income and earnings per share were $1.3 billion and $2.22, respectively, for 1994. These amounts reflect substantial

increases over 1993 due to both the negative impact on 1993 operations of the company's 1993 restructuring and special charges and the continued growth of the company's pharmaceutical and animal health businesses in 1994. This growth was partially offset by the impact of increased interest expense related to the Guidant debt and the debt used to finance the PCS acquisition, amortization of goodwill associated with the PCS acquisition, the product recall and the acquired research related to the Sphinx acquisition.

FINANCIAL CONDITION

The company maintained a sound financial position in 1995. The cash generated from operations provided the resources to fund capital expenditures, dividends and debt service. As of December 31, 1995, cash, cash equivalents and short-term investments totaled $1.1 billion compared with $746.7 million at December 31, 1994. Total debt at December 31, 1995, was $4.5 billion, a decrease of $348.5 million from the prior year. The decrease in debt is primarily due to the splitoff of Guidant. Short-term debt aggregating $1.9 billion is primarily in the form of commercial paper. The company believes that cash generated from operations will be sufficient to fund essentially all the company's operating needs, including debt service, capital expenditures and dividends in 1996.

In 1994, the company incurred additional debt to finance the acquisition of PCS and as part of the overall Guidant divestiture strategy. As a consequence of the additional debt and heightened competition for the antibiotic Ceclor, the company's long-term debt rating was lowered from AAA to AA by Standard & Poor's in October 1994 and from Aa1 to Aa3 by Moody's in November 1994. Commercial paper ratings of A1+ by Standard & Poor's and Prime-1 by Moody's were affirmed. These ratings were reaffirmed in 1995. Maintenance of these ratings in the future will depend largely on continued strong financial performance and reductions of existing debt levels.

Since the date of the PCS acquisition, the company has replaced $1.8 billion of the commercial paper used to finance the acquisition with fixed-rate debt with maturities ranging from 5 to 40 years, including the January 1996 issuance of 20 and 40 year fixed-rate notes aggregating $500 million. See Note 7 to the consolidated financial statements for additional information.

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 up by $3.0 billion of committed bank credit facilities.

The company conducts its business in various foreign currencies and, as a result, is subject to the exposures that arise from foreign exchange rate movements. The company's hedging activities, all of which are for "purposes other than trading" (as defined by Statement of Financial Accounting Standards No. 119), are initiated within the guidelines of documented corporate risk-management policies and do not create additional risk because gains and losses on these instruments generally offset losses and gains on the assets, liabilities and transactions being hedged.

The company uses foreign currency forward contracts, currency swaps and option contracts to reduce the effect of fluctuating foreign currencies. Instruments related to transactional exposures are carried in the financial statements at current rates, with rate changes reflected directly in income. Gains and losses on instruments designed to hedge anticipated foreign currency transactions are deferred and recognized in the same period as the hedged transactions. Further, interest rate swap agreements are used to reduce the impact of interest rate changes on net income. In 1995, the impact of the company's risk-management strategies was not material to the results of operations.

Capital expenditures of $551.3 million during 1995 were $25.2 million less than in 1994, as new manufacturing, development, research and administrative facilities construction neared completion. The company expects near-term capital expenditures to decline slightly from 1995 levels. Sufficient cash flows exist to meet these near-term requirements.

The company is a 40 percent partner in DowElanco, a global agricultural products joint venture, with The Dow Chemical Company.

The company holds a put option, which became exercisable after October 31, 1994, which requires Dow to purchase the company's interest in DowElanco at specified amounts based largely on fair market value. The company did not exercise its put option in 1995.

Common stock held in treasury increased to $1.6 billion at December 31, 1995. The increase was largely due to the distribution of the company's remaining 80 percent interest in Guidant through the splitoff. Pursuant to the splitoff, 16,504,298 shares (expressed on a pre-stock-split basis) of the company's common stock were exchanged for Guidant shares, resulting in the increase in the company's treasury stock and corresponding decrease in shares outstanding.

Dividends of $1.31 per share were paid in 1995, an increase of approximately 5 percent from the $1.25 per share paid in 1994. In the fourth quarter, the quarterly dividend was increased $.02 per share (6 percent). This increase, the second in 1995, was nearly twice the previous dividend increase. The 1994 dividend reflected a 3 percent increase from the $1.21 per share paid in 1993. The year 1995 was the 111th consecutive year that the company made dividend payments and the 28th 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. In addition, the company has accrued for certain other environmental matters.

During 1995, the company continued to be named as a defendant in lawsuits involving Prozac. However, the number of new case filings in 1995 and the number of pending cases declined significantly from 1994 levels.

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 four states 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 class plaintiffs 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 related suits, brought by several thousand pharmacies, 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 eight states. The company and 11 other manufacturers have agreed to settle the federal class action case. The settlement amount, which is not material, was accrued in the fourth quarter of 1995. The settlement is subject to approval of the district court. In the federal Robinson-Patman Act cases, the court in the Northern District of Illinois has designated certain plaintiffs and defendants named in the individual suits to participate in an initial trial or trials of the plaintiffs' Robinson-Patman Act claims. Robinson-Patman claims asserted in suits filed against nondesignated defendants, including the company, are stayed.

While it is not possible to predict or determine the outcome of the product liability, antitrust or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes 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 12 to the consolidated financial statements.

1995 Financial Highlights
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

December 31	1995	1994	Change
Net sales	$6,763.8	$5,711.6	18%
Research and development expenses	1,042.3	838.7	24%
Income from continuing operations	1,306.6	1,185.1	10%
Net income	2,290.9	1,286.1	78%
Earnings per share:			
Income from continuing operations	$2.30	$2.05	12%
Net income	4.03	2.22	82%
Dividends paid per share	1.31	1.25	5%
Capital expenditures	$551.3	$576.5	(4)%
Return on shareholders' equity	42.5%	25.9%	
Return on assets	15.6	11.8	
Income from continuing operations as a percent of sales	19.3	20.7	

Results of operations of the Medical Devices and Diagnostics (MDD) Division have been reflected as "discontinued operations" and are excluded from consolidated net sales and operating expenses. Net income for 1995 includes a net gain on the divestiture of MDD. Amounts for 1994 reflect the impact of acquired research and special charges. See Notes 2, 3 and 4 to the consolidated financial statements.

Per-share data for both years reflect the two-for-one stock split in 1995. See Note 9 to the consolidated financial statements.

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

Year Ended December 31	1995	1994	1993
Net sales	$6,763.8	$5,711.6	$5,198.5
Cost of sales	1,885.7	1,679.7	1,448.0
Research and development	1,042.3	838.7	755.0
Acquired research (Note 2)	-	58.4	-
Marketing and administrative	1,854.0	1,398.3	1,332.4
Restructuring and special charges (Note 3)	-	66.0	1,032.6
Interest expense	286.3	103.8	70.6
Other income--net	(70.1)	(131.9)	(102.9)
	4,998.2	4,013.0	4,535.7
Income from continuing operations before income taxes and cumulative effect of change in accounting			

principle.....	1,765.6	1,698.6	662.8
Income taxes (Note 10).....	459.0	513.5	198.0
Income from continuing operations before cumulative effect of change in accounting principle.....	1,306.6	1,185.1	464.8
Discontinued operations, net of tax (Note 4).....	984.3	101.0	26.3
Income before cumulative effect of change in accounting principle...	2,290.9	1,286.1	491.1
Cumulative effect of change in accounting principle - net of tax (Note 5).....	-	-	(10.9)
Net income.....	$2,290.9	$1,286.1	$480.2
Earnings per share:			
Income from continuing operations before cumulative effect of change in accounting principle	$2.30	$2.05	$ .79
Discontinued operations.....	1.73	.17	.05
Cumulative effect of change in accounting principle.....	-	-	(.02)
Net income.....	$4.03	$2.22	$ .82

See notes to consolidated financial statements.

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

December 31	1995	1994
Assets		
Current Assets		
Cash and cash equivalents.....	$ 999.5	$ 536.9
Short-term investments.....	84.6	209.8
Accounts receivable, net of allowances of $55.1 (1995) and $46.6 (1994)....	1,520.5	1,550.2
Other receivables.....	287.9	284.4
Inventories (Note 1).....	839.6	968.9
Deferred income taxes (Note 10)....	259.2	245.0
Prepaid expenses.....	147.3	167.1
Total current assets.....	4,138.6	3,962.3
Other Assets		
Prepaid retirement (Note 11).....	484.2	411.9
Investments (Note 6).....	573.8	464.1
Goodwill and other intangibles, net of allowances for amortization of $192.2 (1995) and $326.2 (1994) (Note 2)	4,105.2	4,411.5
Sundry.....	871.4	846.1
	6,034.6	6,133.6
Property and Equipment (Note 1)	4,239.3	4,411.5
	$14,412.5	$14,507.4

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

December 31	1995	1994
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 7)	$1,908.8	$2,724.4
Accounts payable	1,018.0	878.2
Employee compensation	316.0	304.6
Dividends payable	189.1	188.8
Income taxes payable (Note 10)	660.5	508.4
Other liabilities	874.6	1,065.1
Total current liabilities	4,967.0	5,669.5
Other Liabilities		
Long-term debt (Note 7)	2,592.9	2,125.8
Deferred income taxes (Note 10)	295.5	188.9
Retiree medical benefit obligation (Note 11)	147.8	170.5
Other noncurrent liabilities	976.7	997.1
	4,012.9	3,482.3
Commitments and contingencies (Note 12)	-	-
Shareholders' Equity (Notes 8 and 9)		
Common stock--no par value Authorized shares: 800,000,000 Issued shares: 568,902,054	355.6	183.0
Additional paid-in capital	418.3	421.7
Retained earnings	6,484.3	5,062.1
Deferred costs--ESOP	(199.5)	(218.2)
Currency translation adjustments	(0.6)	(38.0)
	7,058.1	5,410.6
Less cost of common stock in treasury: 1995 -- 18,149,494 shares 1994 -- 871,514 shares	1,625.5	55.0
	5,432.6	5,355.6
	$14,412.5	$14,507.4

See notes to consolidated financial statements.

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

Year Ended December 31	1995	1994	1993
Cash Flows From Operating Activities			
Net income	$2,290.9	$1,286.1	$ 480.2
Adjustments To Reconcile Net Income to Cash Flows From Operating Activities			
Net gain on disposition of discontinued operations	(921.5)	-	-
Depreciation and amortization	553.7	432.2	398.3
Change in deferred taxes	144.0	172.2	(231.6)
Restructuring and special charges--net of payments	-	-	1,041.3
Cumulative effect of change in accounting principle	-	-	10.9

Other noncash expense (income)--net	(9.8)	63.1	(53.1)
	2,057.3	1,953.6	1,646.0
Changes in operating assets and liabilities:			
Receivables--increase	(189.3)	(322.9)	(32.1)
Inventories--(increase) decrease	(22.1)	107.1	(192.3)
Other assets--increase	(114.5)	(130.6)	(104.5)
Accounts payable and other liabilities--increase (decrease)	93.2	(74.9)	199.8
	(232.7)	(421.3)	(129.1)
Net Cash From Operating Activities	1,824.6	1,532.3	1,516.9
Cash Flows From Investing Activities			
Acquisitions	(36.8)	(4,050.8)	(56.1)
Additions to property and equipment	(551.3)	(576.5)	(633.5)
Disposals of property and equipment	21.5	58.7	5.4
Additions to other assets	(54.1)	(72.9)	(70.1)
Reductions of investments	430.8	1,387.0	889.3
Additions to investments	(372.9)	(1,150.5)	(1,001.7)
Net Cash Used for Investing Activities	(562.8)	(4,405.0)	(866.7)
Cash Flows From Financing Activities			
Dividends paid	(747.2)	(723.1)	(708.4)
Proceeds from Guidant initial public offering	-	192.5	-
Purchase of common stock and other capital transactions	(156.0)	(111.0)	(25.8)
Issuance under stock plans	54.7	50.5	19.8
Increase (decrease) in short-term borrowings	(967.7)	2,126.1	(152.7)
Additions to long-term debt	1,019.5	1,478.1	383.8
Reductions of long-term debt	(17.0)	(175.8)	(39.8)
Net Cash From (Used for) Financing Activities	(813.7)	2,837.3	(523.1)
Effect of exchange rate changes on cash	14.5	32.7	(19.9)
Net increase (decrease) in cash and cash equivalents	462.6	(2.7)	107.2
Cash and cash equivalents at beginning of year	536.9	539.6	432.4
Cash and cash equivalents at end of year	$ 999.5	$ 536.9	$ 539.6

See notes to consolidated financial statements.

Segment Information

Industry Data (Dollars in millions)	1995	1994	1993
Net sales--to unaffiliated customers			
Life-sciences products and services			
Central nervous system	$2,266.4	$1,835.6	$1,393.6
Anti-infectives	1,673.9	1,634.4	1,731.4
Endocrine	1,179.1	1,006.1	885.3
Gastrointestinal	548.4	487.4	396.8
Animal health	512.4	463.6	439.1
Health care management	259.4	25.1	-
All other	324.2	259.4	352.3
Net sales	$6,763.8	$5,711.6	$5,198.5

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, DarvonR and PermaxR. Anti-infectives include Ceclor, Keflex, KefzolR, Lorabid, Nebcin R, TazidimeR and Vancocin. Endocrine products consist primarily of Humatrope, Humulin and IletinR. Other major groups are gastrointestinal, all of which is Axid, and animal health products that include Tylan, an antibiotic for promoting feed efficiency and growth in swine

and cattle; RumensinR, a nonhormonal cattle feed additive; MicotilR, an antibiotic for bovine respiratory disease; anticoccidial agents for use in broilers and layer replacements, the largest of which is CobanR; and other products for livestock and poultry. Health care management includes revenue from pharmacy benefit management, such as pharmacy claims processing and adjudication as well as physician-focused medical communications networks, of which PCS is the largest component. Major products in the all-other category include cardiovascular therapy products, of which Dobutrex 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 1995, the company's largest wholesaler accounted for approximately 11 percent of consolidated net sales. Animal health products are sold to wholesale distributors, retailers, manufacturers and producers.

Geographic Information (Dollars in millions)	1995	1994	1993
Net sales			
United States			
Sales to unaffiliated customers	$3,812.9	$3,281.5	$3,101.5
Transfers to other geographic areas	485.5	405.2	394.6
	4,298.4	3,686.7	3,496.1
Europe, Middle East and Japan			
Sales to unaffiliated customers	2,193.8	1,765.3	1,526.4
Transfers to other geographic areas	336.9	269.0	218.5
	2,530.7	2,034.3	1,744.9
Other			
Sales to unaffiliated customers	757.1	664.8	570.6
Transfers to other geographic areas	13.8	11.3	3.9
	770.9	676.1	574.5
Eliminations--transfers between geographic areas	(836.2)	(685.5)	(617.0)
	$6,763.8	$5,711.6	$5,198.5
Income from continuing operations before income taxes and cumulative effect of change in accounting principle			
United States	$ 997.8	$1,067.0	$444.3
Europe, Middle East and Japan	697.1	554.2	158.0
Other	92.1	102.9	74.1
Eliminations and adjustments	(21.4)	(25.5)	(13.6)
	$1,765.6	$1,698.6	$662.8
Total assets			
United States	$11,321.8	$12,105.0	$7,187.8
Europe, Middle East and Japan	3,178.0	3,209.1	2,507.1
Other	527.0	505.3	382.5
Eliminations and adjustments	(614.3)	(1,312.0)	(453.8)
	$14,412.5	$14,507.4	$9,623.6

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.

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

1995(1)	Fourth(2)	Third	Second	First
Net sales	$1,799.8	$1,631.9	$1,614.8	$1,717.3

Cost of sales	494.1	419.7	459.4	512.5
Operating expenses	850.9	704.7	696.8	643.9
Other loss - net	(91.0)	(70.2)	(22.0)	(33.0)
Income from:				
Continuing operations	311.3	310.5	310.0	374.8
Discontinued operations	31.3	917.5	17.1	18.4
Net income	342.6	1,228.0	327.1	393.2
Earnings per share:				
Continuing operations	.57	.54	.54	.65
Discontinued operations	.06	1.60	.03	.03
Net income	.63	2.14	.57	.68
Dividends paid per share	.3425	.3225	.3225	.3225
Common stock prices:				
High	57.00	47.19	39.69	38.44
Low	44.31	37.56	34.63	31.25

1994(1)	Fourth	Third	Second(3)	First(3)
Net sales	$1,548.4	$1,507.3	$1,346.8	$1,309.1
Cost of sales	460.4	451.4	385.8	382.1
Operating expenses	667.0	579.9	532.8	457.3
Restructuring and special charge	-	-	10.0	56.0
Acquired research	-	58.4	-	-
Other income (loss) - net	(42.5)	9.2	42.3	19.1
Income from:				
Continuing operations	269.6	295.6	319.2	300.7
Discontinued operations	20.5	23.1	27.4	30.0
Net income	290.1	318.7	346.6	330.7
Earnings per share:				
Continuing operations	.47	.51	.55	.52
Discontinued operations	.03	.04	.05	.05
Net income	.50	.55	.60	.57
Dividends paid per share	.3125	.3125	.3125	.3125
Common stock prices:				
High	33.13	29.63	29.44	30.94
Low	28.69	23.63	23.56	24.25

(1)Per-share data and common stock prices for all periods reflect the two-for-one stock split in 1995. See Note 9 to consolidated financial statements.

(2)Fourth-quarter income from continuing operations includes a benefit of $42.1 million ($.08 per share) resulting from a decline in the 1995 effective tax rate from 29 percent to 26 percent. Also, see Note 4 to consolidated financial statements for a discussion of the impact on earnings per share resulting from the Guidant splitoff.

(3)Reflects the impact of special charges relating to the voluntary recall of three antibiotic products. See Note 3 to the consolidated financial statements.

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

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

	1995	1994	1993	1992	1991
Operations					
Net sales	$6,763.8	$5,711.6	$5,198.5	$4,963.1	$4,533.4
Research and development expenses	1,042.3	838.7	755.0	731.0	590.5
Other costs and expenses	3,739.7	3,136.4	2,780.4	2,664.5	2,412.0
Restructuring and special charges	-	66.0	1,032.6	404.4	-
Income from continuing operations before taxes and accounting changes	1,765.6	1,698.6	662.8	1,193.5	1,626.3
Income taxes	459.0	513.5	198.0	351.0	460.2
Income from continuing operations	1,306.6	1,185.1	464.8	842.5	1,166.1
Income (loss) from discontinued operations	984.3	101.0	26.3	(14.9)	148.6
Net income	2,290.9	1,286.1	480.2	708.7	1,314.7
Income from continuing operations as a percent					

of sales	19.3%	20.7%	8.9%	17.0%	25.7%
Per-share data1:					
Income from continuing operations	$2.30	$2.05	$ .79	$1.43	$2.00
Income (loss) from discontinued operations	1.73	.17	.05	(.03)	.25
Net income	4.03	2.22	.82	1.20	2.25
Dividends declared	1.33	1.26	1.22	1.128	1.025
Average number of shares and share equivalents (thousands)1	569,026	578,378	588,578	588,956	588,488
Financial Position					
Current assets	$4,138.6	$3,962.3	$3,697.1	$3,006.0	$2,939.3
Current liabilities	4,967.0	5,669.5	2,928.0	2,398.6	2,272.0
Property and equipment	4,239.3	4,411.5	4,200.2	4,072.1	3,782.5
Total assets	14,412.5	14,507.4	9,623.6	8,672.8	8,298.6
Long-term debt	2,592.9	2,125.8	835.2	582.3	395.5
Other noncurrent liabilities	1,420.0	1,356.5	1,291.6	799.8	665.0
Shareholders' equity	5,432.6	5,355.6	4,568.8	4,892.1	4,966.1
Supplementary Data2					
Return on shareholders' equity	42.5%	25.9%	10.2%	14.4%	31.2%
Return on assets	15.6%	11.8%	5.2%	8.3%	17.2%
Capital expenditures	$551.3	$576.5	$633.5	$912.9	$1,142.4
Depreciation and amortization	553.7	432.2	398.3	368.1	299.5
Effective tax rate	26.0%	30.2%	29.9%	29.4%	28.3%
Number of employees	26,800	24,900	24,900	24,500	23,600
Number of shareholders	52,600	55,900	59,300	53,900	46,000

1 Per-share data and average number of shares have been adjusted for all years to reflect the two-for-one stock split in 1995. Earnings per share for 1995 and 1994 are calculated based on the weighted-average number of shares outstanding, while prior years were calculated on a fully diluted basis using average shares and share equivalents. See Note 1 to the consolidated financial statements.

2 All supplementary financial data, other than the effective tax rate, have been computed using net income. The effective tax rate reflects continuing operations only. The number of employees reflects employees of continuing operations only.

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 number of shares of common stock and per-share data have been restated for all periods presented to reflect the impact of the company's stock split (see Note 9).

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 54 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:

	1995	1994
Finished products	$ 273.8	$ 288.0
Work in process	446.4	515.1
Raw materials and supplies	154.0	239.0
	874.2	1,042.1
Less reduction to LIFO cost	34.6	73.2
	$ 839.6	$ 968.9

Investments: All short-term debt securities are classified as held-to-maturity because the company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Substantially all long-term debt and marketable equity securities are classified as available-for-sale at December 31, 1995. 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.

Intangible Assets: Intangible assets arising from acquisitions and research alliances are amortized over their estimated useful lives, ranging from 5 to 40 years, using the straight-line method. Impairments are recognized in operating results if a permanent decline in value occurs.

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:

	1995	1994
Land	$ 136.1	$ 163.5
Buildings	1,925.7	2,040.0
Equipment	3,990.5	4,060.9
Construction in progress	776.0	762.0
	6,828.3	7,026.4
Less allowances for depreciation	2,589.0	2,614.9
	$4,239.3	$4,411.5

Approximately $38.3 million, $25.4 million and $25.5 million of interest costs were capitalized as part of property and equipment in 1995, 1994 and 1993, respectively. The estimated cost to complete significant construction projects in progress at December 31, 1995, approximated $199.1 million. Total rental expense for all leases related to continuing operations, including contingent rentals (not material), amounted to approximately $106.8 million for 1995, $81.8 million for 1994 and $80.1 million for 1993. Capital leases included in property and equipment in the consolidated balance sheets and future minimum rental commitments are not material.

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

Earnings per Share: Earnings per share for 1995 and 1994 are calculated based on the weighted-average number of outstanding common shares. Earnings per share for 1993 is calculated on a fully diluted basis based on the weighted-average number of outstanding common shares and common share equivalents (primarily stock options). Primary earnings per share has not been presented for 1993 because it does not differ significantly from the reported earnings per share computed on a fully diluted basis. Earnings per share in 1995 and 1994

are not materially different from the amount calculated using the method followed for 1993.

Note 2: Acquisitions

On December 18, 1995, the company acquired Integrated Medical Systems, Inc. (IMS), a company that develops and operates physician-focused medical communications networks. The purchase price was approximately $93 million, consisting of cash and redeemable securities. Substantially all the purchase price was allocated to goodwill and other intangibles and will be amortized over 10 years.

On November 21, 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, which is being amortized over 40 years.

The acquisition was structured in the form of a tender offer for all McKesson's common stock. Immediately prior to the tender offer, McKesson spun off to its shareholders all its businesses other than PCS. In connection with the spinoff, the newly created corporation ("New McKesson") assumed all PCS liabilities not related to the purchased business, including approximately $239 million of long-term notes and debentures. New McKesson has indemnified the company with respect to these liabilities and has agreed that it will, if the company so requests, seek consents from the debt holders to release the company from its obligations thereunder. Pending repayment of the debt or receipt of releases from the debt holders, the company remains a co-obligor with New McKesson.

The results of operations of PCS from the date of acquisition are included in the company's consolidated financial statements. The following unaudited pro forma summary reflects the company's consolidated results from continuing operations as if PCS had been acquired as of the beginning of 1993. This summary includes the impact of adjustments for the amortization of goodwill associated with the acquisition and an increase in interest expense resulting from the issuance of debt to finance the acquisition. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the entire year, nor are they intended to be a projection of future results.

Year ended December 31	1994	1993
Net sales	$5,890.3	$5,372.0
Income from continuing operations before accounting change	989.2	246.8
Earnings per share from continuing operations	$ 1.71	$ .42

On September 9, 1994, the company acquired Sphinx Pharmaceuticals Corporation, a company engaging in drug discovery and development by generating combinatorial chemistry libraries of small-molecule compounds and high-throughput screening against biological targets central to human diseases. The purchase price was approximately $80 million, of which $58.4 million was allocated to in-process research and development projects, based on an independent valuation. The company determined that the feasibility of the acquired research had not yet been established and that the technology had no alternative future use. Accordingly, this acquired research was charged to expense in 1994.

Note 3: Restructuring and Special Charges

In 1994, the company incurred $66 million of pretax charges associated with a voluntary recall of three of its liquid oral antibiotics. The recall was made after four instances were reported of small plastic caps being found in the antibiotics. Shipments of all three products were resumed during 1994.

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. As a result of these actions, the company recognized restructuring and special charges relating to continuing operations of $1,032.6 million and $404.4 million for 1993 and 1992, respectively. Restructuring costs include those amounts that arose as a direct result of management's commitment to revised strategic actions. Special charges represent unusual, generally nonrecurring, expense items.

Significant components of these charges and their status at December 31, 1994 and 1995, respectively, are summarized as follows:

	Original Charges	1994	1995
1993			
Work force reductions	$ 534.5	$ 52.5	$ 37.7
Manufacturing consolidations and other closings	204.3	136.1	125.2
Pharmaceutical streamlining	35.3	23.8	6.3
Asset write-downs, legal accruals and other	258.5	39.9	30.2
Total - continuing	$1,032.6	$252.3	$199.4
1992			
Global manufacturing strategy	$ 218.9	$108.4	$ 87.3
Legal, environmental, asbestos abatement	139.4	66.8	65.4
Research investment expense	46.1	-	-
Total - continuing operations	$ 404.4	$175.2	$152.7

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: Discontinued Operations

During 1995, the company completed the divestiture of the nine 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: Advanced Cardiovascular Systems, Inc.; Cardiac Pacemakers, Inc.; Devices for Vascular Intervention, Inc.; Heart Rhythm Technologies, Inc.; and Origin Medsystems, Inc. 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 (an exchange offer pursuant to which Lilly shareholders could exchange Lilly shares for Guidant shares). Pursuant to the splitoff, 16,504,298 shares of the company's common stock (expressed on a pre-stock-split basis) were exchanged 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 three of the MDD companies, IVAC Corporation, Pacific Biotech, Inc., and Physio-Control Corporation, were completed during 1994 and 1995, and the divestiture of Hybritech Incorporated was finalized in 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:

Year ended December 31

	1995	1994	1993
Net sales	$ 771.6	$1,289.2	$1,254.0
Cost of sales	258.2	536.6	511.3
Restructuring and special charges	-	-	140.1
Other operating expenses	356.8	561.5	580.8
Income before tax	111.9	168.1	39.0
Income from operations, net of tax	62.8	101.0	26.3
Net gain on disposition, net of tax ($88.1 million)	921.5	-	-
Discontinued operations	$ 984.3	$ 101.0	$ 26.3

At December 31, 1994, net assets of discontinued operations aggregated $441.7 million and were included in the consolidated balance sheet. Due to the disposition, all assets, liabilities and equity of the MDD businesses have been removed from the company's balance sheet at December 31, 1995.

The shares of the company's common stock exchanged in the splitoff resulted in a reduction in the average number of shares outstanding used to calculate earnings per share. As a consequence, earnings per share from continuing operations for the fourth quarter and year were $.03 and $.04 higher, respectively, than had the splitoff not occurred.

Note 5: Accounting Changes

In March 1995, Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," was issued. The statement must be adopted by the company in the first quarter of 1996. Under provisions of the statement, impairments, measured using fair market value, are recognized whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable and the future undiscounted cash flows attributable to the asset are less than its carrying value. The statement is not expected to have a material impact on the company's results of operations or financial position.

In October 1995, SFAS No. 123, "Stock Based Compensation," was issued. This statement will require the company to choose between two different methods of accounting for stock options. The statement defines a fair- value-based method of accounting for stock options but allows an entity to continue to measure compensation cost for stock options using the accounting prescribed by APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Use of the APB 25 accounting method results in no compensation cost being recognized if options are granted at an exercise price at the current market value of the stock. The company will continue to use the intrinsic value method under APB 25 but will be required by SFAS 123 to make pro forma disclosures of net income and earnings per share as if the fair value method had been applied in its 1996 financial statements.

Effective January 1, 1993, the company adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." SFAS 112 requires employers to recognize currently the obligation to provide postemployment benefits for former or inactive employees and others. The company's adoption of SFAS 112 resulted in a pretax charge of $17.3 million ($10.9 million after tax; $.02 per share), relating primarily to disability benefits. Prior to 1993, the company expensed these obligations when paid.

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 continuing fluctuations in currency values and interest rates. These fluctuations can vary the costs of financing, investing and operating. The company addresses

these risks through a controlled program of risk management that includes the use of 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 risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities and transactions being hedged.

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.

Foreign Exchange Risk Management: 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) on two types of foreign currency exposures. Exposures arising from affiliate foreign currency balances are managed principally through the use of forward contracts. 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 option contracts to hedge anticipated foreign currency transactions, primarily intercompany inventory purchases expected to occur within the next year, and foreign currency forward contracts and currency swaps to hedge firm commitments. 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.

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

	1995	1994
Forward exchange contracts	$ 838.2	$ 1,138.1
Foreign currency options - purchased	415.2	98.6
Foreign currency options - issued	-	62.6
Currency swaps	-	20.4

Interest Rate Risk Management: See discussion on interest rate swaps in Note 7.

Concentrations of Credit Risk: 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 large number of wholesalers and their geographic dispersion.

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.

	1995	1994

	Cost/Carrying Amount	Fair Value	Cost/Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 84.6	$ 85.0	$191.4	$195.1
Marketable equity	-	-	19.1	18.4
Noncurrent investments:				
Marketable equity	66.1	140.3	80.5	74.9
Debt securities	143.0	148.0	163.0	159.7
Nonmarketable equity	34.5	35.3	30.0	31.3
Long-term debt	2,734.3	2,885.6	2,206.8	2,147.1

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, 1995 or 1994.

At December 31, 1995 and 1994, the gross unrealized holding gains on available-for-sale securities were $88.2 million and $22.2 million, respectively, and the gross unrealized holding losses were $8.2 million and $27.0 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 $46.0 million and $24.3 million in 1995 and 1994, respectively. Realized gains and losses and purchases of available-for-sale securities were not significant in 1995 and 1994. The net adjustment to unrealized gains and losses on available-for-sale securities increased (reduced) shareholders' equity by $52.9 million and ($13.7 million) in 1995 and 1994, 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 $250.2 million and $194.9 million as of December 31, 1995 and 1994, respectively.

Effective January 1, 1994, the company adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires designation of certain investments as either trading, held-to-maturity or available-for-sale. As a consequence of the adoption, all available-for-sale securities on hand at January 1, 1994, were marked to market and the opening balance of shareholders' equity was increased by $10.7 million (net of $7.0 million in deferred income taxes) to reflect the net unrealized holding gains on these securities at that date.

On November 15, 1995, the Financial Accounting Standards Board staff issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." In accordance with provisions in that Special Report, the company chose to reclassify certain securities from held-to-maturity to available-for-sale. At the date of transfer, the amortized cost of those securities was $139.6 million and the net unrealized gain on those securities was $5.0 million, which is included in shareholders' equity.

Note 7: Borrowings

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

	1995	1994
6.25 to 8.38 percent notes (due 1999-2006)	$ 750.0	$ 750.0
7.13 percent notes (due 2025)	500.0	-
6.09 to 8.06 percent medium-term notes (due 1996-1999)	185.8	210.8
5.50 to 8.38 percent Eurodollar bonds		

(due 1998-2005)	500.0	150.0
8.18 percent ESOP debentures (due 2006)	128.8	143.7
6.07 to 6.47 percent Guidant notes (due 1996)	-	473.0
Commercial paper to be refinanced as long-term	500.0	350.0
Other, including capitalized leases	211.0	140.8
	2,775.6	2,218.3
Less current portion	182.7	92.5
	$2,592.9	$2,125.8

The company's acquisition of PCS (see Note 2) was financed primarily through the issuance of $3.8 billion in commercial paper. Through December 1995, the company had replaced $1.3 billion of the commercial paper with long-term debt, including the 1995 issuance of $350 million of Eurobonds and $500 million of 30 year notes with a 7.9 percent weighted-average effective interest rate. Further, in January 1996, the company replaced another $500 million of the commercial paper through issuance of 20 and 40 year notes at 6.57 percent and 6.77 percent, respectively. Accordingly, this item has been classified as long-term debt at December 31, 1995.

The company enters into interest rate swaps to lower funding costs, to diversify sources of funding or to alter interest rate exposures arising from mismatches between assets and liabilities. The notional amounts of interest rate swaps outstanding at December 31, 1995 and 1994, were $280 million and $175 million, respectively. Substantially all the interest rate swaps outstanding at December 31, 1995, were closed out in January 1996.

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 Guidant notes outstanding on December 31, 1994, were retained by Guidant following the splitoff in September 1995 (see Note 4). The company is no longer a guarantor of any Guidant obligations.

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 1996, $182.7 million; 1997, $110.7 million; 1998, $173.1 million; 1999, $153.6 million; and 2000, $216.9 million.

At December 31, 1995, short-term borrowings included $1,626.3 million of commercial paper and $99.8 million of notes payable to banks. At December 31, 1994, commercial paper and notes payable to banks totaled $2,364.9 million and $267.0 million, respectively. The weighted-average interest rates on short-term borrowings outstanding were 5.8 percent in 1995 and 6.0 percent in 1994. At December 31, 1995, unused committed lines of credit totaled $3 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 $271.7 million, $102.4 million and $63.7 million in 1995, 1994 and 1993, 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 prices equal to 100 percent of the fair market value at the dates of grant.

In October 1995, the company issued its second grant under the GlobalShares program, under which essentially all employees were given an option to buy 200 shares of the company's common stock at a price equal to the fair market value at the date of grant. Options to purchase approximately 5.2 million shares

were granted under the program.

Stock-option activity during 1995 and 1994 is summarized below:

	Number of Shares	
	1995	1994
Unexercised at January 1	31,081,360	28,903,636
Granted	10,770,663	5,727,444
Exercised	(2,892,178)	(2,583,370)
Terminated	(1,343,050)	(966,350)
Unexercised at December 31	37,616,795	31,081,360
Exercisable at December 31	13,396,245	13,823,060

The per-share price range of unexercised options at December 31, 1995 and 1994, was $6.55 to $46.82 and $7.27 to $40.94, respectively. Options were exercised at prices ranging from $7.27 to $40.94 in 1995 ($4.57 to $23.53 in 1994). At December 31, 1995, additional options, performance awards or restricted stock grants may be granted under the 1994 Lilly Stock Plan for not more than 7,366,003 shares (1994--17,037,366 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	Common Stock in Treasury Amount
Balance at January 1, 1993	$ 307.9	$4,743.1	$(263.9)	122,120	$ 7.8
Net income		480.2			
Cash dividends declared per share: $1.22		(715.7)			
Purchase for treasury				550,000	29.8
Issuance of stock under employee stock plans	(16.3)			(585,103)	(32.5)
ESOP transactions	3.6		21.1		
Other	(0.6)	(6.7)		(27,740)	(1.7)
Balance at December 31, 1993	294.6	4,500.9	(242.8)	59,277	3.4
Net income		1,286.1			
Cash dividends declared per share: $1.26		(728.6)			
Purchase for treasury				1,990,000	115.0
Issuance of stock under employee stock plans	(12.0)			(1,162,516)	(62.5)
ESOP transactions	(0.2)		24.6		
Unrealized investment gains and losses, net of tax		(3.0)			
Net impact of Guidant public offering	139.9				
Other	(0.6)	6.7		(15,247)	(0.9)
Balance at December 31, 1994	421.7	5,062.1	(218.2)	871,514	55.0
Net income		2,290.9			
Cash dividends declared per share: $1.33		(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

On October 16, 1995, 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 November 15, 1995. The outstanding and weighted-average number of shares of common stock and per-share data in these financial statements have been restated to reflect the impact of the stock split for all years presented. The company now has 568,902,054 issued shares of common stock without par value, including 276,094,410 shares issued December 20, 1995, 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.

The increase in paid-in capital during 1994 related to the Guidant initial public offering reflects net proceeds of the offering reduced by the resulting minority ownership interest in Guidant.

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. Following is an analysis of currency translation adjustments reflected in shareholders' equity:

	1995	1994	1993
Balance at January 1	$(38.0)	$(163.5)	$(70.2)
Translation adjustments	37.4	125.5	(93.3)
Balance at December 31	$ (0.6)	$ (38.0)	$(163.5)

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 $81.25. 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 $.0025 per right up to and including the 10th 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: Income Taxes

Following is the composition of income taxes attributable to

continuing operations:

	1995	1994	1993
Current:			
Federal	$ 177.0	$ 244.9	$ 296.5
Foreign	140.1	60.2	81.6
State	3.8	30.9	26.7
	320.9	336.0	404.8
Deferred:			
Federal	114.2	140.4	(81.9)
Foreign	1.9	1.9	(89.6)
State	22.0	35.2	(35.3)
	138.1	177.5	(206.8)
Income taxes	$ 459.0	$ 513.5	$ 198.0

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

	1995	1994
Deferred tax assets:		
Restructuring and special charges	$ 164.7	$ 283.4
Compensation and benefits	148.4	154.2
Divestiture related	143.6	-
Litigation, environmental and asbestos	95.3	141.6
Inventory	90.5	77.6
Net operating losses of subsidiaries	63.9	69.4
Other	202.2	216.7
	908.6	942.9
Valuation allowances	(85.9)	(97.9)
Total deferred tax assets	822.7	845.0
Deferred tax liabilities:		
Property and equipment	(519.7)	(490.7)
Prepaid employee benefits	(200.7)	(181.4)
Other	(77.0)	(50.1)
Total deferred tax liabilities	(797.4)	(722.2)
Deferred tax assets--net	$ 25.3	$ 122.8

At December 31, 1995, the company had net operating loss carryforwards for income tax purposes of $175 million, of which $29 million will expire within five years. Approximately one-third of the remaining carryforwards do not 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 $1,544 million at December 31, 1995 ($1,216 million at December 31, 1994). Cash payments of taxes totaled $449 million, $378 million and $455 million in 1995, 1994 and 1993, respectively.

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

	1995	1994	1993
United States federal statutory tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, net of federal tax benefit	.9	2.5	(.9)
Tax savings from operations in Puerto Rico	(4.2)	(2.1)	(9.7)
General business credits	(1.2)	(0.5)	(2.1)
Effect of international operations	(5.7)	(3.7)	1.9
Nondeductible goodwill amortization	2.1	0.3	.3
Nondeductible impact of restructuring	-	-	3.0
Sundry	(.9)	(1.3)	2.4
Effective income tax rate	26.0%	30.2%	29.9%

Note 11: 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/income for the company's retirement plans included the following components related to continuing operations:

	1995	1994	1993
Service cost--benefits earned during the year	$ 69.8	$ 69.3	$ 58.9
Interest cost on projected benefit obligations	160.2	156.3	124.6
Actual return on assets	(434.8)	(38.3)	(276.4)
Net amortization and defferal	227.4	(164.3)	88.6
Net annual pension expense (income)	$ 22.6	$ 23.0	$ (4.3)

The increase in the 1994 net annual pension expense was due primarily to the decrease in the discount rate at December 31, 1993.

In addition to the net pension cost above, the 1993 restructuring charges include curtailment losses and special termination costs resulting from the early-retirement programs of $133.3 million and $113.4 million, respectively.

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:

	Plans in Which Assets Exceed Accumulated Benefits		Plans in Which Accumulated Benefits Exceed Assets	
	1995	1994	1995	1994
Plan assets at fair value	$2,374.4	$2,066.4	$ 4.2	$ -
Actuarial present value of benefit obligations:				
Vested benefits	1,682.3	1,511.5	119.2	88.5
Nonvested benefits	100.0	96.0	4.0	1.2
Accumulated benefit obligation	1,782.3	1,607.5	123.2	89.7
Effect of projected future salary increases	320.9	258.2	9.4	10.1
Projected benefit obligation	2,103.2	1,865.7	132.6	99.8
Funded status	271.2	200.7	(128.4)	(99.8)
Unrecognized net (gain) loss	114.3	100.2	8.1	(8.5)
Unrecognized prior service cost	96.7	111.2	16.2	13.7
Unrecognized net obligation at January 1, 1986	2.0	1.8	1.8	2.4
Additional minimum liability	-	-	(20.1)	-
Prepaid (accrued) pension cost	$ 484.2	$ 413.9	$ (122.4)	$(92.2)

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)	1995	1994	1993
Weighted-average discount rate	7.6	8.6	7.6

Rate of increase in future compensation levels	4.5-9.5	4.5-9.5	4.5-9.5
Weighted-average expected long-term rate of return on plan assets	10.5	10.9	11.0

The discount rate decrease at December 31, 1995, increased the projected benefit obligation by approximately $231.6 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 $38.3 million, $37.9 million and $24.7 million for the years 1995, 1994 and 1993, 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:

	1995	1994	1993
Service cost--benefits earned during the year	$ 9.8	$ 11.4	$ 10.7
Interest cost on accumulated postretirement benefit obligations	24.7	25.9	19.8
Actual return on assets	(20.4)	1.1	(11.2)
Net amortization and deferral	(4.9)	(23.3)	(10.2)
Net periodic postretirement benefit cost	$ 9.2	$ 15.1	$ 9.1

In connection with the company's early-retirement programs in 1993, restructuring charges include curtailment and termination costs relating to these plans of $52.4 million and $7.0 million, respectively.

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:

	1995	1994
Accumulated postretirement benefit obligation:		
Retirees	$308.3	$231.5
Fully eligible active plan participants	26.5	19.4
Other active plan participants	59.8	53.7
	394.6	304.6
Plan assets at fair value	168.2	147.0
Accumulated postretirement benefit obligation in excess of plan assets	226.4	157.6
Unrecognized benefit of plan amendment	20.6	29.2
Unrecognized net loss	(99.2)	(13.9)
Accrued postretirement benefit cost	$147.8	$172.9

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)	1995	1994	1993

Weighted-average discount rate	7.5	8.5	7.5
Expected long-term rate of return	10.5	11.0	11.0
Health care cost trend rate for participants:			
Under age 65	7.0	8.0	8.0
Over age 65	5.0	6.0	6.0

If these trend rates were to be increased by 1 percentage point each future year, the December 31, 1995, accumulated postretirement benefit obligation would increase by 11 percent and the aggregate of the service and interest cost components of 1995 annual expense from continuing operations would increase by 14 percent. The decrease in the discount rate at December 31, 1995, increased the accumulated postretirement benefit obligation by approximately $36.3 million.

Note 12: 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 those costs. The company has asserted its right to insurance coverage for certain environmental liabilities and has reserved its right to pursue claims for insurance with respect to certain other environmental liabilities. However, because of uncertainties with respect to the timing and ultimate realization of those claims, the company has not recorded any environmental insurance recoverables.

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 alleging an industrywide agreement to deny favorable prices to retail pharmacies. The company and 11 other manufacturers have agreed to settle the federal class action case. The anticipated settlement amount was accrued in the fourth quarter of 1995. The settlement is subject to approval of the district court. Other related suits, brought by several thousand pharmacies in federal court and courts in four states, involve claims of price discrimination or claims under other pricing laws. Additional cases have been brought on behalf of consumers in eight states.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at a gross amount of approximately $342 million. Estimated insurance recoverables of approximately $140 million have been reflected as assets in the consolidated balance sheet.

While it is not possible to predict or determine the outcome

of the product liability, antitrust or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes 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 members of management 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	Sidney Taurel
Chairman of the Board and	Executive Vice President and
Chief Executive Officer	Acting Chief Financial Officer

February 7, 1996

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, 1995 and 1994, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Indianapolis, Indiana
February 5, 1996

Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 1995

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
1985	$2,140.0
1986	
1987	
1988	
1989	
1990	
1991	
1992	
1993	
1994	
1995	6,763.8

Strong worldwide volume growth in 1995 led to an 18 percent increase in net sales from continuing operations.

Graph #2--Sales Outside the U.S.

($ millions)

Year	Amount
1986	$ 844.0
1987	
1988	
1989	
1990	
1991	
1992	
1993	
1994	

1995	2,950.9

Investments made in international markets since 1986 have resulted in an increase in sales outside the U.S. as a percent of total sales. Sales outside the U.S. increased from 34 percent in 1986 to nearly 44 percent in 1995.

Graph #3--Sales by Therapeutic Class

($ millions; percentages represent change from 1994))

Class	Amount	Percent Change from 1994
Central Nervous System	$2,266.4	+23%
Anti-infectives	1,673.9	+2%
Endocrine	1,179.1	+17%
Gastrointestinal	548.4	+13%
Animal Health	512.4	+11%

Among Lilly's top five therapeutic classes, four experienced double-digit sales growth in 1995. Growth was led by the central-nervous-system class, which included increased Prozac sales of 24 percent.

Graph #4--Research and Development Expenses

($ millions)

Year	Amount
1991	$590.5
1992	731.0
1993	755.0
1994	838.7
1995	1,042.3

The company's spending in support of global clinical trials increased 40 percent in 1995, driven by 19 compounds in Phase II or Phase III. Overall research and development spending increased 24 percent in 1995.

Graph #5--Income from Continuing Operations

($ millions)

Year	Amount
1991	$1,166.1
1992	842.5
1993	464.8
1994	1,185.1
1995	1,306.6

Strong operating income growth substantially offset the negative impact of a full year's interest expense and goodwill amortization associated with the PCS acquisition. A lower effective tax rate also contributed to the growth of income from continuing operations. Operating income for 1992 and 1993 includes restructuring and special charges. See Note 3 to the consolidated financial statements.

Graph #6--Capital Expenditures

($ millions)

Year	Amount
1991	$1,142.4
1992	912.9
1993	633.5
1994	576.5
1995	551.3

Capital expenditures during 1995 declined 4 percent from the 1994 level, their lowest level in five years.

Graph #7--Dividends Paid per Share

(dollars)

Year	Amount
1991	1.00
1992	1.10
1993	1.21
1994	1.25
1995	1.31

Dividends paid during 1995 were increased twice, totaling 4.8 percent. The increases continue to reflect the company's commitment to its shareholders. Nineteen ninety-five was the 28th consecutive year in which dividends increased.

EXHIBIT 21 - LIST OF SUBSIDIARIES AND AFFILIATES

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1995.

	State or Jurisdiction of Incorporation or Organization	% Owned
ELI LILLY AND COMPANY	Indiana	
Eli Lilly International Corporation	Indiana	100
Eli Lilly Int'l. Corp. - Branch:	England	100
Eli Lilly Iran, S.A.	Iran	100
ELCO Insurance Company, Ltd.	Bermuda	100
Eli Lilly Interamerica, Inc.	Indiana	100
Eli Lilly Interamerica, Inc. - Branch:	Argentina	100
Eli Lilly Interamerica, Inc. - Branch:	Colombia	100
Eli Lilly Interamerica, Inc. - Branch:	Peru	100
Eli Lilly Interamerica, Inc. - Branch:	Dominican Republic	100
Elanco Quimica Limitada	Brazil	100
Eli Lilly do Brasil Limitada	Brazil	100
Darilor Sociedad Anonima	Uruguay	100
Beimirco Sociedad Anonima	Uruguay	100
Eli Lilly Interamerica Inc., y Compania Limitada	Chile	100
STC Pharmaceuticals, Inc.	Indiana	100
Lilly Ranbaxy Pharmaceuticals L.L.C.	Indiana	50
Dista, Inc.	Indiana	100
Dista, Inc. - Branch:	Colombia	100
Eli Lilly de Centro America, S.A.	Guatemala	100
Eli Lilly de Centro America, S.A.-Branch:	Panama	100
Eli Lilly de Centro America, Sociedad Anonima	Costa Rica	100
Eli Lilly de Centro America, S.A.-Branch:	Costa Rica	100
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico	100
Dista Mexicana, S.A. de C.V.	Mexico	100
EPCO, Inc.	Indiana	100
DowElanco	Indiana	40
Hybritech Incorporated	California	100
Hybritech International, Inc.	California	100
Hybritech Europe, S.A.	Belgium	100
Hybritech Clinical, Inc.	California	100
Hybrigenetics Cancer Research, Inc.	California	100
Hybritech G.m.b.H.	Germany	100
Hybritech International Sales Corp.	California	100
Eli Lilly Industries, Inc.	Delaware	100
Eli Lilly and Company (Taiwan), Inc.	Taiwan	100
CBI Uniforms, Inc.	Delaware	50
Control Diabetes Services, Inc.	Indiana	100
Integrated Disease Management, Inc.	Indiana	100
ELI LILLY AND COMPANY (Cont'd)	Indiana	
PCS Holding Corporation (formerly McKesson Delaware)	Delaware	100
Clinical Pharmaceuticals, Inc.	Delaware	100
Convenience Office Prescriptions	California	100
Integrated Medical Systems, Inc.	Colorado	100
IMS-NET of Alabama, Inc.	Alabama	100
Alabama Joint Venture	Alabama	51
IMS-NET of Arizona, Inc.	Arizona	100
Arizona Joint Venture, Limited	Arizona	50
IMS-NET of Illinois, Inc.	Illinois	100
Illinois Medical Information Network,Inc.	Illinois	68
IMS-NET of California, Inc.	California	100
IMS-NET of Sacramento, Inc.	California	100
IMS-NET of Arkansas, Inc.	Arkansas	51
IMS-NET of Central Florida, Inc.	Colorado	51
IMS-NET of Colorado, Inc.	Colorado	100
IMS-NET of Kansas City, Inc.	Colorado	100
Indiana Medical Communication Network LLC	Colorado	51

Medical Communication Networks, Inc.	California	100
Minnesota Medical Communication Network LLC	Colorado	90
LP Holding Corporation (formerly McKesson Maryland)	Maryland	100
PCS Health Systems, Inc.	Delaware	100
PCS of New York, Inc.	New York	100
PCS Services, Inc.	Delaware	100
ELCO Management Corporation	Delaware	100
Eli Lilly Australia Pty. Limited	Australia	100
Eli Lilly Australia Custodian Pty. Limited	Bermuda	100
AZA Research Pty. Ltd.	Australia	49
Eli Lilly and Company (N.Z.) Limited	New Zealand	100
Eli Lilly (NZ)Staff Benefits Custodian Limited	New Zealand	100
Integrated Disease Management (NZ) Limited	New Zealand	100
Eli Lilly Canada Inc.	Canada	100
RxPlus	Canada	100
ELCO Dominicana, S.A.	Dominican Republic	100
ELCO International Sales Corporation	Virgin Islands-US Possess.	100
Eli Lilly Group Limited	England	100
Lilly Industries Limited	England	100
Dista Products Limited	England	100
Eli Lilly and Company Limited	England	100
Lilly Research Centre Limited	England	100
Elanco Products Limited	England	100
Creative Packaging Limited	England	100
Greenfield Pharmaceuticals Limited	England	100
Lilly Medical Instruments Limited	England	100
Eli Lilly Group Pension Trustees Limited	England	100
Lilly Deutschland GmbH	Germany	100
Eli Lilly (Suisse) S.A. & Co. Beteiligungs-KG	Germany	100
Beiersdorf-Lilly GmbH	Germany	74.8
Lilly Medizintechnik GmbH	Germany	100
Eli Lilly & Co. (Ireland) Limited	Ireland	100
Eli Lilly Asia, Inc.	Delaware	100
Eli Lilly Asia, Inc. - Branch	Hong Kong	100
Eli Lilly Asia, Inc. - Branch	Korea	100
Eli Lilly Asia, Inc. - Branch	Thailand	100
Indian Branch	India	100
China Branch	China	100
Vietnam Branch	Vietnam	100
Eli Lilly S.A.	Switzerland	100
Branch	Ireland	100
Eli Lilly Export S.A.	Switzerland	100
Puerto Rico - Branch	Puerto Rico	100
Egyptian Branch	Egypt	100
Egyptian Branch	Egypt	100
Russian Branch	Russia	100
GEMS Services, S.A.	Belgium	100
GEMS Services, S.A. - CC Branch	Belgium	100
T. P. Eli Lilly and Elanco D.O.O.	Yugoslavia	100
Elanco Trustees Limited	Ireland	100
DowElanco, B.V.	Netherlands	40
Eli Lilly (Suisse) S.A.	Switzerland	100
Iranian Branch	Iran	100
Bulgarian Branch	Bulgaria	100
Croatian Branch	Croatia	100
Czech Republic Branch	Czech Republic	100
Estonian Branch	Estonia	100
Hungarian Branch	Hungary	100
Ivory Coast Branch	Ivory Coast	100
Kazakhstan Branch	Kazakhstan	100
Lebanon Branch	Lebanon	100
Lithuanian Branch	Lithuania	100
Pakistani Branch	Pakistan	100
Polish Branch	Poland	100
Romanian Branch	Romania	100
Slovakian Branch	Slovakia	100
Slovenian Branch	Slovenia	100
Ukraine Branch	Ukraine	100
United Arab Emirates Branch	U.A.E.	100

Saudi Arabian Branch	Saudi Arabia	100
Eli Lilly MHC S.A.R.L.	Switzerland	100
Eli Lilly Mauritius	Mauritius	99
Ranbaxy Lilly Company	India	50
Oldfields Financial Management S.A.	Switzerland	100
Eli Lilly Suzhou Pharmaceutical Company Limited	China	90
Eli Lilly Nederland B.V.	Netherlands	100
Eli Lilly Ges.m.b.H.	Austria	100
Lilly Development Centre S.A.	Belgium	100
Lilly Services S.A.	Belgium	100
Lilly Clinical Operations S.A.	Belgium	100
Eli Lilly Benelux, S.A.	Belgium	100
Eli Lilly CR s.r.o.	Czech Republic	100
Eli Lilly Denmark A/S	Denmark	100
Eli Lilly Egypt	Egypt	75
Alkan Pharma S.A.E.	Egypt	25
OY Eli Lilly Finland Ab	Finland	100
Lilly France S.A.	France	100
Elsa France, S.A.	France	100
Medco Ltd.	Hungary	50
Lilly Hungaria KFT	Hungary	100

Eli Lilly Nederland B.V. (Cont'd)	Netherlands	100
Eli Lilly (Philippines), Incorporated	Philippines	100
Eli Lilly Ranbaxy Limited	India	50<5
Dista Italia S.r.l.	Italy	100
Eli Lilly Italia S.p.A.	Italy	100
Eli Lilly Japan K.K.	Japan	100
Daewoong Lilly Pharmaceutical Co., Ltd.	Korea	50
Eli Lilly Malaysia Sdn Bhd.	Malaysia	100
Damsen Trading Limited	Malta	51
Eli Lilly Maroc S.a.r.l.	Morocco	100
ELCO Production Services B.V.	Netherlands	100
Eurobase B.V.	Netherlands	55
Eli Lilly Norge A.S.	Norway	100
Eli Lilly-Gohar (Private) Limited	Pakistan	30
Eli Lilly Polska Sp. z.o.o. (Ltd.)	Poland	100
Lilly Grodzisk Sp. z.o.o.	Poland	99.8
Vitalia Pharma Sp. Z.o.o.	Poland	51
Dista-Produtos Quimicos & Farmaceuticos,LDA	Portugal	100
Lilly-Farma, Produtos Farmaceuticos,Lda.	Portugal	100
ELVA Joint Laboratory	Russia	50
Pharmaserve - Lilly S.A.C.I.	Greece	50.9
Eli Lilly Asia Pacific Pte. Ltd.	Singapore	100
Eli Lilly (S.A.) (Proprietary) Limited	South Africa	100
Glaxo/Eli Lilly Partnership	South Africa	50
The Medikredit Joint Venture Partnership	South Africa	37.6
Medikredit Pty. Ltd.	South Africa	80
Elanco-Valquimica, S.A.	Spain	50<51
Derly, S.A.	Spain	50<51
Dista, S.A.	Spain	50<51
Lilly, S.A.	Spain	50<51
Geserco, S.A.	Spain	50<51
Hybritech, S.A.	Spain	50<51
Eli Lilly Sweden AB	Sweden	100
Lilly Ilac Ticaret A.S.	Turkey	100
Eli Lilly y Compania de Venezuela, S.A.	Venezuela	100
Dista Products & Compania Venezuela	Venezuela	100

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 February 5, 1996, included in the 1995 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-8 dated February 17 1993, in Registration Statement Number 33-50783 on Form S-8 dated October 27, 1993, and in Registration Statement Number 33-56141 dated October 24, 1994 of our report dated February 5, 1996 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

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
	3.97
	3.92

Note 2 - Amounts include research and development, selling, and general and . . . administrative expenses.
Note 1 - The information called for is not given as the balances are not . . . individually significant.

EXHIBIT 99. REPORT TO HOLDERS OF ELI LILLY AND COMPANY
CONTINGENT PAYMENT OBLIGATION UNITS

To Holders of Eli Lilly and Company Contingent Payment Obligation Units:

In 1995, sales of Hybritech Incorporated, including royalties, decreased 21 percent to $97.8 million. Sales in 1994 were $123.6 million, down from $149.0 million in 1993.

Product sales declined in 1995 due primarily to lower unit volume. Sales of the company's largest selling product, TandemR PSA, a prostate cancer test, were down when compared to 1994, due to competition.

Hybritech's gross profits declined 7 percent, to $54.9 million in 1995, compared with $58.9 million and $73.2 million in 1994 and 1993, respectively. The gross-profit decline in 1995 was largely the result of lower sales.

Beginning in 1993, Hybritech combined certain operations with Pacific Biotech, Inc. (PBI), a wholly owned Lilly subsidiary. PBI was sold in January 1995. In addition, Lilly had previously announced in 1994 that it intended to divest itself of its interest in Hybritech in a manner consistent with its obligations under the Contingent Payment Obligation Units (CPUs). The divestiture of Hybritech to Beckman Instruments, Inc., which was completed on January 2, 1996, had no effect on the CPU calculation.

Under the terms of the Contingent Payment Obligation Unit, payments are earned if the sum of 6 percent of sales and 20 percent of gross profits exceeds the annual deductible. The annual deductible was originally set in 1986 at $11 million and increases at a compounded rate of 35 percent per year thereafter. The deductibles through 1995 are as follows:

(Dollars in millions)

1991	1992	1993	1994	1995
$49.3	$66.6	$89.9	$121.4	$163.8

In accordance with the formula, for 1995 the sum of 6 percent of sales and 20 percent of gross profits is approximately $16.8 million. Therefore, no payment was earned in 1995 (the final year of measurement under the CPUs), and the CPUs expire without payment.

Tandem(R) (dual monoclonal sandwich assay kits, Hybritech)