

United States  
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, 2019

Commission file number 001-06351

Eli Lilly and Company

An Indiana corporation

I.R.S. employer identification no.

35-0470950

Lilly Corporate Center, Indianapolis, Indiana 46285 (317) 276-2000

Securities registered pursuant to Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange On Which Registered</u>
Common Stock (no par value)	LLY	New York Stock Exchange
1.000% Notes due 2022	LLY22	New York Stock Exchange
7 1/8% Notes due 2025	LLY25	New York Stock Exchange
1.625% Notes due 2026	LLY26	New York Stock Exchange
2.125% Notes due 2030	LLY30	New York Stock Exchange
0.625% Notes due 2031	LLY31	New York Stock Exchange
6.77% Notes due 2036	LLY36	New York Stock Exchange
1.700% Notes due 2049	LLY49A	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 under the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act):

Yes  No

Aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter (Common Stock): approximately \$93,167,000,000.

Number of shares of common stock outstanding as of February 13, 2020: 956,382,203

Portions of the Registrant's Proxy Statement to be filed on or about March 20, 2020 have been incorporated by reference into Part III of this report.

Securities registered pursuant to Section 12(g) of the Exchange Act: None

**Eli Lilly and Company**  
**Form 10-K**  
**For the Year Ended December 31, 2019**  
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## Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 (Exchange Act), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue,” or similar expressions.

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

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

Investors should not place undue reliance on forward-looking statements. You should carefully read the factors described in the “Risk Factors” section of this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

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

# Part I

## Item 1. Business

Eli Lilly and Company (the “company” or “registrant” or “Lilly”) was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and market products in a single business segment—human pharmaceutical products.

Our purpose is to unite caring with discovery to create medicines that make life better for people around the world. Most of the products we sell today were discovered or developed by our own scientists, and our success depends to a great extent on our ability to continue to discover or acquire, develop, and bring to market innovative new medicines.

In September 2018 Elanco Animal Health Incorporated (Elanco), an animal health business previously wholly owned by the company, completed an initial public offering of its common stock, which trades on the New York Stock Exchange, and in March 2019, we completed the disposition of our remaining ownership of Elanco common stock. For more information on the exchange offer, see Item 7, “Management’s Discussion and Analysis - Results of Operations - Executive Overview”.

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

### Products

Our products include:

**Diabetes and other endocrinology products**, including:

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

**Immunology products**, including:

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

**Neuroscience products**, including:

- *Cymbalta*<sup>®</sup>, for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, fibromyalgia, and chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis

- *Emgality*<sup>®</sup>, a once-monthly subcutaneously injected calcitonin gene-related peptide (CGRP) antibody for migraine prevention (approved in the U.S. and Europe in 2018) and the treatment of episodic cluster headache (approved in the U.S. in 2019)
- *Reyvow*<sup>™</sup>, an oral medicine for the acute treatment of migraine (launched in the U.S. in 2020)
- *Strattera*<sup>®</sup>, for the treatment of attention-deficit hyperactivity disorder
- *Zyprexa*<sup>®</sup>, for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance

**Oncology products**, including:

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

**Other products**, including:

- *Cialis*<sup>®</sup>, for the treatment of erectile dysfunction and benign prostatic hyperplasia

**Marketing**

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

**U.S.**

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

We promote our major products in the U.S. through sales representatives who call upon physicians and other health care professionals. We also promote to healthcare providers in medical journals and on-line health care channels, distribute literature and samples of certain products to physicians, and exhibit at medical meetings. In addition, we advertise certain products directly to consumers in the U.S., and we maintain websites with information about our major products. We supplement our employee sales force with contract sales organizations to leverage our own resources.

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

## Outside the U.S.

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

## Marketing Collaborations

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

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

For additional information, see Item 8, "Financial Statements and Supplementary Data - Note 4, Collaborations and Other Arrangements."

## Competition

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

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

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

## Generic Pharmaceuticals

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

## Biosimilars

Several of our current products, including Cyramza, Emgality, Erbitux, Taltz, and Trulicity and many of the new molecular entities (NMEs) in our research pipeline are biologics. Competition for Lilly's biologics may be affected by the approval of follow-on biologics, also known as biosimilars. A biosimilar is a subsequent version of an approved innovator biologic that, due to its functional and structural similarity to the innovator biologic, is approved based on an abbreviated data package that relies in part on the full testing required of the innovator biologic. Globally, most governments have developed regulatory pathways to approve biosimilars as alternatives to innovator-developed biologics, but the patent and regulatory exclusivity for the existing innovator biologic must expire in a given market before biosimilars may enter that market. The extent to which a biosimilar, once approved, will be substituted for the innovator biologic in a way that is similar to traditional generic substitution for

non-biologic products, is not yet entirely clear, and will depend on a number of regulatory and marketplace factors that are still developing.

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

## **U.S. Private Sector Dynamics**

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

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

## **Patents, Trademarks, and Other Intellectual Property Rights**

### **Overview**

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

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

- Patent term adjustment is a statutory right available to all U.S. patent applicants to provide relief in the event that a patent grant is delayed during examination by the United States Patent and Trademark Office (USPTO).
- Patent term restoration is a statutory right provided to U.S. patent holders that claim inventions subject to review by the FDA. To make up for a portion of the time invested in clinical trials and the FDA review

process, a single patent for a pharmaceutical product may be eligible for patent term restoration. Patent term restoration is limited by a formula and cannot be calculated until product approval due to uncertainty about the duration of clinical trials and the time it takes the FDA to review an application. There is a five-year cap on any restoration, and no patent's expiration date may be extended beyond 14 years from FDA approval. Some countries outside the U.S. also offer forms of patent term restoration. For example, Supplementary Protection Certificates are available to extend the life of a European patent up to an additional five years (subject to a 15-year cap from European Medicines Agency (EMA) approval). Similarly, in Japan, South Korea, and Australia, patent terms can be extended up to five years, depending on the length of regulatory review and other factors.

Loss of effective patent protection for pharmaceuticals, especially for non-biologic products, typically results in the loss of effective market exclusivity for the product, which often results in severe and rapid decline in revenues for the product. However, in some cases the innovator company may be protected from approval of generic, biosimilar, or other follow-on versions of a new medicine beyond the expiration of the compound patent through manufacturing trade secrets, later-expiring patents on manufacturing processes, methods of use or formulations, or data protection that may be available under pharmaceutical regulatory laws. Changes to the laws and regulations governing these protections could result in earlier loss of effective market exclusivity. The primary forms of data protection are as follows:

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

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

## Our Intellectual Property Portfolio

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

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

- Alimta is protected by a vitamin regimen patent (2021) plus pediatric exclusivity (May 2022).
- Baqsimi is protected by data protection (July 2022).
- Cyramza is protected by a compound patent and biologics data protection (2026).
- Emgality is protected by a compound patent (2033).
- Jardiance, and the related combination products Glyxambi and Synjardy, are protected by a compound patent (2025, not including possible patent extension).
- Olumiant is protected by a compound patent (2030, not including possible patent extension).
- Reyvow is protected by a compound patent (2025, not including possible patent extension).
- Taltz is protected by a compound patent (2026, not including possible patent extension) and by biologics data protection (2028).
- Trajenta and Jentadueto are protected by a compound patent (2023, not including possible patent extension).
- Trulicity is protected by a compound patent (2027).
- Verzenio is protected by a compound patent (2029, not including possible patent extension).

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

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

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

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

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

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

Worldwide, we sell all of our major products under trademarks for names and unique product appearance (e.g., the appearance of our Trulicity autoinjector) which we consider in the aggregate to be important to our operations. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used, and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms. Trademark protection often extends beyond the patent and data protection for a product.

## Patent Licenses

Most of our major products are not subject to significant license agreements. For information on our license and collaboration agreement with Incyte Corporation related to Olumiant, see Item 8, "Financial Statements and Supplementary Data - Note 4, Collaborations."

## Patent Challenges

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

Absent a patent challenge, the FDA cannot approve an ANDA until after certain of the innovator's patents expire. However, after the innovator has marketed its product for four years, a generic manufacturer may file an ANDA alleging that one or more or all of the patents listed in the innovator's NDA are invalid or not infringed. This allegation is commonly known as a "Paragraph IV certification." If the innovator responds by filing suit against the generic manufacturer, the FDA is then prohibited from approving the generic company's application for a 30-month period (which can be shortened or extended by the trial court judge hearing the patent challenge). If one or more of the NDA-listed patents are challenged, the first filer(s) of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers.

Generic manufacturers use Paragraph IV certifications extensively to challenge patents on innovative pharmaceuticals. In addition, generic companies have shown willingness to launch "at risk," i.e., after receiving ANDA approval but before final resolution of their patent challenge. We are currently in Hatch-Waxman litigation involving Alimta with five generic manufacturers. For more information on Hatch-Waxman litigation involving the company, see Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies" and Item 3, "Legal Proceedings."

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

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

Outside the U.S., the legal doctrines and processes by which pharmaceutical patents can be challenged vary widely. In recent years, we have experienced an increase in patent challenges from generic manufacturers in many countries outside the U.S. For more information on administrative challenges and litigation involving our Alimta patents in Europe and Japan, see Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies."

## Government Regulation of Our Operations

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

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

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

The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to various other U.S. federal and state laws, including the federal anti-kickback statute and the False Claims Act and state laws governing kickbacks, false claims, unfair trade practices, and consumer protection. These laws are administered by, among others, the Department of Justice (DOJ), the Office of Inspector General of the Department of Health and Human Services, the Federal Trade Commission, the Office of Personnel Management, and state attorneys general. Over the past several years, state and federal governments have increased their oversight, enforcement activities, and intra-agency coordination with respect to pharmaceutical companies. Several claims brought by these agencies against us and other companies under these and other laws have resulted in corporate criminal sanctions and very substantial civil settlements.

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

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

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

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

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

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

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

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

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

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

## **Research and Development**

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

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

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

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

### **Phases of New Drug Development**

- **Discovery Phase**

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

- **Early Development Phase**

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

- **Product Phase**

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

- **Submission Phase**

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

We believe our investments in research, both internally and in collaboration with others, have been rewarded by the large number of new molecules and new indications for existing molecules that we have in all stages of development. We currently have approximately 45 drug candidates across all stages of human testing and a larger number of projects in preclinical development. Among our new investigational molecules currently in the product phase of development or awaiting regulatory approval or launch are potential therapies for various cancers; Alzheimer's disease; pain; migraine; cluster headache; diabetes; obesity; and autoimmune diseases, including alopecia areata, systemic lupus erythematosus, psoriasis, atopic dermatitis, Crohn's disease, and ulcerative colitis. We are studying many other drug candidates in the earlier stages of development in our chosen priority areas. We are also developing new uses, formulations, or delivery methods for many of these molecules as well as several currently marketed products. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline," for more information on certain of our product candidates.

### **Raw Materials and Product Supply**

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

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

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

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

### **Quality Assurance**

Our success depends in great measure upon customer confidence in the quality of our products and in the integrity of the data that support their safety and effectiveness. Product quality arises from a total commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, distribution, and dissemination of information about our medicines.

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

### **Executive Officers of the Company**

The following table sets forth certain information regarding our executive officers. Except as otherwise noted, all executive officers have been employed by the company in management or executive positions during the last five years.

The term of office for each executive officer expires on the date of the annual meeting of the Board of Directors, to be held on May 4, 2020 in connection with the company's annual shareholders meeting, or on the date his or

her successor is chosen and qualified. No director or executive officer 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 or director and any other person pursuant to which the executive officer was selected.

Name	Age	Offices and Business Experience
David A. Ricks	52	President, Chief Executive Officer, director (since January 2017) and board chair (since June 2017)
Melissa S. Barnes	51	Senior Vice President, Enterprise Risk Management and Chief Ethics and Compliance Officer (since January 2013)
Stephen F. Fry	54	Senior Vice President, Human Resources and Diversity (since February 2011)
Anat Hakim	50	Senior Vice President and General Counsel (since February 2020). Prior to joining Lilly Ms. Hakim was Executive Vice President, General Counsel and Secretary of Wellcare Health Plans, a managed care company. Prior to joining Wellcare, she served as Divisional Vice President and Associate General Counsel at Abbott Laboratories, a health care company.
Patrik Jonsson	53	Senior Vice President and President, Lilly Bio-Medicines (since September 2019)
Michael B. Mason	53	Senior Vice President and President, Lilly Diabetes (since January 2020)
Johna L. Norton	53	Senior Vice President, Global Quality (since April 2017)
Myles O'Neill	61	Senior Vice President and President, Manufacturing Operations (since January 2018)
Leigh Ann Pusey	57	Senior Vice President, Corporate Affairs and Communications (since June 2017). Prior to joining Lilly, Ms. Pusey served as president and CEO of the American Insurance Association.
Aarti Shah, Ph.D.	55	Senior Vice President and Chief Information and Digital Officer (since January 2018)
Daniel Skovronsky, M.D., Ph.D.	46	Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories (since June 2018)
Joshua L. Smiley	50	Senior Vice President and Chief Financial Officer (since January 2018)
Anne E. White	51	Senior Vice President and President, Lilly Oncology (since September 2018)
Alfonso Zulueta	57	Senior Vice President and President, Lilly International (since January 2014)

## Employees

At the end of 2019, we employed approximately 33,625 people, including approximately 18,915 employees outside the U.S. A substantial number of our employees have long records of continuous service.

## Information Available on Our Website

Our company website is <https://www.lilly.com>. None of the information accessible on or through our website is incorporated into this Form 10-K. We make available through the website, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. These include our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. The company website link to our SEC filings is <https://investor.lilly.com/financial-information/sec-filings>.

In addition, the Corporate Governance portion of our website includes our corporate governance guidelines, board and committee information (including committee charters), and our articles of incorporation and bylaws. The link to our corporate governance information is <https://www.lilly.com/about/corporate-governance/Pages/corporate-governance.aspx>.

We will provide paper copies of our SEC filings free of charge upon request to the company's secretary at the address listed on the front of this Form 10-K.

## Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our company. It is possible that our business, financial condition, liquidity, cash flows, or results of operations could be materially adversely affected by any of these risks. Certain of these risks could also adversely affect the company's reputation.

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

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

We cannot state with certainty when or whether our products now under development will be approved or launched; whether, if initially granted, such approval will be maintained; whether we will be able to develop, license, or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful. We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products sufficient both to cover our substantial research and development costs and to replace revenues that are lost as profitable products lose intellectual property exclusivity or are displaced by competing products or therapies. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, and financial position. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline," for more details.

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

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

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

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

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

There is no assurance that the patents we are seeking will be granted or that the patents we hold will be found valid and enforceable if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or marketing alternative products or formulations that compete with our patented products. In addition, competitors or other third parties may assert claims that our activities infringe patents or other intellectual property rights held by them, or allege a third-party right of ownership in our existing intellectual property. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Patent Matters," and Item 1, "Business - Patents, Trademarks, and Other Intellectual Property Rights," for more details.

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

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

Intellectual property protection varies throughout the world and is subject to change over time, depending on local laws and regulations. Changes to such laws and regulations could reduce protections for our innovative products. In the U.S., in addition to the process for challenging patents set forth in the BPCI Act, which applies to our biologic products, the Hatch-Waxman Act provides generic companies powerful incentives to seek to invalidate our other pharmaceutical patents. As a result, we expect that our U.S. patents on major pharmaceutical products will continue to be routinely challenged in litigation and may not be upheld. In addition, a separate IPR process allows competitors to request review of issued patents by the USPTO without the protections of the Hatch-Waxman Act. Our patents may be invalidated via this review process. Although such a decision can be appealed to the courts, in certain circumstances a loss in such a proceeding could result in a competitor entering the market, while a win provides no precedential value - the same patent can still be challenged by other competitors. We face many generic manufacturer challenges to our patents outside the U.S. as well. The entry of generic competitors typically results in rapid and severe declines in revenues. In addition, competitors or other third parties may claim that our activities infringe patents or other intellectual property rights held by them. If successful, such claims could result in our being unable to market a product in a particular territory or being required to pay significant damages for past infringement or royalties on future sales. See Item 1, "Business - Patents, Trademarks, and Other Intellectual Property Rights," Item 3, "Legal Proceedings," and Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," for more details.

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

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

We expect pricing, reimbursement, and access pressures from both governments and private payers inside and outside the U.S. to become more severe. For more details, see Item 1, "Business - Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access," and Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access."

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

We compete with a large number of multinational pharmaceutical companies, biotechnology companies, and generic pharmaceutical companies. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet important medical needs. Our product revenues can be adversely affected by the introduction by competitors of branded products that are perceived as superior by the marketplace, by generic or biosimilar versions of our branded products, and by generic or biosimilar versions of other products in the same therapeutic class as our branded products. Regulation of generic and biosimilar products varies around the world. Particularly for biosimilars, changes to such regulations could make it easier, less expensive, and less time consuming for competitor products to enter the market, some of which could be substituted for our products at the pharmacy. Our revenues can also be adversely affected by treatment innovations that eliminate or minimize the need for treatment with our drugs. See Item 1, "Business - Competition" and "Business - Research and Development," for more details.

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

As a global company with substantial operations outside the U.S., we face foreign currency risk exposure from fluctuating currency exchange rates. While we seek to manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a material impact, either positive or negative, on our revenue, cost of sales, and operating expenses. In the event of an extreme devaluation of local currency, the price of our products could become unsustainable in the relevant market. See Item 7, "Management's Discussion and Analysis - Financial Condition" for more details.

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

We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and in the course of our business, we make judgments about the expected tax treatment of various transactions and events, including the separation of Elanco. Changes in the relevant tax laws, regulations, administrative practices, principles, and interpretations, as well as events that differ from our expectations, could adversely affect our future effective tax rates. The U.S. enacted tax reform legislation significantly revising the U.S. tax law, effective January 2018, and a number of other countries are actively considering or enacting tax changes. Modifications to key elements of the U.S. or international tax framework could have a material adverse effect on our consolidated operating results and cash flows. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Tax Matters" and Item 8, "Financial Statements and Supplementary Data - Note 14, Income Taxes," for more details. Lilly has taken the position on the separation from Elanco, based on an opinion of tax counsel, that the divestiture of Elanco common stock qualifies as a transaction that is tax-free for U.S. federal income tax purposes. If any facts, assumptions, representations, and undertakings from Lilly and Elanco regarding the past and future conduct of their respective businesses and other matters are incorrect or not otherwise satisfied, the divestiture may not qualify for tax-free treatment, which could result in significant U.S. federal income tax liabilities for both Lilly and its shareholders who exchanged their stock for Elanco stock.

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

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

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

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

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

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

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

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

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

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

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

We are subject to a substantial number of product liability claims involving Actos<sup>®</sup>, Axiron<sup>®</sup>, Byetta<sup>®</sup>, Cialis, and Cymbalta among other products, as well as litigation and investigations related to the pricing of our products. See Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," and Item 3, "Legal Proceedings," for more information on our current product liability litigation, as well as pricing litigation, investigations, and inquiries. Because of the nature of pharmaceutical products, we are and could in the future become subject to large numbers of product liability claims for these or other products, or to further litigation or investigations into pricing or other commercial practices. Such matters require substantial expenditures to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for liability insurance, we are self-insured for product liability losses for all our currently marketed products, as well as for litigation or investigations related to our pricing practices or other similar matters.

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

The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to extensive regulation. Many companies, including us, have been subject to claims related to these practices asserted by federal, state, and foreign governmental authorities, private payers, and consumers. These claims have resulted in substantial expense and other significant consequences to us. We are and could in the future become subject to such investigations, the outcomes of which could include criminal charges and fines, penalties, or other monetary or non-monetary remedies, including exclusion from U.S. federal and other health care programs. In addition, regulatory issues concerning compliance with cGMP regulations (and comparable foreign regulations) for our products can lead to product recalls and seizures, fines and penalties, interruption of production leading to product shortages, and delays in the approvals of new products pending resolution of the issues. See Item 1, "Business - Government Regulation of Our Operations," for more details.

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

Pharmaceutical manufacturing is complex and highly regulated. Manufacturing difficulties at our facilities or contracted facilities, or the failure or refusal of a contract manufacturer to supply contracted quantities, could result in product shortages, leading to lost revenue. Such difficulties or disruptions could result from quality or regulatory compliance problems; natural disasters or pandemic disease; mechanical or information technology system vulnerabilities, such as system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources; or inability to obtain sole-source raw or intermediate materials. In addition, given the difficulties in predicting sales of new products and the very long lead times necessary for the expansion and regulatory qualification of pharmaceutical manufacturing capacity, it is possible that we could have difficulty meeting unanticipated demand for new products. See Item 1, "Business - Raw Materials and Product Supply," for more details.

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

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

## ***Item 1B. Unresolved Staff Comments***

None.

## **Item 2. Properties**

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2019, we owned 9 production and distribution sites in the U.S. and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 8.2 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis, Indiana; Carolina, Puerto Rico; and Branchburg, New Jersey.

We own production and distribution sites in 8 countries outside the U.S. and Puerto Rico, containing an aggregate of approximately 4.4 million square feet of floor area. Major production sites include facilities in Ireland, France, Spain, Italy, and China.

In the U.S., our research and development facilities contain an aggregate of approximately 4.2 million square feet of floor area, primarily consisting of owned facilities located in Indianapolis. We also lease smaller sites in San Diego, California and New York City, New York. Outside the U.S., we own smaller research and development facilities in the U.K. and Spain, and lease smaller sites in Singapore.

We believe that none of our properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business. The buildings we own are of varying ages and in good condition.

## **Item 3. Legal Proceedings**

We are a party to various currently pending legal actions, government investigations, and environmental proceedings, and we anticipate that such actions could be brought against us in the future. The most significant of these matters are described below or, as noted, in Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies." While it is not possible to determine the outcome of the legal actions, investigations, and proceedings brought against us, we believe that, except as otherwise specifically noted in Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could be material to our consolidated results of operations in any one reporting period.

### **Legal Proceedings Described in Note 16 to the Consolidated Financial Statements**

See Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," for information on various legal proceedings, including but not limited to:

- The patent litigation and administrative proceedings involving Alimta, Jardiance, Taltz, and Emgality;
- The product liability litigation involving Cymbalta;
- The litigation related to the Cosmopolis facility in Brazil; and
- Pricing litigation, investigations, and inquiries.

That information is incorporated into this Item by reference.

### **Other Product Liability Litigation**

We are named along with Takeda Chemical Industries, Ltd. and Takeda affiliates (collectively, Takeda) as a defendant in four purported product liability class actions in Canada related to Actos, which we commercialized with Takeda in Canada until 2009, including one in Ontario (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al.*), one in Quebec (*Whyte et al. v. Eli Lilly et al.*), one in Saskatchewan (*Weiler v. Takeda Canada Inc. et al.*), and one in Alberta (*Epp v. Takeda Canada Inc. et al.*). In general, plaintiffs in these actions alleged that Actos caused or contributed to their bladder cancer. We believe these lawsuits are without merit, and we and Takeda are defending against them vigorously.

We are named as a defendant in approximately 565 Byetta product liability lawsuits in the U.S. involving approximately 815 plaintiffs. Approximately 60 of these lawsuits, covering about 305 plaintiffs, are filed in California state court and coordinated in a Los Angeles Superior Court. Approximately 500 of the lawsuits, covering about 510 plaintiffs, are filed in federal court, the majority of which are coordinated in a multi-district litigation (MDL) in the U.S. District Court for the Southern District of California. Three lawsuits, representing approximately four plaintiffs, have also been filed in various state courts. Approximately 555 of the lawsuits,

involving approximately 790 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer); most others allege Byetta caused or contributed to pancreatitis. In addition, two suits involving approximately nine plaintiffs allege that Byetta caused or contributed to renal injuries and one case alleges that Byetta caused or contributed to ampullary cancer. The federal and state trial courts granted summary judgment in favor of us and our co-defendants on the claims alleging pancreatic cancer. The plaintiffs appealed those rulings. In November 2017, the U.S. Court of Appeals for the Ninth Circuit reversed the U.S. District Court's grant of summary judgment based on that court's discovery rulings and remanded the cases for further proceedings. In November 2018, the California Court of Appeal reversed the state court's grant of summary judgment based on that court's discovery rulings and remanded for further proceedings. We are aware of approximately 20 additional claimants who have not yet filed suit. These additional claims allege damages for pancreatic cancer or thyroid cancer. We believe these lawsuits are without merit and are defending against them vigorously.

We are named as a defendant in approximately 50 Axiron personal injury/product liability lawsuits in the U.S. involving approximately 50 plaintiffs. In some of the cases, other manufacturers of testosterone are named as co-defendants. All of these lawsuits have been consolidated in a federal MDL in the U.S. District Court for the Northern District of Illinois. The cases generally allege cardiovascular and related injuries. We have reached agreement on a settlement framework that provides for a comprehensive resolution of all of these personal injury claims alleging cardiovascular and related injuries from Axiron treatment. We have also been engaged in litigation with Medical Mutual of Ohio (MMO), which filed a class action complaint against multiple manufacturers of testosterone products, including Lilly, in the U.S. District Court for the Northern District of Illinois, on behalf of third-party payers who paid for those products and is seeking damages under the Federal Racketeer Influenced and Corrupt Organizations Act. MMO's motion for class certification was denied, and in February 2019, the District Court granted summary judgment in favor of defendants, dismissing MMO's lawsuit with prejudice. In November 2019, the U.S. Court of Appeals for the Seventh Circuit affirmed the District Court's ruling, concluding this case.

We are named as a defendant in approximately 350 Cialis product liability lawsuits in the U.S. These cases, many of which were originally filed in various federal courts, contain allegations that Cialis caused or contributed to the plaintiffs' cancer (melanoma). In December 2016, the Judicial Panel on Multidistrict Litigation (JPML) granted the plaintiffs' petition to have filed cases and an unspecified number of future cases coordinated into a federal MDL in the U.S. District Court for the Northern District of California, alongside an existing coordinated proceeding involving Viagra®. The JPML ordered the transfer of the existing cases to the now-renamed multidistrict litigation *In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation*. We believe these lawsuits are without merit and are defending against them vigorously.

#### **Other Patent Litigation**

In Canada, several generic companies previously challenged the validity of our Zyprexa compound patent. In 2012, the Canadian Federal Court of Appeals denied appeal of the lower court's decision that certain patent claims were invalid for lack of utility. In 2013, our petition for leave to appeal the decision to the Supreme Court of Canada was denied. Apotex Inc. and Apotex Pharmachem Inc. (collectively, Apotex) pursued claims for damages arising from our enforcement of the patent under Canadian regulations. Apotex's claims seek compensation based on novel legal theories under the Statute of Monopolies, Trade-Mark Act, and common law. We believe these claims are without merit and are defending against them vigorously. Trial is scheduled to begin in April 2021.

#### **Other Matters**

We are named as a defendant in litigation filed by Research Corporation Technologies, Inc. (RCT) in the U.S. District Court for the District of Arizona. RCT is seeking damages for breach of contract, unjust enrichment, and conversion related to processes used to manufacture certain products, including Humalog and Humulin. A trial date has not been set. We believe this lawsuit is without merit and are defending against it vigorously.

We are named as a defendant in a lawsuit in the U.S. District Court for the Eastern District of Texas seeking damages under the federal anti-kickback statute and state and federal false claims acts for certain patient support programs related to our products Humalog, Humulin, and Forteo. In September 2019, the U.S. District Court granted the DOJ's motion to dismiss the relator's second amended complaint. In January 2020, the relator appealed the District Court's dismissal to the U.S. Court of Appeals for the Fifth Circuit. We believe this lawsuit is without merit and are defending against it vigorously.

The competition authority in China has investigated our distributor pricing practices in China in connection with a broader inquiry into pharmaceutical industry pricing. We have cooperated with this investigation.

We, along with another pharmaceutical manufacturer, are named as co-defendants in *United States et al. ex rel. Streck v. Takeda Pharm. Am., Inc., et al.*, which was unsealed in the U.S. District Court for the Northern District of Illinois. The complaint alleges that the defendants should have treated certain credits from distributors as retroactive price increases and included such increases in calculating Average Manufacturer Prices. We believe these claims are without merit and are defending against them vigorously.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as "Superfund," we have been designated as one of several potentially responsible parties with respect to the cleanup of fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup.

We are also a defendant in other litigation and investigations, including product liability, patent, employment, and premises liability litigation, of a character we regard as normal to our business.

#### ***Item 4. Mine Safety Disclosures***

Not applicable.

## Part II

### **Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

You can find information relating to the principal market for our common stock and related stockholder matters at Item 6, "Selected Financial Data (unaudited)", Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition", and Item 8, "Financial Statements and Supplementary Data - Note 20, Selected Quarterly Data (unaudited)." That information is incorporated here by reference.

The following table summarizes the activity related to repurchases of our equity securities during the fourth quarter ended December 31, 2019:

Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (dollars in millions)
October 2019	2,079	\$ 114.10	2,079	\$ 1,562.8
November 2019	318	114.80	318	1,526.2
December 2019	225	116.65	225	1,500.0
Total	<u>2,622</u>	114.41	<u>2,622</u>	

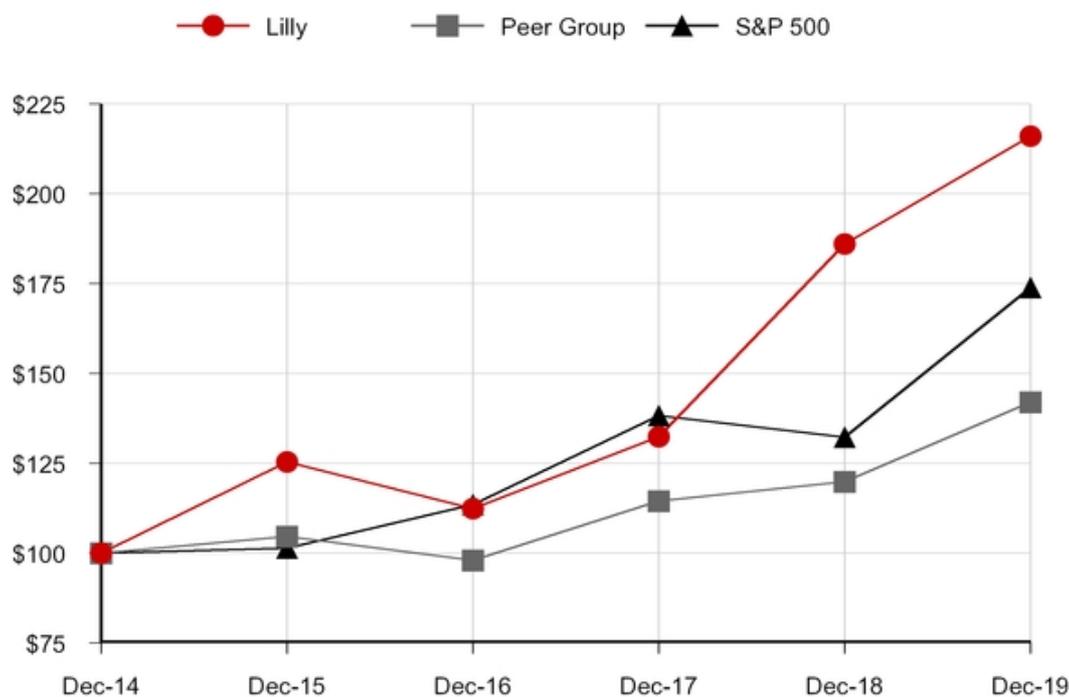
During the three months ended December 31, 2019, we repurchased \$300.0 million of shares under the \$8.00 billion share repurchase program authorized in June 2018.

## PERFORMANCE GRAPH

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

### Value of \$100 Invested on Last Business Day of 2014

### Comparison of Five-Year Cumulative Total Return Among Lilly, S&P 500 Stock Index, Peer Group<sup>(1)</sup> and Peer Group (Previous)<sup>(2)</sup>



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

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

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

## Item 6. Selected Financial Data (unaudited)

ELI LILLY AND COMPANY AND SUBSIDIARIES  
(Dollars in millions, except revenue per employee  
and per-share data)

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

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

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

<sup>(3)</sup> See Note 14 to the consolidated financial statements for discussion regarding income taxes.

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

## Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

### RESULTS OF OPERATIONS

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

#### General

Management's discussion and analysis of results of operations and financial condition is intended to assist the reader in understanding and assessing significant changes and trends related to the results of operations and financial position of our consolidated company. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying footnotes in Item 8 of Part II of this Annual Report on Form 10-K. Certain statements in this Item 7 of Part II of this Annual Report on Form 10-K constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors", may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

#### Executive Overview

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

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

#### Financial Results

The following table summarizes our key operating results:

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

NM - not meaningful

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

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

## 2019

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

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

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

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

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

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

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

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

## 2018

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

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

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

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

Income Taxes (Note 14 to the consolidated financial statements)

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

## Late-Stage Pipeline

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

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

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

**Lasmiditan (Reyvow™) (Q4 2019)**—an oral 5-HT<sub>1F</sub> agonist for the acute treatment of migraine.

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

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

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

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

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

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

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

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

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

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

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

\*\* Diagnostic agent

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

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

Compound	Indication	U.S.	Europe	Japan	Developments
<b>Neuroscience</b>					
Emgality	Cluster headache	Launched	Submitted	Phase III	Submitted to European regulatory authorities in the first quarter of 2019. Approved and launched in the U.S. in the second quarter of 2019.
	Migraine prevention	Launched		Submitted	Launched in Europe in the first quarter of 2019. Submitted to Japanese regulatory authorities in January 2020.
Flortaucipir	Alzheimer's disease diagnostic	Submitted	Phase III		Submitted to the FDA in the third quarter of 2019.
Reyvow	Acute treatment of migraine	Launched	Phase III		Approved by the FDA in the fourth quarter of 2019. Received Schedule V classification from the Drug Enforcement Agency and launched in the U.S. in January 2020.
Solanezumab	Preclinical Alzheimer's disease	Phase III			Announced in February 2020 that a Phase III trial for people with dominantly inherited Alzheimer's disease (DIAD) did not meet the primary endpoint. We do not plan to pursue submission for DIAD. Phase III trial is ongoing for Anti-Amyloid Treatment in Asymptomatic Alzheimer's.
Tanezumab	Osteoarthritis pain	Submitted	Phase III		In the third quarter of 2018 and the first quarter of 2019, announced multiple Phase III trials met several primary endpoints. In the second quarter of 2019, announced the results of the long-term Phase III study in which the 5mg dose met two of the three co-primary endpoints and the 2.5mg dose did not meet any of the three co-primary endpoints. In partnership with Pfizer, we submitted to the FDA in the fourth quarter of 2019 and are pursuing submission in Europe and Japan in 2020.
	Chronic low back pain	Phase III			In the first quarter of 2019, announced Phase III trial met primary endpoint for the 10mg dose and did not meet primary endpoint on the 5mg dose. In the third quarter of 2019, announced results from a Phase III study evaluating long-term safety and efficacy in Japan. In partnership with Pfizer, announced in the third quarter of 2019 that we are not planning regulatory submissions. We plan to maintain an open dialogue with regulatory authorities on potential future regulatory pathways.
	Cancer pain	Phase III		Phase III trial is ongoing.	

Compound	Indication	U.S.	Europe	Japan	Developments
<b>Oncology</b>					
Lartruvo®	Soft tissue sarcoma	Withdrawn	Withdrawing	Not Submitting	In the first quarter of 2019, announced confirmatory phase III trial did not meet primary endpoint. As this trial did not confirm clinical benefit, we suspended promotion globally and withdrew the product in the U.S. in the third quarter of 2019. For countries in Europe, we have withdrawn or are in the process of withdrawing the product.
Pegilodecakin	Pancreatic cancer	Not Submitting			In the fourth quarter of 2019, announced phase III trial did not meet primary endpoint of overall survival. Phase II trials for other indications also did not meet primary endpoint. We do not plan to initiate any new trials.
Selpercatinib (LOXO-292)	Thyroid Cancer	Submitted		Phase III	In the fourth quarter of 2019, submitted to the FDA and European regulatory authorities based on Phase II data. Granted Breakthrough Therapy Designation <sup>(1)</sup> . Granted Priority Review <sup>(2)</sup> from the FDA in first quarter of 2020. Phase III trials were initiated in the fourth quarter of 2019 in all major geographies.
	Lung Cancer	Submitted		Phase III	

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

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

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

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

## Other Matters

### Patent Matters

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

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

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

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

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

The compound patent for Humalog® (insulin lispro) has expired in major markets. Global regulators have different legal pathways to approve similar versions of insulin lispro. A competitor launched a similar version of insulin lispro in certain European markets in 2017 and in the U.S. in the second quarter of 2018. While it is difficult to estimate the severity of the impact of insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue; however, we expect additional pricing pressure and some loss of market share that would continue over time.

### Foreign Currency Exchange Rates

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

## Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

### U.S.

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

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

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

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

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

#### *International*

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

#### Tax Matters

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

#### Acquisitions

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

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

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

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

## Operating Results—2019

### Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		Percent Change
	2019	2018	
U.S. <sup>(1)</sup>	\$ 12,722.6	\$ 12,391.9	3
Outside U.S.	9,596.8	9,101.4	5
Revenue	\$ 22,319.5	\$ 21,493.3	4

Numbers may not add due to rounding.

<sup>(1)</sup> U.S. revenue includes revenue in Puerto Rico.

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

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

Numbers may not add due to rounding.

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

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

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

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

Numbers may not add due to rounding.

NM - Not meaningful

<sup>(1)</sup> U.S. revenue includes revenue in Puerto Rico.

<sup>(2)</sup> Humalog revenue includes insulin lispro.

<sup>(3)</sup> Jardiance revenue includes Glyxambi® and Synjardy®.

<sup>(4)</sup> Trajenta revenue includes Jentadueto®.

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

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

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

Revenue of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women, decreased 15 percent in the U.S., primarily driven by decreased demand. Revenue outside the U.S. decreased 7 percent, driven by decreased volume and, to a lesser extent, the unfavorable impact of foreign exchange rates and lower realized prices. We expect further volume decline as a result of competitive dynamics in the U.S. and the entry of generic and biosimilar competition following the loss of patent exclusivity in the third quarter of 2019 in the U.S., Japan, and major European markets. See "Executive Overview - Other Matters - Patent Matters" for more information.

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

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

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

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

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

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

### **Gross Margin, Costs, and Expenses**

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

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

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

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

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

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

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

## Operating Results—2018

### Financial Results

The following table summarizes our key operating results:

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

NM - not meaningful

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

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

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

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

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

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

Income Taxes (Note 14 to the consolidated financial statements)

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

## Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		Percent Change
	2018	2017	
U.S. <sup>(1)</sup>	\$ 12,391.9	\$ 11,414.4	9
Outside U.S.	9,101.4	8,559.4	6
Revenue	\$ 21,493.3	\$ 19,973.8	8

Numbers may not add due to rounding.

<sup>(1)</sup> U.S. revenue includes revenue in Puerto Rico.

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

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

Numbers may not add due to rounding.

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

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

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

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

Numbers may not add due to rounding.

<sup>(1)</sup> U.S. revenue includes revenue in Puerto Rico.

<sup>(2)</sup> Jardiance revenue includes Glyxambi and Synjardy.

<sup>(3)</sup> Trajenta revenue includes Jentaduetto.

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

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

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

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

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

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

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

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

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

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

### **Gross Margin, Costs, and Expenses**

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

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

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

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

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

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

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

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

## FINANCIAL CONDITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate derivatives to help maintain that balance. Based on our overall interest rate exposure at December 31, 2019 and 2018, including derivatives and other interest rate risk-sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2019 and 2018, respectively, would not have a material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

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

#### **Off-Balance Sheet Arrangements and Contractual Obligations**

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

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

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

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

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

<sup>(2)</sup> We have included the following:

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

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

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

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

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

### Revenue Recognition and Sales Return, Rebate, and Discount Accruals

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

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

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

#### *Financial Statement Impact*

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

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

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

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

<sup>(1)</sup> Adjustments of the estimates for these returns, rebates, and discounts to actual results were approximately 1 percent of consolidated net sales for each of the years presented.

## **Product Litigation Liabilities and Other Contingencies**

### *Background and Uncertainties*

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

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

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

## **Acquisitions**

### *Background and Uncertainties*

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

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

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

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

### **Impairment of Indefinite-Lived and Long-Lived Assets**

#### *Background and Uncertainties*

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

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

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

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

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

### **Retirement Benefits Assumptions**

#### *Background and Uncertainties*

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

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

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

#### *Financial Statement Impact*

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

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

## **Income Taxes**

### *Background and Uncertainties*

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

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

### *Financial Statement Impact*

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

### **LEGAL AND REGULATORY MATTERS**

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

### **FINANCIAL EXPECTATIONS FOR 2020**

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

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

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

## ***Item 7A. Quantitative and Qualitative Disclosures About Market Risk***

You can find quantitative and qualitative disclosures about market risk (e.g., interest rate risk) at Item 7, “Management’s Discussion and Analysis - Financial Condition.” That information is incorporated in this report by reference.

## Item 8. Financial Statements and Supplementary Data

### Consolidated Statements of Operations

#### ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars in millions and shares in thousands, except per-share data)

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

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income (Loss)

ELI LILLY AND COMPANY AND SUBSIDIARIES  
(Dollars in millions)

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

See notes to consolidated financial statements.

# Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES  
(Dollars in millions, shares in thousands)

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

See notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

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

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES  
(Dollars in millions)

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

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

ELI LILLY AND COMPANY AND SUBSIDIARIES

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

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

### Basis of Presentation

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates. We issued our financial statements by filing with the Securities and Exchange Commission (SEC) and have evaluated subsequent events up to the time of the filing of our Form 10-K.

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

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

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

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

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

Research and development expenses include the following:

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

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

### Earnings Per Share (EPS)

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

### Foreign Currency Translation

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

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

### **Advertising Expenses**

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

### **Other Significant Accounting Policies**

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

### **Implementation of New Financial Accounting Standards**

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

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

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

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

We elected to early adopt Accounting Standards Update 2018-02, *Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, as of December 31, 2017, which allowed a reclassification from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (2017 Tax Act - see Note 14). This standard allowed us to reclassify the effect of remeasuring deferred tax liabilities and assets

related to items within accumulated other comprehensive loss using the then newly enacted 21 percent federal corporate income tax rate. The provisional effect of this early adoption was a reclassification from accumulated other comprehensive loss, which resulted in an increase to retained earnings of \$643.6 million as of December 31, 2017.

## Note 2: Revenue

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

	2019		2018		2017
Net product revenue	\$ 20,377.3	\$	19,866.4	\$	18,776.5
Collaboration and other revenue <sup>(1)</sup>	1,942.2		1,626.9		1,197.3
Revenue	\$ 22,319.5	\$	21,493.3	\$	19,973.8

<sup>(1)</sup> Collaboration and other revenue associated with prior period transfers of intellectual property was \$301.5 million, \$303.2 million, and \$144.9 million during the years ended 2019, 2018, and 2017, respectively.

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

### Net Product Revenue

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

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

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

#### Sales Rebates and Discounts - Background and Uncertainties

- We initially invoice our customers at contractual list prices. Contracts with direct and indirect customers may provide for various rebates and discounts that may differ in each contract. As a consequence, to determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we must estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates.
- The rebate and discount amounts are recorded as a deduction to arrive at our net product revenue. Sales rebates and discounts that require the use of judgment in the establishment of the accrual

include managed care, Medicare, Medicaid, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We estimate these accruals using an expected value approach.

- The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, chargeback, and patient assistance programs in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing. Although we accrue a liability for rebates related to these programs at the time we record the sale, the rebate related to that sale is typically paid up to six months later. Because of this time lag, in any particular period our rebate adjustments may incorporate revisions of accruals for several periods.
- Most of our rebates outside the U.S. are contractual or legislatively mandated and are estimated and recognized in the same period as the related sales. In some large European countries, government rebates are based on the anticipated budget for pharmaceutical payments in the country. An estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale.

#### Sales Returns - Background and Uncertainties

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

## Adjustments to Revenue

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

## **Collaboration and Other Arrangements**

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

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

## Contract Liabilities

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

The following table summarizes contract liability balances:

	<b>2019</b>	<b>2018</b>
Contract liabilities	\$ 264.6	\$ 294.9

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

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

## Disaggregation of Revenue

The following table summarizes revenue by product:

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

Numbers may not add due to rounding.

<sup>(1)</sup> U.S. revenue includes revenue in Puerto Rico.

<sup>(2)</sup> Humalog revenue includes insulin lispro.

<sup>(3)</sup> Jardiance revenue includes Glyxambi<sup>®</sup> and Synjardy<sup>®</sup>.

<sup>(4)</sup> Trajenta revenue includes Jentadueto<sup>®</sup>.

The following table summarizes revenue by geographical area:

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

Numbers may not add due to rounding.

<sup>(1)</sup> Revenue is attributed to the countries based on the location of the customer.

### Note 3: Acquisitions and Divestiture

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

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

#### Acquisition of a Business

##### Loxo Acquisition

##### *Overview of Transaction*

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

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

##### *Assets Acquired and Liabilities Assumed*

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

##### Estimated Fair Value at February 15, 2019

Acquired IPR&D <sup>(1)</sup>	\$	4,670.0
Finite-lived intangibles <sup>(2)</sup>		980.0
Deferred income taxes		(1,032.8)
Other assets and liabilities - net		(26.4)
Total identifiable net assets		4,590.8
Goodwill <sup>(3)</sup>		2,326.9
Total consideration transferred - net of cash acquired	\$	6,917.7

<sup>(1)</sup> \$4.60 billion of the acquired IPR&D relates to selpercatinib (LOXO-292).

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

<sup>(3)</sup> The goodwill recognized from this acquisition is attributable primarily to future unidentified projects and products and the assembled workforce for Loxo and is not deductible for tax purposes.

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

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

## Asset Acquisitions

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

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

<sup>(1)</sup> The phase of development presented is as of the date of the arrangement and represents the phase of development of the most advanced asset acquired, where applicable.

<sup>(2)</sup> We recognized acquired IPR&D expenses of \$96.9 million in January 2019 upon entering into a license agreement and \$30.2 million in September 2019 upon entering into an amendment to the license agreement.

<sup>(3)</sup> This research and development collaboration agreement has been terminated, to be effective March 2020.

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

## **Divestiture**

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

## **Subsequent Event - Dermira, Inc. (Dermira) Acquisition**

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

## **Note 4: Collaborations and Other Arrangements**

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

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

### **Boehringer Ingelheim Diabetes Collaboration**

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

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

Product Family	Milestones (Deferred) Capitalized <sup>(1)</sup>
Trajenta <sup>(2)</sup>	\$ 446.4
Jardiance <sup>(3)</sup>	289.0
Basaglar	(250.0)

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

<sup>(2)</sup> The collaboration agreement with Boehringer Ingelheim for Trajenta ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

<sup>(3)</sup> The collaboration agreement with Boehringer Ingelheim for Jardiance ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

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

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

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

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

## Olumiant

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

The following table summarizes our significant milestones achieved:

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

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

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

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

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

## Tanezumab

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

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

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

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

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

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

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

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

## Note 6: Inventories

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

Inventories at December 31 consisted of the following:

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

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

## Note 7: Financial Instruments

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

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

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

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

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

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

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

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

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

In the normal course of business, our operations are exposed to fluctuations in interest rates which can vary the costs of financing, investing, and operating. We seek to address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact of fluctuations in interest rates on earnings. Our primary interest-rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest-rate exposures, we strive to achieve an acceptable balance between fixed- and floating-rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance.

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

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

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

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

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

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

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

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

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

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

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

## Fair Value of Financial Instruments

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

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

<sup>(1)</sup> For available-for-sale debt securities, amounts disclosed represent the securities' amortized cost.

<sup>(2)</sup> Fair value disclosures are not applicable for equity method investments and investments accounted for under the measurement alternative for equity investments.

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

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

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

We determine our Level 1 and Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. Level 3 fair value measurements for other investment securities are determined using unobservable inputs, including the investments' cost adjusted for impairments and price

changes from orderly transactions. The fair values of equity method investments and investments measured under the measurement alternative for equity investments that do not have readily determinable fair values are not readily available.

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

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

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

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

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

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

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

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

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

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

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

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

### Accounts Receivable Factoring Arrangements

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

### Note 8: Goodwill and Other Intangibles

#### Goodwill

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

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

#### Other Intangibles

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

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

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

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

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

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

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

Other indefinite-lived intangible assets are reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the intangible asset to its carrying value is performed to determine the amount of any impairment. Finite-lived intangible assets are reviewed for impairment when an indicator of impairment is present. When required, a comparison of fair value to the carrying amount of assets is performed to determine the amount of any impairment. When determining the fair value of indefinite-lived acquired IPR&D as well as the fair value of finite-lived intangible assets for impairment testing purposes, we utilize the "income method" discussed above.

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

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

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

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

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

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

## Note 9: Property and Equipment

Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives (12 to 50 years for buildings and three to 25 years for equipment). We review the carrying value of long-lived assets for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Impairment is determined by comparing projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

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

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

Depreciation expense related to property and equipment was as follows:

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

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

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

	2019	2018
Long-lived assets <sup>(1)</sup> :		
U.S. and Puerto Rico	\$ 5,595.4	\$ 5,425.0
Ireland	1,454.8	1,351.3
Other foreign countries	1,758.3	1,769.9
Long-lived assets	<b>\$ 8,808.5</b>	<b>\$ 8,546.2</b>

<sup>(1)</sup> Long-lived assets consist of property and equipment, net, operating lease assets, and certain other noncurrent assets.

## Note 10: Leases

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

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

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

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

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

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

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

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

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

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

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

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

## Note 11: Borrowings

Debt at December 31 consisted of the following:

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

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

At December 31, 2019, we had a total of \$5.21 billion of unused committed bank credit facilities, which consisted primarily of a \$3.00 billion credit facility that expires in December 2024 and a \$2.00 billion 364-day facility that expires in December 2020, both of which are available to support our commercial paper program. We have not drawn against the \$3.00 billion and \$2.00 billion facilities. Of the remaining committed bank credit facilities, the outstanding balances as of as December 31, 2019 and December 31, 2018 were not material. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

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

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

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

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

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

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

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

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

In accordance with the requirements of derivatives and hedging guidance, the portion of our fixed-rate debt obligations that is hedged as a fair value hedge is reflected in the consolidated balance sheets as an amount

equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

## Note 12: Stock-Based Compensation

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

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

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

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

### Performance Award Program

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

### Shareholder Value Award Program

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

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

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

## Restricted Stock Units

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

### Note 13: Shareholders' Equity

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

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

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

### Note 14: Income Taxes

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

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Deferred taxes related to GILTI are also recognized for the future tax effects of temporary differences.

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

Following is the composition of income tax expense:

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

<sup>(1)</sup> The 2019 current tax expense includes \$153.1 million of tax benefit from utilization of net operating loss carryforwards. The 2018 and 2017 current tax expense includes \$201.5 million and \$3.25 billion of tax expense, respectively, related to effects of the 2017 Tax Act.

<sup>(2)</sup> The 2018 and 2017 deferred tax benefit includes \$26.2 million and \$1.33 billion of tax benefit, respectively, related to the effects of the 2017 Tax Act.

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

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

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

At December 31, 2019, based on filed tax returns we have tax credit carryforwards and carrybacks of \$799.2 million available to reduce future income taxes; \$149.3 million, if unused, will expire by 2026, and \$55.6 million, if unused, will expire between 2032 and 2038. The remaining portion of the tax credit carryforwards is

related to federal tax credits of \$86.6 million, international tax credits of \$114.7 million, and state tax credits of \$393.0 million, all of which are substantially reserved.

At December 31, 2019, based on filed tax returns we had net operating losses and other carryforwards for international and U.S. federal income tax purposes of \$949.7 million: \$181.4 million will expire by 2024; \$345.4 million will expire between 2025 and 2039; and \$422.9 million of the carryforwards will never expire. Net operating losses and other carryforwards for international and U.S. federal income tax purposes are partially reserved. Deferred tax assets related to state net operating losses of \$116.1 million and other state carryforwards of \$3.6 million are fully reserved as of December 31, 2019.

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

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

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

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

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

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

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

<sup>(1)</sup> Non-deductible acquired IPR&D was related to ARMO in 2018 and CoLucid in 2017. See Note 3 for additional information related to acquisitions.

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

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

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

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

The U.S. examination of tax years 2013-2015 began in 2016, and certain matters were effectively settled during the second quarter of 2019. As a result, our gross uncertain tax positions were reduced by approximately \$200 million, we made a cash payment of approximately \$125 million, and our consolidated results were benefited by an immaterial reduction in tax expense. During the fourth quarter of 2019, certain matters for tax year 2015 were effectively settled upon conclusion of the Internal Revenue Service's (IRS) examination which resulted in an immaterial reduction in tax expense and gross uncertain tax positions. Also in the fourth quarter of 2019, the IRS began its examination of tax years 2016-2018.

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

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

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

## Note 15: Retirement Benefits

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

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

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

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

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

The workforce reduction plan initiated in 2017 included a curtailment loss of \$159.0 million and a special termination benefit of \$354.7 million, of which \$446.7 million was recorded in asset impairment, restructuring,

and other special charges and \$67.0 million was recorded in discontinued operations, as a result of a remeasurement as of October 31, 2017. The special termination benefits related to early retirement incentives offered as part of a voluntary early retirement program for the U.S. plan in the fourth quarter of 2017. This program allowed certain employees the opportunity to voluntarily leave the Company.

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

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

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

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

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

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

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

	2019	2018
Projected benefit obligation	\$ <b>14,039.7</b>	\$ 11,584.2
Fair value of plan assets	<b>10,483.4</b>	8,895.6

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

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

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

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

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

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

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

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

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

#### Benefit Plan Investments

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

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

Our global benefit plans may enter into contractual arrangements (derivatives) to implement the local investment policy or manage particular portfolio risks. Derivatives are principally used to increase or decrease exposure to a particular public equity, fixed income, commodity, or currency market more rapidly or less expensively than could be accomplished through the use of the cash markets. The plans utilize both exchange-traded and over-the-counter instruments. The maximum exposure to either a market or counterparty credit loss is limited to the carrying value of the receivable, and is managed within contractual limits. We expect all of our counterparties to meet their obligations. The gross values of these derivative receivables and payables are not material to the global asset portfolio, and their values are reflected within the tables below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Note 16: Contingencies

We are a party to various legal actions and government investigations. The most significant of these are described below. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that, except as noted below with respect to the Alimta patent litigation and administrative proceedings, the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

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

### Patent Litigation

#### Alimta Patent Litigation and Administrative Proceedings

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

##### U.S. Patent Litigation and Administrative Proceedings

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

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

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

##### European Patent Litigation

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

pemetrexed products launched at risk in European markets and seek damages with respect to such launches, and defend our patents against validity challenges.

### Japanese Administrative Proceedings

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

### **Jardiance Patent Litigation**

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

### **Taltz Patent Litigation**

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

### **Emgality Patent Litigation**

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

### **Product Liability Litigation**

#### **Cymbalta Product Liability Litigation**

We were named as a defendant in a purported class-action lawsuit in the U.S. District Court for the Central District of California (now called *Strafford et al. v. Eli Lilly and Company*) involving Cymbalta. The plaintiffs, purporting to represent a class of persons who purchased and/or paid for Cymbalta, asserted claims under the consumer protection statutes of California, Massachusetts, Missouri, and New York, and sought declaratory, injunctive, and monetary relief for various alleged economic injuries arising from their purchases.

After the district court denied the plaintiffs' motions for class certification, plaintiffs voluntarily dismissed their claims. The plaintiffs subsequently appealed to the U.S. Court of Appeals for the Ninth Circuit. In November 2017, the U.S. Court of Appeals for the Ninth Circuit dismissed the appeal for lack of jurisdiction. In July 2018, the U.S. District Court for the Central District of California denied the plaintiffs' motion to reopen the case. The plaintiffs appealed this denial to the U.S. Court of Appeals for the Ninth Circuit and in January 2020, the Ninth Circuit affirmed the district court's decision. The plaintiffs have filed a petition for rehearing before the Ninth Circuit.

## **Other Matters**

### **Brazil Litigation – Cosmopolis Facility**

#### Labor Attorney Litigation

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

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

#### Individual Former Employee Litigation

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

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

## Pricing Litigation, Investigations, and Inquiries

### Litigation

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

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

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

### Investigations, Subpoenas, and Inquiries

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

## Product Liability Insurance

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

## Note 17: Other Comprehensive Income (Loss)

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

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

<sup>(1)</sup> Accumulated other comprehensive loss as of January 1, 2017 consists of \$5.27 billion of accumulated other comprehensive loss attributable to controlling interest and \$48.2 million of accumulated other comprehensive income attributable to noncontrolling interest.

<sup>(2)</sup> Accumulated other comprehensive loss as of December 31, 2017 consists of \$5.72 billion of accumulated other comprehensive loss attributable to controlling interest and \$23.7 million of accumulated other comprehensive income attributable to noncontrolling interest.

<sup>(3)</sup> This reclassification consists of \$105.2 million of accumulated other comprehensive loss attributable to controlling interest and \$23.7 million of accumulated other comprehensive loss attributable to noncontrolling interest. Refer to Note 1 for further details regarding the reclassification due to the adoption of ASU 2016-01.

<sup>(4)</sup> Accumulated other comprehensive loss as of December 31, 2018 consists of \$5.73 billion of accumulated other comprehensive loss attributable to controlling interest and \$11.0 million of accumulated other comprehensive loss attributable to noncontrolling interest.

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

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

Except for the tax effects of foreign currency translation gains and losses related to our foreign currency-denominated notes, cross-currency interest rate swaps, and other foreign currency exchange contracts designated as net investment hedges (see Note 7), income taxes were not provided for foreign currency translation. Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in the consolidated statements of operations.

Reclassifications out of accumulated other comprehensive loss were as follows:

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

**Note 18: Other–Net, (Income) Expense**

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

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

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

## Note 19: Discontinued Operations

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

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

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

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

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

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

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

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

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

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

## Note 20: Selected Quarterly Data (unaudited)

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

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

<sup>(1)</sup> Includes research and development and marketing, selling, and administrative expenses.

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

<sup>(3)</sup> Acquired IPR&D charges in the second quarter of 2018 were primarily due to the ARMO acquisition. See Note 3 for further discussion.

<sup>(4)</sup> Income taxes in the fourth quarter of 2018 were a tax benefit primarily due to adjustments associated with U.S. tax reform. See Note 14 for further discussion.

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

## Management's Reports

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

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

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

The consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. Their responsibility is to examine our consolidated financial statements in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Ernst & Young's opinion with respect to the fairness of the presentation of the statements is included in Item 8 of our annual report on Form 10-K. Ernst & Young reports directly to the audit committee of the board of directors.

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

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

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

Management of Eli Lilly and Company and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. We have global financial policies that govern critical areas, including internal controls, financial accounting and reporting, fiduciary accountability, and safeguarding of corporate assets. Our internal accounting control systems are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls. The general auditor reports directly to the audit committee of the board of directors.

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

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

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

David A. Ricks  
*Chairman, President and Chief Executive Officer*

Joshua L. Smiley  
*Senior Vice President and Chief Financial Officer*

February 19, 2020

# Report of Independent Registered Public Accounting Firm

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

## Opinion on the Financial Statements

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

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

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

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

## Basis for Opinion

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

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

## Critical Audit Matters

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

### **Medicaid, Managed Care, and Medicare sales rebate accruals**

#### *Description of the Matter*

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

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

#### *How We Addressed the Matter in Our Audit*

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

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

### **Retirement Benefits - Valuation of Alternative Investments**

#### *Description of the Matter*

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

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

*How We Addressed the Matter in Our Audit*

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

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

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

*Description of the Matter*

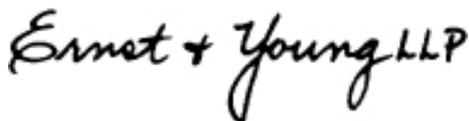
As described in Note 3 to the consolidated financial statements, in February 2019, the Company completed its acquisition of Loxo Oncology, Inc. (Loxo) for a purchase price of \$6.92 billion, net of cash acquired. As a result of the acquisition, the Company acquired a pipeline of investigational medicines,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

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

*How We Addressed the Matter in Our Audit*

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

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

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

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

Indianapolis, Indiana

February 19, 2020

# *Report of Independent Registered Public Accounting Firm*

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

## **Opinion on Internal Control Over Financial Reporting**

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

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

## **Basis for Opinion**

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

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

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

## **Definition and Limitations of Internal Control Over Financial Reporting**

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

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

*Ernst + Young LLP*

Indianapolis, Indiana

February 19, 2020

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## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Under applicable Securities and Exchange Commission (SEC) regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-K) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of David A. Ricks, president and chief executive officer, and Joshua L. Smiley, senior vice president and chief financial officer, evaluated our disclosure controls and procedures as of December 31, 2019, and concluded that they were effective.

#### **Internal Control over Financial Reporting**

Mr. Ricks and Mr. Smiley provided a report on behalf of management on our internal control over financial reporting, in which management concluded that the company's internal control over financial reporting is effective at December 31, 2019. In addition, Ernst & Young LLP, the company's independent registered public accounting firm, provided an attestation report on the company's internal control over financial reporting as of December 31, 2019. You can find the full text of management's report and Ernst & Young's attestation report in Item 8.

#### **Changes in Internal Controls**

During the fourth quarter of 2019, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

## Part III

### ***Item 10. Directors, Executive Officers, and Corporate Governance***

#### **Directors and Executive Officers**

Information relating to our Board of Directors is found in our Definitive Proxy Statement to be dated on or about March 20, 2020 (the Proxy Statement) under “Board of Directors” and is incorporated in this report by reference.

Information relating to our executive officers is found at Item 1, “Business - Executive Officers of the Company.”

#### **Code of Ethics**

Information relating to our code of ethics is found in our Proxy Statement under “Code of Ethics” and is incorporated in this report by reference.

#### **Corporate Governance**

Information about the procedures by which shareholders can recommend nominees to our board of directors is found in our Proxy Statement under “Director Qualifications and Nomination Process” and is incorporated in this report by reference.

The board has appointed an audit committee consisting entirely of independent directors in accordance with applicable SEC and New York Stock Exchange rules for audit committees. Information about our audit committee is found in our Proxy Statement under “Audit Committee” and is incorporated in this report by reference.

#### **Section 16(a) Reporting Compliance**

Information about our compliance with Section 16(a) is found in our Proxy Statement under “Other Matters - Delinquent Section 16(a) Reports” and is incorporated in this report by reference.

### ***Item 11. Executive Compensation***

Information on director compensation, executive compensation, and compensation committee matters can be found in the Proxy Statement under “Director Compensation,” “Committees of the Board of Directors - Compensation Committee,” “Compensation Discussion and Analysis,” and “Executive Compensation.” That information is incorporated in this report by reference.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

### Security Ownership of Certain Beneficial Owners and Management

Information relating to ownership of the company's common stock by management and by persons known by the company to be the beneficial owners of more than five percent of the outstanding shares of common stock is found in the Proxy Statement under "Ownership of Company Stock." That information is incorporated in this report by reference.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2019, regarding our compensation plans under which shares of Lilly common stock have been authorized for issuance.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights <sup>(1)</sup>	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	\$ —	54,639,336
Equity compensation plan not approved by security holders	—	—	—
Total	—	—	54,639,336

<sup>(1)</sup> 6,711,231 shares are underlying outstanding equity awards other than options.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

### Related Person Transactions

Information relating to the board's policies and procedures for approval of related person transactions can be found in the Proxy Statement under "Highlights of the Company's Corporate Governance - Conflicts of Interest and Transactions with Related Persons." That information is incorporated in this report by reference.

### Director Independence

Information relating to director independence can be found in the Proxy Statement under "Director Independence" and is incorporated in this report by reference.

## Item 14. Principal Accountant Fees and Services

Information related to the fees and services of our principal independent accountants, Ernst & Young LLP, can be found in the Proxy Statement under "Item 3. Proposal to Ratify the Appointment of Principal Independent Auditor - Audit Committee Report - Services Performed by the Independent Auditor" and "Independent Auditor Fees." That information is incorporated in this report by reference.

## **Item 15. Exhibits and Financial Statement Schedules**

### **(a)1. Financial Statements**

The following consolidated financial statements of the company and its subsidiaries are found at Item 8:

- Consolidated Statements of Operations—Years Ended December 31, 2019, 2018, and 2017
- Consolidated Statements of Comprehensive Income (Loss)—Years Ended December 31, 2019, 2018, and 2017
- Consolidated Balance Sheets—December 31, 2019 and 2018
- Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2019, 2018, and 2017
- Consolidated Statements of Cash Flows—Years Ended December 31, 2019, 2018, and 2017
- Notes to Consolidated Financial Statements

### **(a)2. Financial Statement Schedules**

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

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

### **(a)3. Exhibits**

- 2.1 Agreement and Plan of Merger, dated January 5, 2019, among Eli Lilly and Company, Bowfin Acquisition Corporation and Loxo Oncology, Inc.
- 3.1 Amended Articles of Incorporation
- 3.2 Bylaws, as amended
- 4.1 Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., Trustee
- 4.2 Agreement dated September 13, 2007 appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed above
- 4.3 Description of Common Stock
- 4.4 Description of the Company's 1.000% EUR Notes due 2022, 1.625% EUR Notes due 2026, and 2.125% EUR Notes due 2030
- 4.5 Description of the Company's 6.77% Notes due 2036
- 4.6 Description of the Company's 7 1/8% Notes due 2025
- 4.7 Description of the Company's 0.625% EUR Notes due 2031 and 1.700% EUR Notes due 2049
- 10.1 Amended and Restated 2002 Lilly Stock Plan<sup>(1)</sup>
- 10.2 Form of Performance Award under the 2002 Lilly Stock Plan<sup>(1)</sup>
- 10.3 Form of Shareholder Value Award under the 2002 Lilly Stock Plan<sup>(1)</sup>
- 10.4 Form of Relative Value Award under the 2002 Lilly Stock Plan<sup>(1)</sup>
- 10.5 Restricted Stock Unit Award to Michael Harrington under the 2002 Lilly Stock Plan<sup>(1)</sup>
- 10.6 The Lilly Deferred Compensation Plan, as amended<sup>(1)</sup>
- 10.7 The Lilly Directors' Deferral Plan, as amended<sup>(1)</sup>
- 10.8 The Eli Lilly and Company Bonus Plan, as amended<sup>(1)</sup>
- 10.9 The Eli Lilly and Company Executive Officer Incentive Plan<sup>(1)</sup>
- 10.10 2007 Change in Control Severance Pay Plan for Select Employees, as amended<sup>(1)</sup>
- 21 List of Subsidiaries
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer
- 32 Section 1350 Certification
- 101 Interactive Data File
- 104 Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibit 101)

<sup>(1)</sup> Indicates management contract or compensatory plan.

## **Item 16. Form 10-K Summary**

Not applicable.

## Index to Exhibits

The following documents are filed as part of this report:

<u>Exhibit</u>		<u>Location</u>
<a href="#">2.1</a>	<a href="#">Agreement and Plan of Merger, dated January 5, 2019, among Eli Lilly and Company, Bowfin Acquisition Corporation and Loxo Oncology, Inc.</a>	<a href="#">Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Loxo Oncology on January 7, 2019</a>
<a href="#">3.1</a>	<a href="#">Amended Articles of Incorporation</a>	<a href="#">Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-K for the year ended December 31, 2013</a>
<a href="#">3.2</a>	<a href="#">Bylaws, as amended</a>	<a href="#">Bylaws, as amended, are incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K dated on December, 20, 2019</a>
<a href="#">4.1</a>	<a href="#">Indenture with respect to Debt Securities dated as of February 1, 1991, between Eli Lilly and Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., Trustee</a>	<a href="#">Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 333-186979</a>
<a href="#">4.2</a>	<a href="#">Agreement dated September 13, 2007 appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed above</a>	<a href="#">Incorporated by reference to Exhibit 4.2 to the Company's Report on Form 10-K for the year ended December 31, 2008</a>
<a href="#">4.3</a>	<a href="#">Description of the Company's Common Stock</a>	<a href="#">Attached</a>
<a href="#">4.4</a>	<a href="#">Description of the Company's 1.000% EUR Notes due 2022, 1.625% EUR Notes due 2026, and 2.125% EUR Notes due 2030</a>	<a href="#">Attached</a>
<a href="#">4.5</a>	<a href="#">Description of the Company's 6.77% Notes due 2036</a>	<a href="#">Attached</a>
<a href="#">4.6</a>	<a href="#">Description of the Company's 7 1/8% Notes due 2025</a>	<a href="#">Attached</a>
<a href="#">4.7</a>	<a href="#">Description of the Company's 0.625% EUR Notes due 2031 and 1.700% EUR Notes due 2049</a>	<a href="#">Attached</a>
<a href="#">10.1</a>	<a href="#">Amended and Restated 2002 Lilly Stock Plan</a>	<a href="#">Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the quarter ended June 30, 2018</a>
<a href="#">10.2</a>	<a href="#">Form of Performance Award under the 2002 Lilly Stock Plan</a>	<a href="#">Attached</a>
<a href="#">10.3</a>	<a href="#">Form of Shareholder Value Award under the 2002 Lilly Stock Plan</a>	<a href="#">Attached</a>
<a href="#">10.4</a>	<a href="#">Form of Relative Value Award under the 2002 Lilly Stock Plan</a>	<a href="#">Attached</a>
<a href="#">10.5</a>	<a href="#">Restricted Stock Unit Award to Michael Harrington under the 2002 Lilly Stock Plan</a>	<a href="#">Attached</a>
<a href="#">10.6</a>	<a href="#">The Lilly Deferred Compensation Plan, as amended</a>	<a href="#">Incorporated by reference to Exhibit 10.5 to the Company's Report on Form 10-K for the year ended December 31, 2013</a>
<a href="#">10.7</a>	<a href="#">The Lilly Directors' Deferral Plan, as amended</a>	<a href="#">Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended June 30, 2017</a>
<a href="#">10.8</a>	<a href="#">The Eli Lilly and Company Bonus Plan, as amended</a>	<a href="#">Incorporated by reference to Exhibit 10.7 to the Company's Report on Form 10-K for the year ended December 31, 2013</a>

<a href="#"><u>10.9</u></a>	<a href="#"><u>The Eli Lilly and Company Executive Officer Incentive Plan</u></a>	<a href="#"><u>Incorporated by reference to Appendix B to the Company's proxy statement on Schedule 14A filed March 7, 2011</u></a>
<a href="#"><u>10.10</u></a>	<a href="#"><u>2007 Change in Control Severance Pay Plan for Select Employees, as amended</u></a>	<a href="#"><u>Incorporated by reference to Exhibit 10 to the Company's Report on Form 10-Q for the quarter ended September 30, 2010</u></a>
<a href="#"><u>21</u></a>	<a href="#"><u>List of Subsidiaries</u></a>	<a href="#"><u>Attached</u></a>
<a href="#"><u>23</u></a>	<a href="#"><u>Consent of Registered Independent Public Accounting Firm</u></a>	<a href="#"><u>Attached</u></a>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer</u></a>	<a href="#"><u>Attached</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer</u></a>	<a href="#"><u>Attached</u></a>
<a href="#"><u>32</u></a>	<a href="#"><u>Section 1350 Certification</u></a>	<a href="#"><u>Attached</u></a>
101	Interactive Data File	Attached
104	Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibit 101)	Attached

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## 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/     David A. Ricks

*David A. Ricks*

Chairman, President, and Chief Executive Officer

February 19, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 19, 2020 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
<hr/> <i>/s/</i> David A. Ricks DAVID A. RICKS	Chairman, President, and Chief Executive Officer (principal executive officer)
<hr/> <i>/s/</i> Joshua L. Smiley JOSHUA L. SMILEY	Senior Vice President and Chief Financial Officer (principal financial officer)
<hr/> <i>/s/</i> Donald A. Zakrowski DONALD A. ZAKROWSKI	Vice President, Finance and Chief Accounting Officer (principal accounting officer)
<hr/> <i>/s/</i> Ralph Alvarez RALPH ALVAREZ	Director
<hr/> <i>/s/</i> Katherine Baicker, Ph.D. KATHERINE BAICKER, Ph.D.	Director
<hr/> <i>/s/</i> Carolyn R. Bertozzi, Ph.D. CAROLYN R. BERTOZZI, Ph.D.	Director
<hr/> <i>/s/</i> Michael L. Eskew MICHAEL L. ESKEW	Director
<hr/> <i>/s/</i> J. Erik Fyrwald J. ERIK FYRWALD	Director
<hr/> <i>/s/</i> Jamere Jackson JAMERE JACKSON	Director
<hr/> <i>/s/</i> William G. Kaelin, Jr., M.D. WILLIAM G. KAELIN, JR., M.D.	Director
<hr/> <i>/s/</i> Juan R. Luciano JUAN R. LUCIANO	Director
<hr/> <i>/s/</i> Marschall S. Runge, M.D., Ph.D. MARSCHALL S. RUNGE, M.D., Ph.D.	Director
<hr/> <i>/s/</i> Kathi P. Seifert KATHI P. SEIFERT	Director
<hr/> <i>/s/</i> Jackson P. Tai JACKSON P. TAI	Director
<hr/> <i>/s/</i> Karen Walker KAREN WALKER	Director

## Trademarks Used In This Report

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

Actos® is a trademark of Takeda Pharmaceutical Company Limited.

Byetta® is a trademark of Amylin Pharmaceuticals, Inc.

Glyxambi®, Jardiance®, Jentadueto®, Synjardy®, Trajenta®, and Trijardy® are trademarks of Boehringer Ingelheim GmbH.

Posilac® is a trademark of Union Agener and Elanco US Inc.

Qbrexza® is a trademark of Dermira, Inc.

Viagra® is a trademark of Pfizer Inc.

### Exhibit 4.3 Description of Common Stock

The following summary of Eli Lilly & Company's common stock is based on and qualified by, among other things, our amended articles of incorporation and our amended bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K. Throughout this exhibit, references to "we," "the Company," "our," and "us" refer to Eli Lilly and Company

As of December 31, 2019, our authorized capital stock consists of 3,205,000,000 shares, of which 3,200,000,000 shares are common stock, without par value, and 5,000,000 shares of preferred stock, without par value. No shares of preferred stock are issued and outstanding as of December 31, 2019.

#### Common Stock

*Dividend Rights.* Subject to the dividend rights of the holders of any outstanding shares of preferred stock, the holders of shares of common stock are entitled to receive ratably dividends as may be lawfully declared at any time by the board of directors.

*Rights Upon Liquidation.* Upon liquidation, dissolution or winding up of our affairs, after payment to the holders of any outstanding shares of preferred stock of the full amount to which they are entitled, the holders of shares of common stock are entitled, to the exclusion of any holders of preferred stock, to share ratably in our assets that are legally available for distribution after satisfaction of our liabilities.

*No Conversion, Redemption or Preemptive Rights.* Holders of our common stock have no conversion, redemption, preemptive or similar rights.

*Voting Rights.* Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of shareholders. Our amended articles of incorporation do not provide for cumulative voting in the election of directors.

*Other Provisions.* No shares of any class of our capital stock are subject to any sinking fund provisions or to calls, assessments by, or liabilities of the Company.

#### Potential Effects of Issuance of Preferred Stock

Our amended articles of incorporation authorize our board of directors, without further shareholder action, to provide for the issuance of up to 5,000,000 shares of preferred stock, in one or more series, and to fix, by the adoption and filing in accordance with the Indiana Business Corporation Law (the "IBCL") of an amendment or amendments to the amended articles of incorporation, the designations, terms and relative rights and preferences, including the dividend rate, voting rights, conversion rights, redemption and sinking fund provisions and liquidation preferences, of each of these series. We may amend from time to time our amended articles of incorporation to increase the number of authorized shares of preferred stock. Any such amendment would be approved if the votes cast favoring the amendment exceed the votes cast opposing the amendment. The issuance of preferred stock could have the effect of delaying or preventing a change in control of our company and could decrease the amount available for distribution to holders of our common stock or could adversely affect the rights and powers, including voting rights, of such holders. In certain circumstances, the issuance of preferred stock could have the effect of decreasing the market price of our common stock.

#### Anti-Takeover Effects of Provisions of Our Amended Articles of Incorporation and Our Amended Bylaws

Our amended articles of incorporation and our amended bylaws contain certain provisions that may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by shareholders.

Our amended bylaws provide that special meetings of holders of common stock may be called only by our board of directors or the Chairman of the board of directors. Holders of our common stock are not permitted to call a special meeting or to require that our board of directors call a special meeting of shareholders.

Our amended bylaws establish an advance notice procedure for the nomination, other than by or at the direction of our board of directors, of candidates for election as directors as well as for other shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director or raise business at such meetings must be received by us not less than 120 days nor more than 180 days prior to the date on which our proxy statement is released to shareholders in connection with the previous year's annual meeting and must contain certain specified information concerning the person to be nominated or the matters to be brought before the meeting and concerning the shareholder submitting the proposal.

Our amended articles of incorporation provide for our board of directors to be divided into three classes of directors, as nearly equal in number as possible, serving staggered terms of office. Approximately one-third of our board of directors is elected each year to three-year terms of office. In addition, our directors (other than directors

appointed by holders of preferred stock) may be removed only for cause and only upon the affirmative vote of holders of at least 80% of our outstanding voting stock.

Our amended articles of incorporation provide that, in addition to any affirmative vote required by law, the affirmative vote of holders of at least 80% of our outstanding voting stock shall be necessary to (i) approve certain major business transactions (such as mergers or asset sales with an interested shareholder or our liquidation), unless approved by our board of directors in the manner prescribed in the articles, (ii) amend certain provisions of the amended articles of incorporation relating to the number and terms of office of our directors, and (iii) modify or eliminate these supermajority voting provisions.

Under Section 23-1-39-1 of the IBCL and our amended articles of incorporation and amended bylaws, only our board of directors can amend our amended bylaws, and shareholders do not have the right to amend our amended bylaws.

### **Certain Provisions of the IBCL**

As an Indiana corporation, we are governed by the IBCL. Under specified circumstances, the following provisions of the IBCL may delay, prevent or make more difficult certain unsolicited acquisitions or changes in control of us. These provisions also may have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which shareholders may otherwise deem to be in their best interest.

*Unanimous Written Consent of Shareholders.* Under Chapter 29 of the IBCL, any action required or permitted to be taken by the holders of common stock may be effected only at an annual meeting or special meeting of such holders, and shareholders may act in lieu of such meetings only by unanimous written consent.

*Control Share Acquisitions.* Under Chapter 42 of the IBCL, an acquiring person or group who makes a “control share acquisition” in an “issuing public corporation” may not exercise voting rights on any “control shares” unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters’ rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

Under the IBCL, “control shares” means shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person (directly or indirectly, alone or as part of a group) to exercise or direct the exercise of the voting power of the issuing public corporation in the election of directors within any of the following ranges:

- one-fifth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more.

“Control share acquisition” means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition. “Issuing public corporation” means a corporation which has (i) 100 or more shareholders, (ii) its principal place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than \$1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The above provisions do not apply if, before a control share acquisition is made, the corporation’s articles of incorporation or bylaws, including a by-law adopted by the corporation’s board of directors, provide that they do not apply. Our amended articles of incorporation and our amended bylaws do not currently exclude us from Chapter 42.

*Certain Business Combinations.* Chapter 43 of the IBCL restricts the ability of a “resident domestic corporation” to engage in any business combinations with an “interested shareholder” for five years after the date the interested shareholder became such, unless the business combination or the purchase of shares by the interested shareholder on the interested shareholder’s date of acquiring shares is approved by the board of directors of the resident domestic corporation before that date. If the business combination was not previously approved, the interested shareholder may effect a business combination after the five-year period only if that shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified fair price criteria. For purposes of the above provisions, “resident domestic corporation” means an Indiana corporation that has 100 or more shareholders. “Interested shareholder” means any person, other than the resident domestic corporation or its subsidiaries, who is (1) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (2) an affiliate or associate of the

resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

The definition of "beneficial owner" for purposes of Chapter 43, means a person who individually or with or through any of its affiliates or associates, directly or indirectly, owns or has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement, arrangement or understanding for the purpose of acquiring, holding or voting or disposing of the subject shares, or holds any "derivative instrument" that includes the opportunity to profit or share in any profit derived from any increase in the value of the subject shares.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. Our amended articles of incorporation do not exclude us from Chapter 43.

*Mandatory Classified Board of Directors.* Under Chapter 33 of the IBCL, a corporation with a class of voting shares registered with the SEC under Section 12 of the Exchange Act must have a classified board of directors unless the corporation adopts a by-law expressly electing not to be governed by this provision by the later of July 31, 2009 or 30 days after the corporation's voting shares are registered under Section 12 of the Exchange Act. Although our amended articles of incorporation provide for a classified board of directors (and that provision can only be amended upon the affirmative vote of holders of at least 80% of our outstanding voting stock), we adopted an amendment to our amended bylaws electing not to be subject to this mandatory requirement effective July 13, 2009; however, the IBCL permits this election to be rescinded by subsequent action of our board of directors.

#### **Exhibit 4.4 Description of the Company's 1.000% notes due 2022, 1.625% notes due 2026 and 2.125% notes due 2030**

*The following summary of Eli Lilly and Company's above referenced debt securities is based on and qualified by the indenture, dated as of February 1, 1991, between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee and the forms of 1.000% notes due 2022 (the "1.000% notes"), 1.625% notes due 2026 (the "1.625% notes") and 2.125% notes due 2030 (the "2.125% notes," and together with the 1.000% notes and 1.625% notes, the "notes"). For a complete description of the terms of the notes, refer to the indenture, the form of officers' certificate setting forth the terms and forms of the notes, all of which are filed as exhibits to the Form 8-A filed with the Securities and Exchange Commission on June 2, 2015. Throughout this exhibit, references to "we," "the Company," "our," and "us" refer to Eli Lilly and Company, unless otherwise indicated.*

#### **General**

The 1.000% notes:

- mature on June 2, 2022;
- bear interest at a rate of 1.000% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption" and in connection with certain events involving United States taxation;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The 1.625% notes:

- were issued in an aggregate initial principal amount of €750,000,000, which remains outstanding as of December 31, 2019 and are subject to our ability to issue additional 1.625% notes which may be of the same series as the 1.625% notes as described under "-Further Issues;"
- mature on June 2, 2026;
- bear interest at a rate of 1.625% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption" and in connection with certain events involving United States taxation;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The 2.125% notes:

- were issued in an aggregate initial principal amount of €750,000,000, which remains outstanding as of December 31, 2019 and are subject to our ability to issue additional 2.125% notes which may be of the same series as the 2.125% notes as described under "-Further Issues;"
- mature on June 3, 2030;
- bear interest at a rate of 2.125% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption" and in connection with certain events involving United States taxation;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our

subsidiaries, except as described under the captions “Limitation on Liens” and “Limitation on Sale and Leaseback Transactions.”

## **Interest**

We pay interest on the 1.000% notes at a rate of 1.000% per annum on each June 2, commencing on June 2, 2016, to the persons in whose names such notes are registered at the close of business on May 18 (whether or not a business day), immediately preceding such interest payment date. We pay interest on the 1.625% notes at a rate of 1.625% per annum on each June 2, commencing on June 2, 2016, to the persons in whose names such notes are registered at the close of business on May 18 (whether or not a business day), immediately preceding such interest payment date. We pay interest on the 2.125% notes at a rate of 2.125% per annum on each June 3, commencing on June 3, 2016, to the persons in whose names such notes are registered at the close of business on May 18 (whether or not a business day), immediately preceding such interest payment date. Interest on the notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on the notes (or from June 2, 2015, if no interest has been paid on the notes), to but excluding the next scheduled interest payment date. This payment convention, which is set forth in the rulebook of the International Capital Market Association, is referred to as ACTUAL/ACTUAL (ICMA).

If any interest payment date falls on a day that is not a business day, we will make the required interest payment on the next business day, and no interest on such payment will accrue for the period from and after such interest payment date. Similarly, if the stated maturity date or the date of earlier redemption, as the case may be, of the notes falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and interest, if any, on the next succeeding business day, and no interest on such payment will accrue for the period from and after the maturity date or redemption date, as the case may be.

“Business day” means any day, other than a Saturday or Sunday, that is (i) neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York or London, and (ii) on which the Trans-European Automated Real-time Gross Settlement Express Transfer system, or any successor thereto, is open.

## **Issuance in Euro**

Initial holders will be required to pay for the notes in euro, and all payments of interest and principal, including payments made upon any redemption of the notes, will be payable in euro. If, on or after the date of the issuance of the notes, the euro is unavailable to us due to the imposition of exchange controls or other circumstances beyond our control or if the euro is no longer being used by the then member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of the notes will be made in dollars until the euro is again available to us or so used. The amount payable on any date in euro will be converted into dollars at the rate mandated by the U.S. Federal Reserve Board as of the close of business on the second business day prior to the relevant payment date or, in the event the U.S. Federal Reserve Board has not mandated a rate of conversion, on the basis of the most recent euro/dollar exchange rate available on or prior to the second business day prior to the relevant payment date, as reported by Bloomberg. Any payment in respect of the notes so made in dollars will not constitute an event of default under the notes or the indenture. Neither the trustee nor any paying agent shall have any responsibility for any calculation or conversion in connection with the foregoing.

## **Optional Redemption**

At our option, we may redeem the notes, in whole or in part, at any time or from time to time as described below.

If we redeem all or any part of the 1.000% notes, the 1.625% notes or the 2.125% notes prior to the applicable Par Call Date (as defined below), we will pay a redemption price equal to the greater of:

- 100% of the principal amount of the notes being redeemed on the redemption date; and
- as calculated by the Quotation Agent (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed on that redemption date (not including the amount, if any, of unpaid interest accrued to, but excluding, the redemption date) discounted to the redemption date, on an annual basis (ACTUAL/ACTUAL (ICMA)) using a discount rate equal to the

sum of the Reference Dealer Rate (as defined below), plus 0.15% (or 15 basis points) with respect to the 1.000% notes, 0.20% (or 20 basis points) with respect to the 1.625% notes or 0.25% (or 25 basis points) with respect to the 2.125% notes;

*plus*, in each case, unpaid interest accrued on such notes to, but excluding, the redemption date. If we redeem all or any part of the 1.000% notes, all or any part of the 1.625% notes or all or any part of the 2.125% notes on or after the applicable Par Call Date, we will pay a redemption price equal to 100% of the principal amount of the 1.000% notes, the 1.625% notes or the 2.125% notes, as applicable, being redeemed plus accrued and unpaid interest thereon.

Notwithstanding the foregoing, installments of interest on notes that are due and payable on an interest payment date falling on or prior to a redemption date will be payable on such interest payment date to the registered holders as of the close of business on the relevant record date.

We will mail notice of any redemption at least 30 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. Once notice of redemption is mailed, the notes called for redemption will become due and payable on the redemption date at the applicable redemption price.

“Par Call Date” means March 2, 2022 for the 1.000% notes, March 2, 2026 for the 1.625% notes and March 3, 2030 for the 2.125% notes.

“Quotation Agent” means the Reference Dealer selected by us.

“Reference Dealer” means (i) each of Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc (or their respective affiliates that are Euro Security Dealers (as defined below)), and their respective successors; provided, however, that if any of the foregoing shall cease to be a Euro securities dealer (a “Euro Security Dealer”), we will substitute therefor another Euro Security Dealer; and (ii) any other Euro Security Dealer(s) selected by us.

“Reference Dealer Quotation” means, with respect to each Reference Dealer and any redemption date prior to the applicable Par Call Date for the 1.000% notes, the 1.625% notes and the 2.125% notes, the arithmetic average of the quotations quoted in writing to us by each Reference Dealer of the average midmarket annual yield to maturity of the 2.000% German Bundesobligationen due January 4, 2022 with respect to the 1.000% notes, the 0.500% German Bundesobligationen due February 15, 2025 with respect to the 1.625% notes and the 4.750% German Bundesobligationen due July 4, 2028 with respect to the 2.125% notes, or, if the applicable reference security is no longer outstanding, a similar security in the reasonable judgment of such Reference Dealer at 11:00 a.m. (London time) on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless we default in the payment of the redemption price). Before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of the notes of the particular series to be redeemed on that date. If fewer than all of the notes of such series are to be redeemed, the notes to be redeemed shall be selected by lot by the trustee by a method the trustee deems to be fair and appropriate.

The notes will not be entitled to the benefit of any mandatory redemption or sinking fund provisions.

#### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest on the notes such additional amounts as are necessary so that the net payment by us or a paying agent of the principal of and interest on the notes to a person that is a non-U.S. holder, after deduction for any present or future tax, assessment or governmental charge of the United States or a political subdivision or taxing authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount that would have been payable in respect of the notes had no withholding or deduction been required.

Our obligation to pay additional amounts shall not apply:

- (i) to any tax, assessment or governmental charge that is imposed or withheld solely because the beneficial owner, or a fiduciary, settlor, beneficiary or member of the beneficial owner if the

beneficial owner is an estate, trust or partnership, or a person holding a power over an estate or trust administered by a fiduciary holder:

- (1) is or was present or engaged in a trade or business in the United States or has or had a permanent establishment in the United States;
  - (2) is or was a citizen or resident or is or was treated as a resident of the United States;
  - (3) is or was a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation for the United States federal income tax purposes, is or was a corporation that has accumulated earnings to avoid United States federal income tax or is or was a private foundation or other tax-exempt organization;
  - (4) is or was an actual or constructive "10-percent shareholder" of ours, as defined in Section 871(h)(3) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"); or
  - (5) is or was a bank receiving interest described in Section 881(c)(3)(A) of the Code;
- (ii) to any holder that is not the sole beneficial owner of notes, or that is a fiduciary or partnership, but only to the extent that the beneficial owner, a beneficiary or settlor with respect to the fiduciary, or a member of the partnership would not have been entitled to the payment of an additional amount had such beneficial owner, beneficiary, settlor or member received directly its beneficial or distributive share of the payment;
  - (iii) to any tax, assessment or governmental charge that is imposed or withheld solely because the beneficial owner or any other person failed to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of notes, if compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;
  - (iv) to any tax, assessment or governmental charge that is imposed other than by deduction or withholding by us or a paying agent from the payment;
  - (v) to any tax, assessment or governmental charge that is imposed or withheld solely because of a change in law, regulation, or administrative or judicial interpretation that becomes effective after the day on which the payment becomes due or is duly provided for, whichever occurs later;
  - (vi) to any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or any similar tax, assessment or governmental charge;
  - (vii) to any tax, assessment or other governmental charge any paying agent (which term may include us) must withhold from any payment of principal of or interest on any note, if such payment can be made without such withholding by any other paying agent;
  - (viii) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of a note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
  - (ix) any withholding or deduction pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement); or
  - (x) in the case of any combination of the above items.

The notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable. Except as specifically provided under this heading "-Payment of Additional Amounts" and under the heading "-Redemption Upon a Tax Event," we do not have to make any payment with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority.

In particular, we will not pay additional amounts on any note:

- where withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, that directive, or

- presented for payment by or on behalf of a beneficial owner who would have been able to avoid the withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Union.

### **Redemption Upon a Tax Event**

If (i) we become or will become obligated to pay additional amounts as described under the heading “-Payment of Additional Amounts” as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of the United States (or any political subdivision or taxing authority thereof or therein), or any change in, or amendment to, any official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of the issuance of the notes, or (ii) a taxing authority of the United States takes an action on or after the date of the issuance of the notes, whether or not with respect to us or any of our affiliates, that results in a substantial probability that we will or may be required to pay such additional amounts, in either case, with respect to the notes for reasons outside our control and after taking reasonable measures available to us to avoid such obligation, then we may, at our option, redeem, as a whole, but not in part, each series of the notes at any time prior to maturity on not less than 30 nor more than 60 calendar days’ prior notice to the holders, at a redemption price equal to 100% of their principal amount, together with unpaid interest accrued thereon to the date fixed for redemption. No redemption pursuant to (ii) above may be made unless we shall have received an opinion of independent counsel to the effect that an act taken by a taxing authority of the United States results in a substantial probability that we will or may be required to pay the additional amounts described under the heading “-Payment of Additional Amounts” and we shall have delivered to the trustee a certificate, signed by a duly authorized officer, stating that based on such opinion, we are entitled to redeem the notes pursuant to their terms.

### **Further Issues**

We may, without the consent of the holders of the notes, issue additional debt securities having the same ranking, interest rate, maturity, redemption provisions and other terms as the notes of a particular series, except for the date of original issuance and the first interest payment date applicable thereto. Any additional debt securities having such similar terms, together with the notes of such series, will constitute a single series of debt securities under the indenture.

### **Limitation on Liens**

We will not, and will not permit any of our subsidiaries to, create, assume or suffer to exist any lien on restricted property to secure any of our debt, any debt of any of our subsidiaries or any debt of any other person unless we also secure the debt securities of any series having the benefit of this covenant by a lien equally and ratably with such other debt for so long as such other debt shall be so secured. The indenture contains the following exceptions to the foregoing prohibition:

- (i) liens existing on property owned or leased by a corporation existing when such corporation becomes a subsidiary;
- (ii) liens existing on the date of issuance of the first debt security of the particular series;
- (iii) liens existing on property when the property was acquired by us or any of our subsidiaries;
- (iv) liens to secure debt incurred prior to, at the time of or within 12 months after the acquisition of restricted property or the completion of the construction, alteration, repair or improvement of restricted property, as the case may be, for the purpose of financing all or a part of the purchase price or cost thereof and liens to the extent they secure debt in excess of such purchase price or cost and for the payment of which recourse may be had only against such restricted property;
- (v) certain liens in favor of governmental entities that are required by the provisions of any contract or statute, or any liens securing industrial development, pollution control or similar revenue bonds;
- (vi) any lien securing debt of a subsidiary owing to us or to another subsidiary;
- (vii) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any lien referred to in clauses (i) through (vi) above, inclusive, so long as (1) the principal amount of the debt secured thereby does not exceed the principal amount of debt so secured at the time of the extension, renewal or replacement (except that, where an additional principal amount of debt is incurred to provide funds for the completion of a specific project, the additional principal amount, and any related financing costs, may be secured by the lien as well)

- and (2) the lien is limited to the same property subject to the lien so extended, renewed or replaced (and improvements on the property); and
- (viii) any lien that would not otherwise be permitted by clauses (i) through (vii) above, inclusive, securing debt which, together with:
- the aggregate outstanding principal amount of all other debt of ours and our subsidiaries owning restricted property which would otherwise be subject to the foregoing restrictions, and
  - the aggregate value of existing sale and leaseback transactions which would be subject to the foregoing restrictions absent this clause (viii),
- does not exceed 15% of our consolidated net tangible assets.

### **Limitation on Sale and Leaseback Transactions**

We will not, and will not permit any of our subsidiaries owning restricted property to, enter into any sale and leaseback transaction unless:

(1) our company or such subsidiary could incur debt, in a principal amount at least equal to the value of such sale and leaseback transaction, secured by a lien on the property to be leased (without equally and ratably securing the outstanding debt securities) because such lien would be of a character that no violation of the covenant described under “- Limitations on Liens” above would result; or

(2) we apply, during the six months following the effective date of the sale and leaseback transaction, an amount equal to the value of the sale and leaseback transaction to the voluntary retirement of funded debt (whether by redemption, defeasance, repurchase, or otherwise) or to the acquisition of restricted property.

### **Definitions of Certain Terms**

The following are the meanings of terms that are important in understanding the covenants previously described:

- “consolidated net tangible assets” means the total assets (less applicable reserves and other properly deductible items) less current liabilities (excluding the amount of those which are by their terms extendable or renewable at the option of the obligor to a date more than 12 months after the date as of which the amount is being determined) and all goodwill, tradenames, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on our most recent consolidated balance sheet determined in accordance with generally accepted accounting principles.
- “funded debt” means our indebtedness or the indebtedness of a subsidiary owning restricted property maturing by its terms more than one year after its creation and indebtedness classified as long-term debt under generally accepted accounting principles and in each case ranking at least pari passu with the debt securities.
- “original issue discount security” means any debt security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of maturity thereof pursuant to the indenture.
- “restricted property” means
  - any manufacturing facility (or portion thereof) owned or leased by us or any of our subsidiaries and located within the continental United States which, in the opinion of our board of directors (or a committee thereof), is of material importance to our business and the business of our subsidiaries taken as a whole, but no such manufacturing facility (or portion thereof) shall be deemed of material importance if its gross book value, before deducting accumulated depreciation, is less than 2% of our consolidated net tangible assets; or
  - any shares of capital stock or indebtedness of any subsidiary owning any such manufacturing facility.
- “sale and leaseback transaction” means any arrangement with any person providing for the leasing by us or any subsidiary of any restricted property which has been or is to be sold or transferred by us or such subsidiary to such person, excluding (1) temporary leases for a term, including renewals at the option of the lessee, of not more than three years, (2) leases between us and a subsidiary or between subsidiaries, (3) leases of a restricted property executed by the time of, or within 12 months after the latest of, the acquisition, the completion of construction or improvement, or the commencement of commercial operation of the restricted property, and (4) arrangements pursuant to any provision of law with an effect similar to the former Section 168(f)(8) of the Internal Revenue Code of 1954, as amended.

- “subsidiary” means any corporation more than 50% of the voting stock of which shall at the time be owned by us or by one or more subsidiaries or by us and one or more subsidiaries, but shall not include any corporation of which we and/or one or more subsidiaries owns directly or indirectly, less than 50% of the outstanding stock of all classes having ordinary voting power for the election of directors but more than 50% of the outstanding shares of stock of a class having by its terms ordinary voting power as a class to elect a majority of the board of directors of such corporation.
- “value” means, with respect to a sale and leaseback transaction, an amount equal to the net present value of the lease payments with respect to the term of the lease remaining on the date as of which the amount is being determined, without regard to any renewal or extension options contained in the lease, discounted at the weighted average interest rate on the debt securities of all series (including the yield to maturity on any original issue discount securities) which are outstanding on the effective date of such sale and leaseback transaction.

Because the covenants described above cover only manufacturing facilities in the continental United States, our manufacturing facilities in Puerto Rico and elsewhere in the world are excluded from the operation of the covenants described above.

There are no other restrictive covenants contained in the indenture. The indenture does not contain any provision which restricts us from incurring, assuming or becoming liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on our capital stock or purchasing or redeeming our capital stock. The indenture does not contain any financial ratios, or specified levels of net worth or liquidity to which we must adhere. In addition, the indenture does not contain any provision which would require that we repurchase or redeem or otherwise modify the terms of any of our debt securities upon a change in control or other events involving us which may adversely affect the creditworthiness of the debt securities.

### Events of Default

The indenture provides that, with respect to any series of debt securities, an event of default consists of:

- failure to pay interest when due on any debt securities of such series, continued for 30 days;
- failure to pay principal or premium, if any, when due (whether at maturity, upon redemption, by declaration or otherwise) on any debt securities of such series;
- failure to observe or perform the covenant in the indenture described below under “Merger or Consolidation” after written notice from the trustee or holders of 25% or more in aggregate principal amount of debt securities of such series outstanding thereunder;
- failure to observe or perform any of our covenants in the indenture or the debt securities of such series (other than a covenant included in the indenture or the debt securities solely for the benefit of a series of debt securities other than such series), continued for 60 days (except in the case of a violation of the covenant described below under “Merger or Consolidation”) after written notice from the trustee or the holders of 25% or more in aggregate principal amount, of debt securities of such series outstanding thereunder;
- certain events of our bankruptcy, insolvency or reorganization; and
- any other event of default as may be specified for such series.

The indenture provides that if an event of default with respect to any series of debt securities at the time outstanding occurs and is continuing, either the trustee or the holders of 25% or more in aggregate principal amount (or, if the debt securities of that series are original issue discount securities, such portion of the principal amount as may be specified in the terms of that series) of debt securities of such series outstanding may declare the principal amount of all debt securities of such series to be due and payable immediately. At any time after a declaration of acceleration with respect to the debt securities of any series has been made and before there has been a sale of property under a judgment or decree for the payment of moneys due, the holders of a majority in aggregate principal amount of the debt securities of such series outstanding may waive the default and rescind the declaration and its consequences if:

1. we have paid or deposited with the trustee a sum sufficient to pay:
  - a. all matured installments of interest upon all the debt securities of such series;
  - b. the principal of and premium, if any, on any and all debt securities of such series which have become due other than by declaration;

- c. interest on overdue installments of interest, to the extent legally enforceable under applicable law, and on such principal of and premium, if any, on each debt security of such series at the rate borne by such debt security to the date of such payment or deposit or yield to maturity (in the case of an original issue discount security); and
  - d. the expenses of the trustee, and reasonable compensation to the trustee, agents, attorneys and counsel; and
2. any and all defaults under the indenture, other than the nonpayment of principal on the debt securities of such series which may have become due by declaration, have been remedied.

The indenture provides that the holders of a majority in aggregate principal amount of the debt securities of any series outstanding under the indenture may, subject to certain exceptions, direct the trustee as to the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any power or trust conferred upon the trustee. The holders of a majority in aggregate principal amount of the debt securities of any series outstanding may on behalf of all holders of debt securities of such series waive any past default and its consequences with respect to debt securities of such series, except a default in the payment of the principal of, premium, if any, or interest, if any, on any of the debt securities of such series.

Holders of any debt securities of any series may not institute any proceeding to enforce the indenture or any remedy thereunder unless the trustee shall have failed to act for 60 days after a request and offer of reasonable indemnity by the holders of 25% or more in aggregate principal amount of the debt securities of such series outstanding. However, the right of any holder of any security of any series to enforce payment of the principal of or premium, if any, or interest, if any, on his debt securities when due shall not be impaired without the consent of such holder.

The trustee is required to give the holders of any debt security of any series notice of default with respect to such series known to it within 90 days after the happening of the default, unless cured before the giving of such notice. However, except for defaults in payments of the principal of or premium, if any, or interest, if any, on the debt securities of such series, the trustee may withhold notice if and so long as it determines in good faith that the withholding of such notice is in the interests of the holders of the debt securities of such series.

We are required to deliver to the trustee each year an officers' certificate stating whether such officers have obtained knowledge of any default by our company in the performance of all covenants and, if so, specifying the nature of such default.

#### **Merger or Consolidation**

The indenture provides that without the consent of the holders of any of the outstanding debt securities under the indenture, we may consolidate with or merge into, or transfer or lease substantially all of our assets to, any domestic corporation, association, company or business trust (as used in this subsection, a "corporation"), provided:

- the successor corporation assumes all of our payment obligations under the debt securities and the performance of all of our other covenants under the indenture; and
- certain other conditions described in the indenture are met.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. As a result of this uncertainty:

- i. there could be a disagreement between us and the holders of debt securities over whether, as a condition to a transfer or lease of our assets, the successor entity is required to assume our obligations under the indenture and, consequently, whether a failure to assume such obligations would result in an event of default under the indenture;
- ii. in the event that the holders of debt securities attempt to declare an event of default and exercise their acceleration rights under the indenture in such circumstances and we contest such action, there can be no assurance as to how a court interpreting applicable law would interpret the phrase "substantially all"; and
- iii. it may be difficult for holders of debt securities to declare an event of default and exercise their acceleration rights.

#### **Discharge, Legal Defeasance and Covenant Defeasance**

We may discharge certain obligations to holders of any series of debt securities that have not already been delivered to the trustee for cancellation and that either have become due and payable or will become due and payable within one year (or are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice) by irrevocably depositing with the trustee, in trust, funds in the currency or currencies in which those debt securities are payable in an amount sufficient to pay the entire indebtedness on those debt securities in respect of principal, premium, if any, and interest to the date of that deposit (if those debt securities have become due and payable) or to the maturity date, as the case may be.

At our option, we may be discharged, subject to certain terms and conditions, from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer and exchange of debt securities, replace stolen, lost or mutilated debt securities and coupons, maintain paying agencies and hold moneys for payment in trust) or need not comply with certain restrictive covenants of the indenture if:

- (1) we have deposited with the trustee, in trust, money, and in the case of debt securities and coupons denominated in U.S. dollars, U.S. government obligations or, in the case of debt securities and coupons denominated in a foreign currency, foreign currency government securities, which through the payment of interest thereon and principal thereof in accordance with their terms will provide money or a combination of money, and either U.S. government securities or foreign currency government securities, as the case may be, in an amount sufficient to pay in the currency in which the debt securities are payable all the principal of and premium, if any, and interest on the debt securities on the date such payments are due in accordance with the debt securities;
- (2) (i) no event of default or event which with notice or lapse of time would become an event of default shall have occurred and be continuing on the date of such deposit, (ii) no event of default relating to our bankruptcy, insolvency or reorganization, or event which with notice or lapse of time or both would become such an event of default, shall have occurred within 90 days after the date of such deposit, and (iii) such deposit and discharge will not result in any default or event of default under any material indenture, agreement or other instrument binding upon us or any of our properties;
- (3) we have delivered to the trustee an opinion of counsel to the effect that such deposit and discharge will not cause the holders of the debt securities of such series to recognize income, gain or loss for federal income tax purposes and that such holders will be subject to federal income tax in the same amounts, manner and time had such deposit and discharge not occurred; and
- (4) we have delivered to the trustee an officer's certificate and an opinion from our counsel stating that we have complied with all conditions precedent set forth in the indenture or the applicable supplemental indenture relating to the satisfaction and discharge of the indebtedness of the series of debt securities.

#### **Modification and Waiver**

The indenture contains provisions permitting us and the trustee, with consent of the holders of not less than a majority of the aggregate principal amount of the notes at the time outstanding, evidenced as provided in the indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of any supplemental indenture with respect to the notes or of modifying in any manner the rights of the holders of the notes; *provided, however*, that no such supplemental indenture shall (i) extend the fixed maturity, or the earlier optional date of maturity, if any, of any note, or reduce the principal amount thereof or the premium thereon, if any, or reduce the rate or extend the time of payment of interest, if any, thereon or make the principal thereof or premium, if any, or interest, if any, thereon payable in any currency other than as provided pursuant to the indenture or this note, without the consent of the holders of each note so affected; or (ii) reduce the aforesaid percentage of the notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all notes then outstanding.

#### **Concerning the Trustee**

Deutsche Bank Trust Company Americas is the current trustee under the indenture. The trustee may acquire and hold debt securities and, subject to certain conditions, otherwise deal with us as if it were not trustee under the indenture. The trustee and its affiliates have in the past provided, and may from time to time in the future provide, trustee, commercial banking, investment banking and other services to us in the ordinary course of their respective businesses for which they have received, and will receive, customary compensation.



## **Exhibit 4.5 Description of the Company's 6.77% notes due 2036**

*The following summary of Eli Lilly and Company's above referenced debt securities is based on and qualified by the indenture, dated as of February 1, 1991, between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee and the form of 6.77% notes due January 2036 (the "notes"). For a complete description of the terms of the notes, refer to the indenture, the form of officers' certificate setting forth the terms and forms of the notes, all of which are filed as exhibits to the Form 8-A filed with the Securities and Exchange Commission on January 10, 1996. Throughout this exhibit, references to "we," "the Company," "our," and "us" refer to Eli Lilly and Company, unless otherwise indicated.*

### **General**

The notes:

- were issued in an aggregate initial principal amount of \$300,000,000, of which \$174,445,000 remains outstanding as of December 31, 2019;
- mature on January 1, 2036;
- bear interest at a rate of 6.77% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption;"
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our subsidiaries, except as described under the caption "Certain Covenants."

### **Interest**

The notes will bear interest from January 1, 1996 at a rate of 6.77% per annum. Interest will be payable semi-annually on January 1 and July 1 of each year, beginning July 1, 1996, to the persons in whose names the notes (or any predecessor notes) are registered at the close of business on December 15 or June 15 preceding such January 1 or July 1, and may be paid at the option of the Company by checks mailed to such persons at their registered addresses.

### **Optional Redemption**

The notes will be redeemable in whole or in part, at the option of the Company at any time, at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Yield, plus in each case accrued interest to the date of redemption.

'Treasury Yield' means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

'Comparable Treasury Issue' means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes, which prior to 2007 will be deemed to be a 30-year Treasury security, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

'Independent Investment Banker' means Morgan Stanley & Co. Incorporated or, if such firm is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the Trustee.

'Comparable Treasury Price' means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated 'Composite 3:30 p.m. Quotations for U.S. Government Securities' or (ii) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations for such redemption date.

'Reference Treasury Dealer Quotations' means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

'Reference Treasury Dealer' means each of Morgan Stanley & Co. Incorporated, Goldman, Sachs & Co. and J.P. Morgan Securities Inc. and their respective successors; provided however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a 'Primary Treasury Dealer'), the Company shall substitute therefor another Primary Treasury Dealer.

Holders of notes to be redeemed will receive notice thereof by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption.

### **Certain Covenants**

The indenture contains a covenant by the Company not to create, assume or suffer to exist any lien on any Restricted Property (described below) to secure any debt of the Company, any subsidiary or any other person, or permit any subsidiary to do so, without securing the Indenture Securities of any series having the benefit of the covenant by such lien equally and ratably with such debt for so long as such debt shall be so secured, subject to certain exceptions specified in the indenture. Exceptions include: (a) existing liens or liens on facilities of corporations at the time they become subsidiaries; (b) liens existing on facilities when acquired, or incurred to finance the purchase price, construction or improvement thereof; (c) certain liens in favor of or required by contracts with governmental entities; and (d) liens otherwise prohibited by such covenant, securing indebtedness which, together with the aggregate amount of outstanding indebtedness secured by liens otherwise prohibited by such covenant and the value of certain sale and leaseback transactions, does not exceed 15% of the Company's consolidated net tangible assets (defined in the indenture as total assets less current liabilities and intangible assets).

The indenture also contains a covenant by the Company not to, and not to permit any subsidiary to, enter into any sale and leaseback transaction covering any Restricted Property unless (a) the Company would be entitled under the provisions described above to incur debt equal to the value of such sale and leaseback transaction, secured by liens on the facilities to be leased, without equally and ratably securing the notes and other unsecured debt securities of the Company issued under the indenture (collectively, the "Indenture Securities"), or (b) the Company, during the six months following the effective date of such sale and leaseback transaction, applies an amount equal to the value of such sale and leaseback transaction to the voluntary retirement of long-term indebtedness or to the acquisition of Restricted Property.

The indenture defines Restricted Property as (a) any manufacturing facility (or portion thereof) owned or leased by the Company or any subsidiary and located within the continental United States which, in the opinion of the Board of Directors, is of material importance to the business of the Company and its subsidiaries taken as a whole, but no such manufacturing facility (or portion thereof) shall be deemed of material importance if its gross book value (before deducting accumulated depreciation) is less than 2% of the Company's consolidated net tangible assets, or (b) any shares of capital stock or indebtedness of any subsidiary owning any such manufacturing facility.

Because the covenants described above cover only manufacturing facilities in the continental United States, the Company's manufacturing facilities in Puerto Rico are excluded from the operation of the covenants.

There are no other restrictive covenants contained in the indenture. The indenture does not contain any provision which will restrict the Company from incurring, assuming or becoming liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on its

capital stock or purchasing or redeeming its capital stock. The indenture does not contain any financial ratios, or specified levels of net worth or liquidity to which the Company must adhere. In addition, the indenture does not contain any provision which would require that the Company repurchase or redeem or otherwise modify the terms of any of its Indenture Securities upon a highly-leveraged transaction, reorganization, restructuring, merger or similar transaction involving the Company which may adversely affect the creditworthiness of the Indenture Securities.

### **Default and Certain Rights on Default**

The indenture provides that upon the happening of any Event of Default with respect to any series of Indenture Securities specified therein (unless it is inapplicable to such series of Indenture Securities or it is specifically deleted in the supplemental indenture or board resolution under which such series of Indenture Securities is issued or has been modified in any such supplemental indenture), including (i) failure to pay interest when due on the Indenture Securities of such series outstanding thereunder, continued for 30 days; (ii) failure to pay principal or premium, if any, when due (whether at maturity, declaration or otherwise) on the Indenture Securities of such series outstanding thereunder; (iii) failure to observe or perform any covenant of the Company in the indenture or the Indenture Securities of such series (other than a covenant included in the Indenture or the Indenture Securities solely for the benefit of a series of Indenture Securities other than such series), continued for 60 days after written notice from the Trustee or the holders of 25% or more in aggregate principal amount of the Indenture Securities of such series outstanding thereunder; (iv) certain events of bankruptcy, insolvency or reorganization; and (v) any other Event of Default as may be specified for such series, the Trustee or the holders of 25% or more in aggregate principal amount of Indenture Securities of such series outstanding thereunder may declare the principal amount of all Indenture Securities of such series to be due and payable immediately, but if all defaults with respect to Indenture Securities of such series (other than non-payment of accelerated principal) are cured and there has been no sale of property under any judgment or decree for the payment of moneys due which shall have been obtained or entered, the holders of a majority in aggregate principal amount of the Indenture Securities of such series outstanding thereunder may waive the default and rescind the declaration and its consequences.

The indenture provides that the holders of a majority in aggregate principal amount of the Indenture Securities of any series outstanding thereunder may, subject to certain exceptions, direct the time, method and place of conducting any proceeding for any remedy available to, or exercising any power or trust conferred upon, the Trustee with respect to Indenture Securities of such series and may on behalf of all holders of Indenture Securities of such series waive any past default and its consequences with respect to Indenture Securities of such series, except a default in the payment of the principal of, premium, if any, or interest, if any, on any of the Indenture Securities of such series.

Holders of any Indenture Security of any series may not institute any proceeding to enforce the Indenture unless the Trustee shall have refused or neglected to act for 60 days after a request and offer of satisfactory indemnity by the holders of 25% or more in aggregate principal amount of the Indenture Securities of such series outstanding thereunder, but the right of any holder of any Indenture Security of any series to enforce payment of the principal of, premium, if any, or interest, if any, on his Indenture Securities when due shall not be impaired without the consent of such holder.

The Trustee is required to give the holders of any Indenture Security of any series notice of default with respect to such series (Events of Default summarized above, exclusive of any grace period and irrespective of any requirement that notice of default be given) known to it within 90 days after the happening thereof, unless cured before the giving of such notice, but, except for defaults in payments of the principal of, premium, if any, or interest, if any, on the Indenture Securities of such series, the Trustee may withhold notice if and so long as it determines in good faith that the withholding of such notice is in the interests of the holders of the Indenture Securities of such series.

The Company is required to deliver to the Trustee each year an officers' certificate stating whether such officers have obtained knowledge of any default by the Company in the performance of certain covenants and, if so, specifying such default and the nature thereof.

### **Consolidation, Merger and Sale of Assets**

The Company, without the consent of the holders of any of the outstanding Indenture Securities under the indenture, may consolidate or merge with or into, or transfer or lease substantially all of its assets to, any Person

(as such term is defined in the indenture) that is a corporation organized and validly existing under the laws of any domestic jurisdiction, or may permit any such Person to consolidate with or merge into the Company or convey, transfer or lease substantially all of its assets to the Company, provided (a) that any successor Person assumes the Company's obligations on the Indenture Securities under the indenture, (b) that after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time, would become an Event of Default, shall have occurred and be continuing, and (c) that certain other conditions are met.

### **Defeasance**

The Company at its option (a) will be Discharged (as such term is defined in the indenture) from any and all obligations in respect of the notes (except for certain obligations to register the transfer and exchange of notes, replace stolen, lost or mutilated notes and coupons, maintain paying agencies and hold moneys for payment in trust) or (b) need not comply with certain restrictive covenants of the indenture, in each case after the Company deposits with the Trustee thereunder, in trust, money or U.S. Government Obligations (as such term is defined in the indenture) which through the payment of interest thereon and principal thereof in accordance with their terms will provide money, or a combination of money and U.S. Government Obligations, in an amount sufficient to pay all the principal of, and interest on, the notes on the dates such payments are due in accordance with the terms of the notes. Among the conditions to the Company's exercising any such option, the Company is required to deliver to the Trustee an opinion of independent counsel to the effect that the deposit and related defeasance would not cause the holders of the notes to recognize income, gain or loss for United States Federal income tax purposes and that the holders will be subject to United States Federal income tax in the same amounts in the same manner and at the same times as would have been the case if such deposit and related defeasance had not occurred.

### **Modification**

The indenture contains provisions permitting the Company and the Trustee, without the consent of the holders of the Indenture Securities, to establish, among other things, the form and terms of any series of Indenture Securities issuable thereunder by one or more supplemental indentures, to add covenants and to provide for security for the Indenture Securities, and, with the consent of the holders of not less than a majority of the aggregate principal amount of the Indenture Securities of any series at the time outstanding, evidenced as in the indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture with respect to Indenture Securities of such series or modifying in any manner the rights of the holders of the Indenture Securities of such series; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity, or the earlier optional date of maturity, if any, of any Indenture Security of a particular series or reduce the principal amount thereof or the premium thereon, if any, or reduce the rate or extend the time of payment of interest, if any, thereon, or make the principal thereof or premium, if any, or interest, if any, thereon payable in any currency or currency unit other than as provided pursuant to the indenture or in the Indenture Securities of such series, without the consent of the holder of each Indenture Security so affected, or (ii) reduce the aforesaid percentage of Indenture Securities of any series, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all Indenture Securities of such series outstanding thereunder.

### **Concerning the Trustee**

Deutsche Bank Trust Company Americas is the current Trustee under the indenture. The Trustee may acquire and hold Indenture Securities and, subject to certain conditions, otherwise deal with us as if it were not trustee under the indenture. The Trustee and its affiliates have in the past provided, and may from time to time in the future provide, trustee, commercial banking, investment banking and other services to us in the ordinary course of their respective businesses for which they have received, and will receive, customary compensation.

## Exhibit 4.6 Description of the Company's 7 1/8 % notes due 2025

*The following summary of Eli Lilly and Company's above referenced debt securities is based on and qualified by the indenture, dated as of February 1, 1991, between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee and form of 7 1/8% notes due 2025 (the "notes"). For a complete description of the terms of the notes, refer to the indenture, the form of officers' certificate setting forth the terms and forms of the notes, all of which are filed as exhibits to the Form 8-A filed with the Securities and Exchange Commission on June 9, 1995. Throughout this exhibit, references to "we," "the Company," "our," and "us" refer to Eli Lilly and Company, unless otherwise indicated.*

### General

The notes:

- were issued in an aggregate initial principal amount of \$500,000,000, of which \$229,692,000 remains outstanding as of December 31, 2019;
- mature on June 1, 2025;
- bear interest at a rate of 7 1/8% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our subsidiaries, except as described under the caption "Certain Covenants."

### Interest

The notes will bear interest from June 1, 1995 at a rate of 7 1/8% per annum. Interest will be payable semi-annually on June 1 and December 1 of each year, beginning December 1, 1995, to the persons in whose names the notes (or any predecessor notes) are registered at the close of business on May 15 or November 15 preceding such June 1 or December 1, and may be paid at the option of the Company by checks mailed to such persons at their registered addresses.

### Certain Covenants

The indenture contains a covenant by the Company not to create, assume or suffer to exist any lien on any Restricted Property (described below) to secure any debt of the Company, any subsidiary or any other person, or permit any subsidiary to do so, without securing the Indenture Securities of any series having the benefit of the covenant by such lien equally and ratably with such debt for so long as such debt shall be so secured, subject to certain exceptions specified in the indenture. Exceptions include: (a) existing liens or liens on facilities of corporations at the time they become subsidiaries; (b) liens existing on facilities when acquired, or incurred to finance the purchase price, construction or improvement thereof; (c) certain liens in favor of or required by contracts with governmental entities; and (d) liens otherwise prohibited by such covenant, securing indebtedness which, together with the aggregate amount of outstanding indebtedness secured by liens otherwise prohibited by such covenant and the value of certain sale and leaseback transactions, does not exceed 15% of the Company's consolidated net tangible assets (defined in the indenture as total assets less current liabilities and intangible assets).

The indenture also contains a covenant by the Company not to, and not to permit any subsidiary to, enter into any sale and leaseback transaction covering any Restricted Property unless (a) the Company would be entitled under the provisions described above to incur debt equal to the value of such sale and leaseback transaction, secured by liens on the facilities to be leased, without equally and ratably securing the notes and other unsecured debt securities of the Company issued under the indenture (collectively, the "Indenture Securities"), or (b) the Company, during the six months following the effective date of such sale and leaseback transaction, applies an amount equal to the value of such sale and leaseback transaction to the voluntary retirement of long-term indebtedness or to the acquisition of Restricted Property.

The indenture defines Restricted Property as (a) any manufacturing facility (or portion thereof) owned or leased by the Company or any subsidiary and located within the continental United States which, in the opinion of the Board of Directors, is of material importance to the business of the Company and its subsidiaries taken as a whole, but no such manufacturing facility (or portion thereof) shall be deemed of material importance if its gross book value (before deducting accumulated depreciation) is less than 2% of the Company's consolidated net tangible assets, or (b) any shares of capital stock or indebtedness of any subsidiary owning any such manufacturing facility.

Because the covenants described above cover only manufacturing facilities in the continental United States, the Company's manufacturing facilities in Puerto Rico are excluded from the operation of the covenants.

There are no other restrictive covenants contained in the indenture. The indenture does not contain any provision which will restrict the Company from incurring, assuming or becoming liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on its capital stock or purchasing or redeeming its capital stock. The indenture does not contain any financial ratios, or specified levels of net worth or liquidity to which the Company must adhere. In addition, the indenture does not contain any provision which would require that the Company repurchase or redeem or otherwise modify the terms of any of its Indenture Securities upon a highly-leveraged transaction, reorganization, restructuring, merger or similar transaction involving the Company which may adversely affect the creditworthiness of the Indenture Securities.

#### **Default and Certain Rights on Default**

The indenture provides that upon the happening of any Event of Default with respect to any series of Indenture Securities specified therein (unless it is inapplicable to such series of Indenture Securities or it is specifically deleted in the supplemental indenture or board resolution under which such series of Indenture Securities is issued or has been modified in any such supplemental indenture), including (i) failure to pay interest when due on the Indenture Securities of such series outstanding thereunder, continued for 30 days; (ii) failure to pay principal or premium, if any, when due (whether at maturity, declaration or otherwise) on the Indenture Securities of such series outstanding thereunder; (iii) failure to observe or perform any covenant of the Company in the indenture or the Indenture Securities of such series (other than a covenant included in the indenture or the Indenture Securities solely for the benefit of a series of Indenture Securities other than such series), continued for 60 days after written notice from the Trustee or the holders of 25% or more in aggregate principal amount of the Indenture Securities of such series outstanding thereunder; (iv) certain events of bankruptcy, insolvency or reorganization; and (v) any other Event of Default as may be specified for such series, the Trustee or the holders of 25% or more in aggregate principal amount of Indenture Securities of such series outstanding thereunder may declare the principal amount of all Indenture Securities of such series to be due and payable immediately, but if all defaults with respect to Indenture Securities of such series (other than non-payment of accelerated principal) are cured and there has been no sale of property under any judgment or decree for the payment of moneys due which shall have been obtained or entered, the holders of a majority in aggregate principal amount of the Indenture Securities of such series outstanding thereunder may waive the default and rescind the declaration and its consequences.

The indenture provides that the holders of a majority in aggregate principal amount of the Indenture Securities of any series outstanding thereunder may, subject to certain exceptions, direct the time, method and place of conducting any proceeding for any remedy available to, or exercising any power or trust conferred upon, the Trustee with respect to Indenture Securities of such series and may on behalf of all holders of Indenture Securities of such series waive any past default and its consequences with respect to Indenture Securities of such series, except a default in the payment of the principal of, premium, if any, or interest, if any, on any of the Indenture Securities of such series.

Holders of any Indenture Security of any series may not institute any proceeding to enforce the indenture unless the Trustee shall have refused or neglected to act for 60 days after a request and offer of satisfactory indemnity by the holders of 25% or more in aggregate principal amount of the Indenture Securities of such series outstanding thereunder, but the right of any holder of any Indenture Security of any series to enforce payment of the principal of, premium, if any, or interest, if any, on his Indenture Securities when due shall not be impaired without the consent of such holder.

The Trustee is required to give the holders of any Indenture Security of any series notice of default with respect to such series (Events of Default summarized above, exclusive of any grace period and irrespective of any requirement that notice of default be given) known to it within 90 days after the happening thereof, unless cured

before the giving of such notice, but, except for defaults in payments of the principal of, premium, if any, or interest, if any, on the Indenture Securities of such series, the Trustee may withhold notice if and so long as it determines in good faith that the withholding of such notice is in the interests of the holders of the Indenture Securities of such series.

The Company is required to deliver to the Trustee each year an officers' certificate stating whether such officers have obtained knowledge of any default by the Company in the performance of certain covenants and, if so, specifying such default and the nature thereof.

### **Consolidation, Merger and Sale of Assets**

The Company, without the consent of the holders of any of the outstanding Indenture Securities under the indenture, may consolidate or merge with or into, or transfer or lease substantially all of its assets to, any Person (as such term is defined in the indenture) that is a corporation organized and validly existing under the laws of any domestic jurisdiction, or may permit any such Person to consolidate with or merge into the Company or convey, transfer or lease substantially all of its assets to the Company, provided (a) that any successor Person assumes the Company's obligations on the Indenture Securities under the indenture, (b) that after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time, would become an Event of Default, shall have occurred and be continuing, and (c) that certain other conditions are met.

### **Defeasance**

The Company at its option (a) will be Discharged (as such term is defined in the indenture) from any and all obligations in respect of the notes (except for certain obligations to register the transfer and exchange of notes, replace stolen, lost or mutilated notes and coupons, maintain paying agencies and hold moneys for payment in trust) or (b) need not comply with certain restrictive covenants of the indenture, in each case after the Company deposits with the Trustee thereunder, in trust, money or U.S. Government Obligations (as such term is defined in the indenture) which through the payment of interest thereon and principal thereof in accordance with their terms will provide money, or a combination of money and U.S. Government Obligations, in an amount sufficient to pay all the principal of, and interest on, the notes on the dates such payments are due in accordance with the terms of the notes. Among the conditions to the Company's exercising any such option, the Company is required to deliver to the Trustee an opinion of independent counsel to the effect that the deposit and related defeasance would not cause the holders of the notes to recognize income, gain or loss for United States Federal income tax purposes and that the holders will be subject to United States Federal income tax in the same amounts in the same manner and at the same times as would have been the case if such deposit and related defeasance had not occurred.

### **Modification**

The indenture contains provisions permitting us and the trustee, with consent of the holders of not less than a majority of the aggregate principal amount of the notes at the time outstanding, evidenced as provided in the indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of any supplemental indenture with respect to the notes or of modifying in any manner the rights of the holders of the notes; *provided, however*, that no such supplemental indenture shall (i) extend the fixed maturity, or the earlier optional date of maturity, if any, of any note, or reduce the principal amount thereof or the premium thereon, if any, or reduce the rate or extend the time of payment of interest, if any, thereon or make the principal thereof or premium, if any, or interest, if any, thereon payable in any currency other than as provided pursuant to the indenture or this note, without the consent of the holders of each note so affected; or (ii) reduce the aforesaid percentage of the notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all notes then outstanding.

### **Concerning the Trustee**

Deutsche Bank Trust Company Americas is the current Trustee under the indenture. The Trustee may acquire and hold Indenture Securities and, subject to certain conditions, otherwise deal with us as if it were not trustee under the

indenture. The Trustee and its affiliates have in the past provided, and may from time to time in the future provide, trustee, commercial banking, investment banking and other services to us in the ordinary course of their respective businesses for which they have received, and will receive, customary compensation.

## Exhibit 4.7 Description of the Company's 0.625% notes due 2031 and 1.700% notes due 2049

The following summary of Eli Lilly and Company's above referenced debt securities is based on and qualified by the indenture, dated as of February 1, 1991, between us and Deutsche Bank Trust Company Americas (as successor to Citibank, N.A.), as trustee and the forms of 0.625% notes due November 2031 (the "0.625% notes") and 1.700% notes due November 2049 (the "1.700% notes, and together with the 0.625% notes, the "notes"). For a complete description of the terms and provisions of the notes, refer to the indenture, the form of officers' certificate setting forth the terms and forms of the notes, all of which are filed as exhibits to the Form 8-A filed with the Securities and Exchange Commission on November 7, 2019. Throughout this exhibit, references to "we," "the Company," "our," and "us" refer to Eli Lilly and Company, unless otherwise indicated.

### General

The 0.625% notes:

- were issued in an aggregate initial principal amount of €600,000,000, which remains outstanding as of December 31, 2019 and are subject to our ability to issue additional 0.625% notes which may be of the same series as the EUR 0.625% notes as described under "-Further Issues;"
- mature on November 1, 2031;
- bear interest at a rate of 0.625% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption" and in connection with certain events involving United States taxation;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The 1.700% notes:

- were issued in an aggregate initial principal amount of €1,000,000,000, which remains outstanding as of December 31, 2019 and are subject to our ability to issue additional 1.700% notes which may be of the same series as the 1.700% Notes as described under "-Further Issues;"
- mature on November 1, 2049;
- bear interest at a rate of 1.700% per annum;
- are unsecured;
- rank equally with all of our other present and future unsecured and unsubordinated indebtedness;
- are issued as a separate series under the indenture, in registered, book-entry form only;
- are repayable at par at maturity;
- are redeemable by us at any time prior to maturity as described below under "-Optional Redemption" and in connection with certain events involving United States taxation;
- are subject to defeasance and covenant defeasance; and
- are not subject to any sinking fund.

The indenture and the notes do not limit the amount of indebtedness which may be incurred or the amount of securities which may be issued by us or our subsidiaries, and contain no financial or similar restrictions on us or our subsidiaries, except as described under the captions "Limitation on Liens" and "Limitation on Sale and Leaseback Transactions."

### Interest

We pay interest on the notes annually on November 1 of each year, commencing November 1, 2020, to the persons in whose names such notes are registered at the close of business on October 15 (whether or not a business day), immediately preceding such interest payment date.

Interest on the notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on the notes (or from November 7, 2019, if no interest has been paid on the notes), to but excluding the next scheduled

interest payment date. This payment convention, which is set forth in the rulebook of the International Capital Market Association, is referred to as ACTUAL/ACTUAL (ICMA).

If any interest payment date falls on a day that is not a business day, we will make the required interest payment on the next business day, and no interest on such payment will accrue for the period from and after such interest payment date. Similarly, if the stated maturity date or the date of earlier redemption, as the case may be, of the notes falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and interest, if any, on the next succeeding business day, and no interest on such payment will accrue for the period from and after the maturity date or redemption date, as the case may be.

"Business day" means any day, other than a Saturday or Sunday, that is (i) neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York or London, and (ii) on which the Trans-European Automated Real-time Gross Settlement Express Transfer system, or any successor thereto, is open.

### **Issuance in Euro**

Initial holders will be required to pay for the notes in euro, and all payments of interest and principal, including payments made upon any redemption of the notes, will be payable in euro. If, on or after the date of the issuance of the notes, the euro is unavailable to us due to the imposition of exchange controls or other circumstances beyond our control or if the euro is no longer being used by the then member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of the notes will be made in dollars until the euro is again available to us or so used. The amount payable on any date in euro will be converted into dollars at the rate mandated by the U.S. Federal Reserve Board as of the close of business on the second business day prior to the relevant payment date or, in the event the U.S. Federal Reserve Board has not mandated a rate of conversion, on the basis of the most recent euro/dollar exchange rate available on or prior to the second business day prior to the relevant payment date, as reported by Bloomberg. Any payment in respect of the notes so made in dollars will not constitute an event of default under the notes or the indenture.

### **Optional Redemption**

At our option, we may redeem the notes, in whole or in part, at any time or from time to time as described below.

If we redeem all or any part of the 0.625% notes or the 1.700% notes prior to the applicable Par Call Date (as defined below), we will pay a redemption price equal to the greater of:

- 100% of the principal amount of the notes being redeemed on the redemption date; and
- as calculated by the Quotation Agent (as defined below) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, with respect to the 0.625% notes or the 1.700% notes, that would be due if such series of notes matured on the applicable Par Call Date (in each case, not including the amount, if any, of unpaid interest accrued to, but excluding, the redemption date) discounted to the redemption date, on an annual basis (ACTUAL/ACTUAL (ICMA)) using a discount rate equal to the sum of the Reference Dealer Rate (as defined below), plus 0.2000% (or 20 basis points) with respect to the 0.625% notes or 0.2500% (or 25 basis points) with respect to the 1.700% notes;

*plus*, in each case, unpaid interest accrued on such notes to, but excluding, the redemption date. If we redeem all or any part of the 0.625% notes or the 1.700% notes on or after the applicable Par Call Date, we will pay a redemption price equal to 100% of the principal amount of such series of notes being redeemed plus accrued and unpaid interest thereon.

Notwithstanding the foregoing, installments of interest on notes that are due and payable on an interest payment date falling on or prior to a redemption date will be payable on such interest payment date to the registered holders as of the close of business on the relevant record date. We will mail notice of any redemption at least 10 days but not more than 60 days before the redemption date to each registered holder of the notes to be redeemed. Subject to any delay in the redemption date or rescission of the notice of redemption described below, once notice of redemption is mailed, the notes called for redemption will become due and payable on the redemption date. Any redemption notice may, at our discretion, be subject to one or more conditions precedent, including completion of a

corporate transaction. In such event, the related notice of redemption will describe each such condition and, if applicable, will state that, at our discretion, the date of redemption may be delayed until such time (including more than 60 days after the notice of redemption was given) as any or all such conditions are satisfied or waived, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions have not been satisfied (or waived by us in our sole discretion) by the date of redemption, or by the date of redemption as so delayed. In the case of such delay or rescission, we will provide written notice to the trustee prior to the close of business two business days before the date of redemption and, upon receipt, the trustee will provide such notice to each holder.

“Par Call Date” means August 1, 2031 for the 0.625% notes and May 1, 2049 for the 1.700% notes.

“Quotation Agent” means the Reference Dealer selected by us.

“Reference Dealer” means any Euro security dealer(s) selected by us.

“Reference Dealer Rate” means, with respect to each Reference Dealer and any redemption date prior to the applicable Par Call Date for the 0.625% notes and the 1.700% notes, the arithmetic average of the quotations quoted in writing to us by each Reference Dealer of the average midmarket annual yield to maturity of the 0.000% German Bundesobligationen due August 15, 2029 with respect to the 0.625% notes and the 1.250% German Bundesobligationen due August 15, 2048 with respect to the 1.700% notes, or, if the applicable reference security is no longer outstanding, a similar security in the reasonable judgment of such Reference Dealer at 11:00 a.m. (London time) on the third business day preceding such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless we default in the payment of the redemption price). Before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of the notes of the particular series to be redeemed on that date. If fewer than all of the notes of such series are to be redeemed, the notes to be redeemed shall be selected by lot by the trustee by a method the trustee deems to be fair and appropriate. In addition, we may at any time purchase the notes by tender, in the open market or by private agreement, subject to applicable laws.

The notes will not be entitled to the benefit of any mandatory redemption or sinking fund provisions.

### **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay as additional interest on the notes such additional amounts as are necessary so that the net payment by us or a paying agent of the principal of and interest on the notes to a person that is a non-U.S. holder, after deduction for any present or future tax, assessment or governmental charge of the United States or a political subdivision or taxing authority thereof or therein, imposed by withholding with respect to the payment, will not be less than the amount that would have been payable in respect of the notes had no withholding or deduction been required.

Our obligation to pay additional amounts shall not apply:

- (i) to any tax, assessment or governmental charge that is imposed or withheld solely because the beneficial owner, or a fiduciary, settlor, beneficiary or member of the beneficial owner if the beneficial owner is an estate, trust or partnership, or a person holding a power over an estate or trust administered by a fiduciary holder:
  - (1) is or was present or engaged in a trade or business in the United States or has or had a permanent establishment in the United States;
  - (2) is or was a citizen or resident or is or was treated as a resident of the United States;
  - (3) is or was a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation for the United States federal income tax purposes, is or was a corporation that has accumulated earnings to avoid United States federal income tax or is or was a private foundation or other tax-exempt organization;
  - (4) is or was an actual or constructive “10-percent shareholder” of ours, as defined in Section 871(h)(3) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”); or

(5) is or was a bank receiving interest described in Section 881(c)(3)(A) of the Code;

- (ii) to any holder that is not the sole beneficial owner of notes, or that is a fiduciary or partnership, but only to the extent that the beneficial owner, a beneficiary or settlor with respect to the fiduciary, or a member of the partnership would not have been entitled to the payment of an additional amount had such beneficial owner, beneficiary, settlor or member received directly its beneficial or distributive share of the payment;
  - (iii) to any tax, assessment or governmental charge that is imposed or withheld solely because the beneficial owner or any other person failed to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of notes, if compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;
  - (iv) to any tax, assessment or governmental charge that is imposed other than by deduction or withholding by us or a paying agent from the payment;
  - (v) to any tax, assessment or governmental charge that is imposed or withheld solely because of a change in law, regulation, or administrative or judicial interpretation that becomes effective after the day on which the payment becomes due or is duly provided for, whichever occurs later;
  - (vi) to any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or any similar tax, assessment or governmental charge;
  - (vii) to any tax, assessment or other governmental charge any paying agent (which term may include us) must withhold from any payment of principal of or interest on any note, if such payment can be made without such withholding by any other paying agent;
  - (viii) to any tax, assessment or governmental charge that would not have been so imposed or withheld but for the presentation by the holder of a note for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later;
  - (ix) to any withholding or deduction pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction for cooperation to facilitate the implementation thereof (or any law implementing such an intergovernmental agreement); or
- (x) in the case of any combination of the above items.

The notes are subject in all cases to any applicable tax, fiscal or other law or regulation or administrative or judicial interpretation. Except as specifically provided under this heading “-Payment of Additional Amounts” and under the heading “-Redemption Upon a Tax Event,” we do not have to make any payment with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority.

In particular, we will not pay additional amounts on any note presented for payment by or on behalf of a beneficial owner who would have been able to avoid the withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Union.

#### **Redemption Upon a Tax Event**

If (i) we become or will become obligated to pay additional amounts as described under the heading “-Payment of Additional Amounts” as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of the United States (or any political subdivision or taxing authority thereof or therein), or any change in, or amendment to, any official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of the issuance of the notes, or (ii) a taxing authority of the United States takes an action on or after the date of the issuance of the notes, whether or not with respect to us or any of our affiliates, that results in a substantial probability that we will or may be required to pay such additional amounts, in either case, with respect to the notes for reasons outside our control and after taking reasonable measures available to us to avoid such obligation, then we may, at our option, redeem, as a whole, but not in part, each series of the notes at any time prior to maturity on not less than 30 nor more than 60 calendar days’ prior notice to the holders, at a redemption price equal to 100% of their principal amount, together with unpaid interest accrued thereon to the date fixed for redemption. No redemption pursuant to (ii) above may be made unless we shall have received an opinion of independent counsel to

the effect that an act taken by a taxing authority of the United States results in a substantial probability that we will or may be required to pay the additional amounts described under the heading “-Payment of Additional Amounts” and we shall have delivered to the trustee a certificate, signed by duly authorized officers, stating that based on such opinion, we are entitled to redeem the notes pursuant to their terms.

#### **Further Issues**

We may, without the consent of the holders of the notes, issue additional debt securities having the same ranking, interest rate, maturity, redemption provisions and other terms as the notes of a particular series. Any additional debt securities having such similar terms, together with the notes of such series, will constitute a single series of debt securities under the indenture.

#### **Limitation on Liens**

We will not, and will not permit any of our subsidiaries to, create, assume or suffer to exist any lien on restricted property to secure any of our debt, any debt of any of our subsidiaries or any debt of any other person unless we also secure the debt securities of any series having the benefit of this covenant by a lien equally and ratably with such other debt for so long as such other debt shall be so secured. The indenture contains the following exceptions to the foregoing prohibition:

- (i) liens existing on property owned or leased by a corporation existing when such corporation becomes a subsidiary;
- (ii) liens existing on the date of issuance of the first debt security of the particular series;
- (iii) liens existing on property when the property was acquired by us or any of our subsidiaries;
- (iv) liens to secure debt incurred prior to, at the time of or within 12 months after the acquisition of restricted property or the completion of the construction, alteration, repair or improvement of restricted property, as the case may be, for the purpose of financing all or a part of the purchase price or cost thereof and liens to the extent they secure debt in excess of such purchase price or cost and for the payment of which recourse may be had only against such restricted property;
- (v) certain liens in favor of governmental entities that are required by the provisions of any contract or statute, or any liens securing industrial development, pollution control or similar revenue bonds;
- (vi) any lien securing debt of a subsidiary owing to us or to another subsidiary;
- (vii) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part of any lien referred to in clauses (i) through (vi) above, inclusive, so long as (1) the principal amount of the debt secured thereby does not exceed the principal amount of debt so secured at the time of the extension, renewal or replacement (except that, where an additional principal amount of debt is incurred to provide funds for the completion of a specific project, the additional principal amount, and any related financing costs, may be secured by the lien as well) and (2) the lien is limited to the same property subject to the lien so extended, renewed or replaced (and improvements on the property); and
- (viii) any lien that would not otherwise be permitted by clauses (i) through (vii) above, inclusive, securing debt which, together with:
  - the aggregate outstanding principal amount of all other debt of ours and our subsidiaries owning restricted property which would otherwise be subject to the foregoing restrictions, and
  - the aggregate value of existing sale and leaseback transactions which would be subject to the foregoing restrictions absent this clause (viii), does not exceed 15% of our consolidated net tangible assets.

#### **Limitation on Sale and Leaseback Transactions**

We will not, and will not permit any of our subsidiaries owning restricted property to, enter into any sale and leaseback transaction unless:

- (1) our company or such subsidiary could incur debt, in a principal amount at least equal to the value of such sale and leaseback transaction, secured by a lien on the property to be leased (without equally and ratably securing the outstanding debt securities) because such lien would be of a character that no violation of the covenant described under “ Limitations on Liens” above would result; or

- (2) we apply, during the six months following the effective date of the sale and leaseback transaction, an amount equal to the value of the sale and leaseback transaction to the voluntary retirement of funded debt (whether by redemption, defeasance, repurchase, or otherwise) or to the acquisition of restricted property.

## Definitions of Certain Terms

The following are the meanings of terms that are important in understanding the covenants previously described:

- “consolidated net tangible assets” means the total assets (less applicable reserves and other properly deductible items) less current liabilities (excluding the amount of those which are by their terms extendable or renewable at the option of the obligor to a date more than 12 months after the date as of which the amount is being determined) and all goodwill, tradenames, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on our most recent consolidated balance sheet determined in accordance with generally accepted accounting principles.
- “funded debt” means our indebtedness or the indebtedness of a subsidiary owning restricted property maturing by its terms more than one year after its creation and indebtedness classified as long-term debt under generally accepted accounting principles and in each case ranking at least pari passu with the debt securities.
- “original issue discount security” means any debt security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of maturity thereof pursuant to the indenture.
- “restricted property” means
  - any manufacturing facility (or portion thereof) owned or leased by us or any of our subsidiaries and located within the continental United States which, in the opinion of our board of directors (or a committee thereof), is of material importance to our business and the business of our subsidiaries taken as a whole, but no such manufacturing facility (or portion thereof) shall be deemed of material importance if its gross book value, before deducting accumulated depreciation, is less than 2% of our consolidated net tangible assets; or
  - any shares of capital stock or indebtedness of any subsidiary owning any such manufacturing facility.
- “sale and leaseback transaction” means any arrangement with any person providing for the leasing by us or any subsidiary of any restricted property which has been or is to be sold or transferred by us or such subsidiary to such person, excluding (1) temporary leases for a term, including renewals at the option of the lessee, of not more than three years, (2) leases between us and a subsidiary or between subsidiaries, (3) leases of a restricted property executed by the time of, or within 12 months after the latest of, the acquisition, the completion of construction or improvement, or the commencement of commercial operation of the restricted property, and (4) arrangements pursuant to any provision of law with an effect similar to the former Section 168(f)(8) of the Internal Revenue Code of 1954, as amended.
- “subsidiary” means any corporation more than 50% of the voting stock of which shall at the time be owned by us or by one or more subsidiaries or by us and one or more subsidiaries, but shall not include any corporation of which we and/or one or more subsidiaries owns directly or indirectly, less than 50% of the outstanding stock of all classes having ordinary voting power for the election of directors but more than 50% of the outstanding shares of stock of a class having by its terms ordinary voting power as a class to elect a majority of the board of directors of such corporation.
- “value” means, with respect to a sale and leaseback transaction, an amount equal to the net present value of the lease payments with respect to the term of the lease remaining on the date as of which the amount is being determined, without regard to any renewal or extension options contained in the lease, discounted at the weighted average interest rate on the debt securities of all series (including the yield to maturity on any original issue discount securities) which are outstanding on the effective date of such sale and leaseback transaction.

Because the covenants described above cover only manufacturing facilities in the continental United States, our manufacturing facilities in Puerto Rico and elsewhere in the world are excluded from the operation of the covenants described above.

Except as described in “Merger or Consolidation” below, there are no other restrictive covenants contained in the indenture. The indenture does not contain any provision which restricts us from incurring, assuming or becoming

liable with respect to any indebtedness or other obligations, whether secured or unsecured, or from paying dividends or making other distributions on our capital stock or purchasing or redeeming our capital stock. The indenture does not contain any financial ratios, or specified levels of net worth or liquidity to which we must adhere. In addition, the indenture does not contain any provision which would require that we repurchase or redeem or otherwise modify the terms of any of our debt securities upon a change in control or other events involving us which may adversely affect the creditworthiness of the debt securities.

## Events of Default

The indenture provides that, with respect to any series of debt securities, an event of default consists of:

- failure to pay interest when due on any debt securities of such series that continues for 30 days;
- failure to pay principal or premium, if any, when due (whether at maturity, upon redemption, by declaration or otherwise) on any debt securities of such series;
- failure to observe or perform the covenant in the indenture described below under “Merger or Consolidation” after written notice from the trustee or holders of 25% or more in aggregate principal amount of debt securities of such series outstanding thereunder;
- failure to observe or perform any of our covenants in the indenture or the debt securities of such series (other than a covenant included in the indenture or the debt securities solely for the benefit of a series of debt securities other than such series), continued for 60 days (except in the case of a violation of the covenant described below under “Merger or Consolidation”) after written notice from the trustee or the holders of 25% or more in aggregate principal amount, of debt securities of such series outstanding thereunder;
- certain events of our bankruptcy, insolvency or reorganization; and
- any other event of default as may be specified for such series.

The indenture provides that if an event of default with respect to any series of debt securities at the time outstanding occurs and is continuing, either the trustee or the holders of 25% or more in aggregate principal amount (or, if the debt securities of that series are original issue discount securities, such portion of the principal amount as may be specified in the terms of that series) of debt securities of such series outstanding may declare the principal amount of all debt securities of such series to be due and payable immediately. At any time after a declaration of acceleration with respect to the debt securities of any series has been made and before there has been a sale of property under a judgment or decree for the payment of moneys due, the holders of a majority in aggregate principal amount of the debt securities of such series outstanding may waive the default and rescind the declaration and its consequences if:

- 1) we have paid or deposited with the trustee a sum sufficient to pay:
  - a. all matured installments of interest upon all the debt securities of such series;
  - b. the principal of and premium, if any, on any and all debt securities of such series which have become due other than by declaration;
  - c. interest on overdue installments of interest, to the extent legally enforceable under applicable law, and on such principal of and premium, if any, on each debt security of such series at the rate borne by such debt security to the date of such payment or deposit or yield to maturity (in the case of an original issue discount security); and
  - d. the expenses of the trustee, and reasonable compensation to the trustee, agents, attorneys and counsel; and
- 2) any and all defaults under the indenture, other than the nonpayment of principal on the debt securities of such series which may have become due by declaration, have been remedied.

The indenture provides that the holders of a majority in aggregate principal amount of the debt securities of any series outstanding under the indenture may, subject to certain exceptions, direct the trustee as to the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any power or trust conferred upon the trustee. The holders of a majority in aggregate principal amount of the debt securities of any series outstanding may on behalf of all holders of debt securities of such series waive any past default and its consequences with respect to debt securities of such series, except a default in the payment of the principal of, premium, if any, or interest, if any, on any of the debt securities of such series.

Holders of any debt securities of any series may not institute any proceeding to enforce the indenture or any remedy thereunder unless the trustee shall have failed to act for 60 days after a request and offer of reasonable

indemnity by the holders of 25% or more in aggregate principal amount of the debt securities of such series outstanding. However, the right of any holder of any security of any series to enforce payment of the principal of or premium, if any, or interest, if any, on its debt securities when due shall not be impaired without the consent of such holder.

The trustee is required to give the holders of any debt security of any series notice of default with respect to such series known to it within 90 days after the happening of the default, unless cured before the giving of such notice. However, except for defaults in payments of the principal of or premium, if any, or interest, if any, on the debt securities of such series, the trustee may withhold notice if and so long as it determines in good faith that the withholding of such notice is in the interests of the holders of the debt securities of such series.

We are required to deliver to the trustee each year an officers' certificate stating whether such officers have obtained knowledge of any default by our company in the performance of all covenants and, if so, specifying the nature of such default.

### **Merger or Consolidation**

The indenture provides that without the consent of the holders of any of the outstanding debt securities under the indenture, we may consolidate with or merge into, or transfer or lease substantially all of our assets to, any domestic corporation, association, company or business trust (as used in this subsection, a "corporation"), provided:

- the successor corporation assumes all of our payment obligations under the debt securities and the performance of all of our other covenants under the indenture; and
- certain other conditions described in the indenture are met.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. As a result of this uncertainty:

- i. there could be a disagreement between us and the holders of debt securities over whether, as a condition to a transfer or lease of our assets, the successor entity is required to assume our obligations under the indenture and, consequently, whether a failure to assume such obligations would result in an event of default under the indenture;
- ii. in the event that the holders of debt securities attempt to declare an event of default and exercise their acceleration rights under the indenture in such circumstances and we contest such action, there can be no assurance as to how a court interpreting applicable law would interpret the phrase "substantially all"; and
- iii. it may be difficult for holders of debt securities to declare an event of default and exercise their acceleration rights.

### **Discharge, Legal Defeasance and Covenant Defeasance**

We may discharge certain obligations to holders of any series of debt securities that have not already been delivered to the trustee for cancellation and that either have become due and payable or will become due and payable within one year (or are to be called for redemption within one year under arrangements satisfactory to the trustee for the giving of notice) by irrevocably depositing with the trustee, in trust, funds in the currency or currencies in which those debt securities are payable in an amount sufficient to pay the entire indebtedness on those debt securities in respect of principal, premium, if any, and interest, if any, to the date of that deposit (if those debt securities have become due and payable) or to the maturity date, as the case may be.

At our option, we may be discharged, subject to certain terms and conditions, from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer and exchange of debt securities, replace, stolen, lost or mutilated debt securities and coupons, maintain paying agencies and hold moneys for payment in trust) or need not comply with certain restrictive covenants of the indenture if:

(1) we have deposited with the trustee, in trust, money, and in the case of debt securities and coupons denominated in U.S. dollars, U.S. government obligations or, in the case of debt securities and coupons denominated in a foreign currency, foreign currency government securities, which through the payment of interest thereon and principal thereof in accordance with their terms will provide money or a combination of money, and either U.S. government securities or foreign currency government securities, as the case may be, in an amount sufficient to pay in the currency in which the debt securities are payable all the principal of and premium, if any, and interest, if any, on the debt securities on the date such payments are due in accordance with the debt securities;

(2) (i) no event of default or event which with notice or lapse of time would become an event of default shall have occurred and be continuing on the date of such deposit, (ii) no event of default relating to our bankruptcy, insolvency or reorganization, or event which with notice or lapse of time or both would become such an event of default, shall have occurred within 90 days after the date of such deposit, and (iii) such deposit and discharge will not result in any default or event of default under any material indenture, agreement or other instrument binding upon us or any of our properties;

(3) we have delivered to the trustee an opinion of counsel to the effect that such deposit and discharge will not cause the holders of the debt securities of such series to recognize income, gain or loss for federal income tax purposes and that such holders will be subject to federal income tax in the same amounts, manner and time had such deposit and discharge not occurred; and

(4) we have delivered to the trustee an officers' certificate and an opinion from our counsel stating that we have complied with all conditions precedent set forth in the indenture or the applicable supplemental indenture relating to the satisfaction and discharge of the indebtedness of the series of debt securities.

#### **Modification and Waiver**

The indenture contains provisions permitting us and the trustee, with consent of the holders of not less than a majority of the aggregate principal amount of the notes at the time outstanding, evidenced as provided in the indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the indenture or of any supplemental indenture with respect to the notes or of modifying in any manner the rights of the holders of the notes; *provided, however*, that no such supplemental indenture shall (i) extend the fixed maturity, or the earlier optional date of maturity, if any, of any note, or reduce the principal amount thereof or the premium thereon, if any, or reduce the rate or extend the time of payment of interest, if any, thereon or make the principal thereof or premium, if any, or interest, if any, thereon payable in any currency other than as provided pursuant to the indenture or this note, without the consent of the holders of each note so affected; or (ii) reduce the aforesaid percentage of the notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all notes then outstanding.

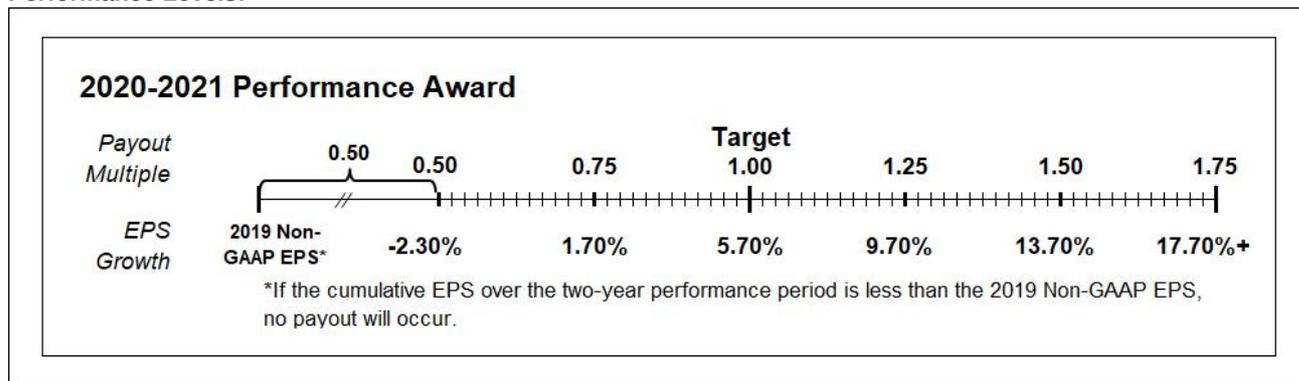
#### **Concerning the Trustee**

Deutsche Bank Trust Company Americas is the current trustee under the indenture. The trustee may acquire and hold debt securities and, subject to certain conditions, otherwise deal with us as if it were not trustee under the indenture. The trustee and its affiliates have in the past provided, and may from time to time in the future provide, trustee, commercial banking, investment banking and other services to us in the ordinary course of their respective businesses for which they have received, and will receive, customary compensation.

# Eli Lilly and Company Performance Award Agreement (for Executive Officers)

This Performance Award has been granted on February 12, 2020 (“Grant Date”) by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana (“Lilly” or the “Company”), to the Eligible Individual who has received this Performance Award Agreement (the “Grantee”).

**Performance Levels:**



**Performance Period:** January 1, 2020 - December 31, 2021

**Service Vesting Date:** February 1, 2023

**Section 1. Grant of Performance Award**

Eli Lilly and Company, an Indiana corporation (“Lilly” or the “Company”), has granted to the Eligible Individual who has received this Performance Award Agreement (the “Grantee”) a Performance-Based Award (the “Performance Award” or the “Award”) with respect to the target number of shares of Lilly Common Stock (the “Shares”) that the Grantee may view by logging on to the Merrill Lynch website at <http://myequity.lilly.com> (the “Target Number of Shares”).

The Award is made pursuant to and subject to the terms and conditions set forth in the Amended and Restated 2002 Lilly Stock Plan (the “Plan”) and to the terms and conditions set forth in this Performance Award Agreement, including all appendices, exhibits and addenda hereto (the “Award Agreement”). In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

**Section 2. Vesting**

As soon as reasonably practicable following the end of the Performance Period, the Committee shall determine the number of units eligible to vest (“Performance Units”) based on the actual cumulative Earnings Per Share (“EPS”) for the Performance Period and using the Non-GAAP EPS (as adjusted to the extent determined by the Committee) for the year immediately prior to the commencement of the Performance Period as a reference point (as shown on page 1 of this document) (“EPS Growth”), the corresponding payout multiple and the Target Number of Shares.

- a. The actual cumulative EPS for the Performance Period shall be computed using the following procedures:
  - i. A determination of adjusted consolidated net income ascertained from the Company's audited consolidated financial statements shall be made for each fiscal year in the Performance Period in

accordance with accounting principles currently applicable in the United States ("US GAAP"), adjusted to the extent deemed appropriate by the Committee for any unusual items deemed significant by the Committee.

- ii. The number of shares of outstanding Lilly Common Stock used to compute consolidated EPS shall be determined as of the end of each fiscal year in the Performance Period on a diluted basis or its equivalent in accordance with US GAAP.
  - iii. To calculate consolidated EPS for each fiscal year in the Performance Period, the adjusted consolidated net income shall be divided by the number of shares of outstanding Lilly Common Stock as computed in accordance with subsection (ii) above and the quotient rounded to the nearest cent.
  - iv. To determine the cumulative EPS for the Performance Period, the EPS amounts for each fiscal year as determined above shall be added.
- b. The payout multiple corresponding to the EPS Growth (as shown on page 1 of this document) shall then be applied to the Target Number of Shares.
  - c. The number of Performance Units under this Performance Award will be the number resulting from the calculation described in subsection (b) above.
  - d. In the event the Grantee's Service is terminated prior to the Service Vesting Date for any reason or in any circumstance other than as described in Section 3 below, the Award, including any accrued Dividend Equivalent Rights, shall be forfeited.

### **Section 3. Impact of Certain Employment Status Changes**

Unless the Committee determines, in its sole discretion, that such treatment is not advisable after consideration of Applicable Laws, the number of Shares that are eligible to vest upon a change in employment status of the Grantee during the Performance Period will be as follows:

- a. Leaves of Absence. In the event the Grantee is on an approved leave of absence during the Performance Period, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.
- b. Death; Disability. In the event the Grantee's Service is terminated (i) due to the Grantee's death, or (ii) by reason of Grantee's Disability, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.
- c. Qualifying Termination. In the event the Grantee's employment is subject to a Qualifying Termination (as defined below), the Performance Units shall vest, provided that if the Qualifying Termination occurs prior to the last day of the Performance Period, the number of Performance Units shall be reduced proportionally for the portion of the total days during the Performance Period in which the Grantee was not in active Service.

For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:

- i. retirement as a "retiree," which is a person who is (A) a retired employee under the Lilly Retirement Plan; (B) a retired employee under the retirement plan or program of an Affiliate; or (C) a retired employee under a retirement program specifically approved by the Committee;
- ii. the Grantee's Service is terminated due to a plant closing or reduction in workforce (as defined below);
- iii. as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States (or equivalent as determined by the Committee).

"Plant closing" means the closing of a plant site or other corporate location that directly results in termination of the Grantee's Service.

"Reduction in workforce" means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of the Grantee's Service.

- d. Retirement. Notwithstanding Section 3(c)(i), in the event the Grantee's Service is terminated due to retirement as a "retiree" (as defined in Section 3(c)) subsequent to the last day of the Performance Period but prior to the Service Vesting Date, the Performance Units, if any, shall continue to accrue Dividend Equivalent Rights and the Performance Units and Dividend Equivalent Rights shall vest on the Service Vesting Date.

A Grantee who has not received a year-end individual performance rating and (i) is on employment probation (or equivalent as determined by the Committee) for unsatisfactory performance and elects to retire in lieu of a termination of employment; or (ii) elects to retire in lieu of termination of employment because of an immediately terminable offense (e.g., absence of three days without notice, insubordination, violation of

substance abuse policy, possession of firearms, misconduct) will not be considered to have terminated due to retirement as described herein.

- e. Demotions, Disciplinary Actions and Misconduct. The Company may, in its sole discretion, cancel this Performance Award or reduce the number of Performance Units, prorated according to time or other measure as determined appropriate by the Company, if during any period prior to the Service Vesting Date the Grantee has been (i) subject to disciplinary action by the Company or (ii) determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the Company, as determined in the sole discretion of the Company.
- f. Employment Probation. If the Grantee is placed on employment probation (or its equivalent as determined by the Committee) at any time subsequent to the last day of the Performance Period but prior to the Service Vesting Date, the Grantee shall forfeit the Performance Units and Dividend Equivalent Rights scheduled to vest on the Service Vesting Date to the extent the Award is the next subsequent Award (when compared to other Awards held by the Grantee) that is scheduled to vest following the date that the Grantee is placed on employment probation (it being understood that all other Awards, if any, that are scheduled to vest on the Service Vesting Date shall also be forfeited).

The Committee's determination as to whether (1) a leave of absence or a transfer of employment between Lilly and an Affiliate or between Affiliates constitutes a termination of Service, (2) the Grantee's Service has been terminated by reason of Disability, (3) the Grantee's Service has been terminated as a result of the failure to locate a position within the Company or an Affiliate following reallocation or medical reassignment (or equivalent as determined by the Committee), and (4) the Grantee's Service has been terminated as a direct result of either a plant closing or a reduction in workforce shall be final and binding on the Grantee.

#### **Section 4. Change in Control**

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 4 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event of a Transaction that occurs prior to the last day of the Performance Period, the Grantee will be credited with an award of Restricted Stock Units equal to the number of Performance Units, to be calculated in a manner consistent with Section 2, but the cumulative EPS shall equal the Company's cumulative EPS expected results (as determined by the Company's last approved forecast prior to the consummation of the Transaction, not considering the impact of the Transaction) (the "Credited RSU Award"). The Credited RSU Award shall be eligible to vest on the last day of the Performance Period, subject to the Grantee's continued Service through the last day of the Performance Period, except as provided below:
  - i. In the event that (A) the Grantee is subject to a termination of Service as described in Sections 3(b) and (c) prior to the last day of the Performance Period or (B) the Credited RSU Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Credited RSU Award shall vest automatically in full.
  - ii. In the event that the Credited RSU Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with the Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to the last day of the Performance Period, then immediately as of the date of the Covered Termination, the Credited RSU Award shall vest automatically in full.

For purposes of this Award Agreement, "Covered Termination" shall mean a termination of Service as described in Sections 3(b) and (c), Grantee's termination of Service without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees (as amended from time to time) or any successor plan or arrangement thereto.

- c. The following shall apply in the event of a Transaction that occurs subsequent to the last day of the Performance Period but prior to the Service Vesting Date:
  - i. In the event that the Performance Units are not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection

- with a Transaction, then immediately prior to the Transaction, the Performance Units shall vest automatically in full.
- ii. In the event that the Performance Units are converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with the Transaction and the Grantee is subject to a Covered Termination prior to the Service Vesting Date, then immediately as of the date of the Covered Termination, the Performance Units shall vest automatically in full.

**Section 5. Settlement**

- a. Except as provided below, a vested Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days following the Service Vesting Date, including if the Award vests pursuant to Sections 3(b), 3(c) or 3(d).
- b. If the Award vests pursuant to Section 3(b) subsequent to the last day of the Performance Period, the Award shall be paid to the Grantee no later than sixty (60) days following the date of the Grantee's termination of Service under Section 3(b), provided that if the Award is considered an item of nonqualified deferred compensation subject to Section 409A of the Code ("NQ Deferred Compensation"), the Award shall be paid within sixty (60) days following (i) the date the Grantee experiences a Disability or (ii) the date of the Grantee's death, as applicable.
- c. If the Award vests pursuant to Section 4(b)(i) or Section 4(c)(i), the Award shall be paid to the Grantee immediately prior to the Transaction, provided that if the Award is considered NQ Deferred Compensation and the Transaction does not constitute a "change in control event" under Section 409A of the Code (a "409A CIC"), then the Award shall be paid in cash (calculated based on the value of the Shares established for the consideration to be paid to holders of Shares in the Transaction) on the Service Vesting Date.
- d. If the Award vests pursuant to Section 4(b)(ii) or Section 4(c)(ii), the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days following the date the Grantee is subject to a Covered Termination, provided that if the Award is NQ Deferred Compensation, (i) the Award shall be paid within sixty (60) days following the date the Grantee experiences a "separation from service" within the meaning of Section 409A of the Code (a "409A Separation") and (ii) if the Grantee is a "specified employee" within the meaning of Section 409A of the Code as of the payment date, the Award shall instead be paid on the earliest of (1) the first day following the six (6) month anniversary of the Grantee's Section 409A Separation and (2) the date of the Grantee's death.
- e. At the time of settlement provided in this Section 5, Lilly shall issue or transfer Shares or the cash equivalent, as contemplated under Section 5(f) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee's discretion.
- f. At any time prior to the Service Vesting Date or until the Performance Units are paid in accordance with this Section 5, the Committee may, if it so elects, determine to pay part or all of the Performance Units in cash in lieu of issuing or transferring Shares. The amount of cash shall be calculated based on the Fair Market Value of the Shares on the last day of the Restriction Period in the case of payment pursuant to Section 5(a) and on the date of payment in the case of a payment pursuant to Section 5(d).
- g. Dividend Equivalent Rights, if any, that accrue hereunder shall be settled in cash.
- h. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.
- i.

**Section 6. Rights of the Grantee**

- a. No Shareholder Rights. The Performance Award does not entitle the Grantee to any rights of a shareholder of Lilly until such time as the Performance Award is settled and Shares are issued or transferred to the Grantee.
- b. Dividend Equivalent Rights. On each date that the Company pays a cash dividend to holders of Shares during the period commencing on the date the number of Performance Units are determined continuing through the date the Performance Units are settled, the Grantee shall be credited with Dividend Equivalent Rights in an amount equal to the total number of Performance Units, multiplied by the dollar amount of the cash dividend paid per Share by the Company on such date. Dividend Equivalent Rights shall accrue in an account denominated in U.S. dollars and shall not accrue interest or other credits prior to being paid. The Dividend Equivalent Rights shall be subject to the same vesting conditions and restrictions as the Performance Units to which the Dividend Equivalent Rights relate, and the Dividend Equivalent Rights shall be forfeited in the event that the Performance Units with respect to which such Dividend Equivalent Rights were credited are forfeited.
- c. No Trust; Grantee's Rights Unsecured. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive

payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

#### **Section 7. Prohibition Against Transfer**

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

#### **Section 8. Responsibility for Taxes**

- a. Regardless of any action Lilly and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by Lilly or the Employer. The Grantee further acknowledges that Lilly and the Employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Award, including the grant of the Performance Award, the vesting of the Performance Award, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the accrual and payment of Dividend Equivalent Rights, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Related Items in more than one jurisdiction.
- b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to Lilly and/or the Employer to satisfy all Tax Related Items.
  - i. If the Performance Award is paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
  - ii. If the Performance Award is paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes Lilly and/or the Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (ii) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to Lilly or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, (iii) withhold in Shares otherwise issuable to the Grantee pursuant to this Award, and/or (iv) apply any other method of withholding determined by the Company and, to the extent required by Applicable Laws or the Plan, approved by the Committee.
  - iii. If the Performance Award is paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, Lilly will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by Applicable Laws or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax Related Items may be satisfied by one or a combination of the methods set forth in Section 8(b)(i) and 8(b)(ii) above.
- c. Depending on the withholding method, Lilly and/or the Employer may withhold or account for Tax Related Items by considering applicable statutory or other withholding rates, including minimum or maximum rates in the jurisdiction(s) applicable to the Grantee. In the event of over-withholding, the Grantee may receive a refund of any over-withheld amount in cash (without interest and without entitlement to the equivalent amount in Shares). If the obligation for Tax Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax Related Items.
- d. Lilly may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described in this Section 8.

### **Section 9. Section 409A Compliance**

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

### **Section 10. Grantee's Acknowledgments**

In accepting this Award, the Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by Lilly, it is discretionary in nature and it may be modified, amended, suspended or terminated by Lilly at any time, as provided in the Plan;
- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future Performance-Based Awards, or benefits in lieu thereof, even if Performance-Based Awards have been granted in the past;
- c. all decisions with respect to future Performance-Based Awards or other awards, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;
- g. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of Lilly or any subsidiary of Lilly, the Award shall not be interpreted to form an employment contract or relationship with Lilly or any Affiliate;
- h. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- i. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to Lilly or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- j. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company or an Affiliate and the Grantee's right, if any, to earn and be paid any portion of the Award and any Dividend Equivalent Rights after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence) in accordance with Section 409A;
- k. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares;
- l. the Grantee is solely responsible for investigating and complying with any laws applicable to him or her in connection with the Award; and
- m. the Company has communicated share ownership guidelines that apply to the Grantee, and the Grantee understands and agrees that those guidelines may impact any shares of Lilly Stock that may be issued pursuant to this Award.

### **Section 11. Data Privacy**

- a. Data Collection and Usage. *The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance*

number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Performance Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure are the Applicable Laws.

- b. Stock Plan Administration Service Providers. The Company transfers Data to Bank of America Merrill Lynch and/or its affiliated companies ("Merrill Lynch"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan. The Company may also transfer Data to KPMG, an independent service provider, which is also assisting the Company with certain aspects of the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner.
- c. International Data Transfers. The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company also participates in the Swiss-U.S. Privacy Shield program under which the Company certifies compliance with certain Swiss data protection requirements with respect to employee data. The Company's legal basis, where required, for the transfer of Data is Grantee's consent.
- d. Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.
- e. Voluntariness and Consequences of Consent Denial or Withdrawal. Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.
- f. Data Subject Rights. The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Laws and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Laws, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and to (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.
- g. Declaration of Consent. By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

## **Section 12. Additional Terms and Conditions**

The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Performance Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

## **Section 13. Governing Law and Choice of Venue**

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

## **Section 14. Miscellaneous Provisions**

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, U.S.A. Any notice or communication by Lilly in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any successor Grantee, at the address specified in writing to Lilly by the successor Grantee. In addition, Lilly may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Lilly or a third party designated by Lilly.
- b. Language. The Grantee acknowledges that he or she is proficient in the English language or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Grantee to understand the terms and conditions of this Award Agreement. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different from the English version, the English version will control.
- c. Waiver. The waiver by Lilly of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.

The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

- e. No Advice Regarding Grant. Lilly is not providing any tax, legal or financial advice, nor is Lilly making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

## **Section 15. Compensation Recovery**

At any time during the three years following the date on which the number of Performance Units subject to the Award has been determined under Section 2 above, the Company reserves the right to and, in appropriate cases, will seek restitution of all or part of any Shares that have been issued or cash that has been paid pursuant to this Award if:

- a. (i) the number of Shares or the amount of the cash payment was calculated based, directly or indirectly, upon the achievement of financial results that were subsequently the subject of a restatement of all or a portion of the Company's financial statements; and
- (ii) the Grantee engaged in intentional misconduct that caused or partially caused the need for such a restatement; and
- (iii) the number of Shares or the amount of cash payment that would have been issued or paid to the Grantee had the financial results been properly reported would have been lower than the number of Shares actually issued or the amount of cash actually paid; or
- b. the Grantee has been determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such misconduct causes significant harm to the company.

Furthermore, in the event the number of Shares issued or cash paid pursuant to this Award is determined to have been based on materially inaccurate financial statements or other Company performance measures or on calculation errors (without any misconduct on the part of the Grantee), the Company reserves the right to and, in appropriate cases, will (A) seek restitution of the Shares or cash paid pursuant to this Award to the extent that the number of Shares issued or the amount paid exceeded the number of Shares that would have been issued or the amount that would have been paid had the inaccuracy or error not occurred, or (B) issue additional Shares or make additional payment to the extent that the number of Shares issued or the amount paid was less than the correct amount.

This Section 15 is not intended to limit the Company's power to take such action as it deems necessary to remedy any misconduct, prevent its reoccurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer in a manner it deems appropriate.

**Section 16. Award Subject to Acknowledgement of Acceptance**

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee prior to 4:00 PM (EDT) April 30, 2020, through the website of Merrill Lynch, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) April 30, 2020, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances.

IN WITNESS WHEREOF, Lilly has caused this Award Agreement to be executed in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY



By: \_\_\_\_\_  
David A. Ricks  
Chairman of the Board, President and  
Chief Executive Officer

## Eli Lilly and Company Shareholder Value Award (for Executive Officers)

This Shareholder Value Award has been granted on February 12, 2020 (“Grant Date”) by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana (“Lilly” or the “Company”), to the Eligible Individual who has received this Shareholder Value Award Agreement (the “Grantee”).

### Lilly Stock Price Performance Levels:

	No Payout	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6
<b>Final Lilly Stock Price</b>	< \$109.78	\$109.78 -- \$125.25	\$125.26 -- \$140.73	\$140.74 -- \$156.21	\$156.22 -- \$171.69	\$171.70 -- \$187.17	> \$187.17
<b>Percent of Target</b>	0%	50%	75%	100%	125%	150%	175%

**Performance Period:** January 1, 2020 - December 31, 2022

### Section 1. Grant of Shareholder Value Award

Eli Lilly and Company, an Indiana corporation (“Lilly” or the “Company”), has granted to the Eligible Individual who has received this Shareholder Value Award Agreement (the “Grantee”) a Performance-Based Award (the “Shareholder Value Award” or the “Award”) with respect to the target number of shares of Lilly Common Stock (the “Shares”) that the Grantee may view by logging on to the Merrill Lynch website at <http://myequity.lilly.com> (the “Target Number of Shares”).

The Award is made pursuant to and subject to the terms and conditions set forth in the Amended and Restated 2002 Lilly Stock Plan (the “Plan”) and to the terms and conditions set forth in this Shareholder Value Award Agreement, including all appendices, exhibits and addenda hereto (the “Award Agreement”). In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

### Section 2. Vesting

As soon as reasonably practicable following the end of the Performance Period, the Committee shall determine the number of Shares that are eligible to vest which shall be equal to the product of (i) the Target Number of Shares, multiplied by (ii) the Percent of Target, where:

- a. “Percent of Target” shall mean the percentage set forth in the Lilly Stock Price Performance Levels table set forth on the first page of this document representing the attainment level of the Final Lilly Stock Price measured against the performance goal attainment levels set forth in the table.
- b. “Final Lilly Stock Price” shall mean the average of the closing price of a share of Lilly Common Stock on the New York Stock Exchange for each trading day in the last two months of the Performance Period, rounded to the nearest cent.

In the event the Grantee’s Service is terminated prior to the end of the Performance Period for any reason or in any circumstance other than as described in Section 3 below, the Award shall be forfeited.

### Section 3. Impact of Certain Employment Status Changes

Unless the Committee determines, in its sole discretion, that such treatment is not advisable after consideration of Applicable Laws, the number of Shares that are eligible to vest upon a change in employment status of the Grantee during the Performance Period will be as follows:

- a. Leaves of Absence. In the event the Grantee is on an approved leave of absence during the Performance Period, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.

- b. Death; Disability. In the event the Grantee's Service is terminated (i) due to the Grantee's death, or (ii) by reason of Grantee's Disability, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.
- c. Qualifying Termination. In the event the Grantee's employment is subject to a Qualifying Termination (as defined below), the number of Shares eligible to vest shall be reduced proportionally for the portion of the total days during the Performance Period in which the Grantee was not in active Service.

For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:

- i. retirement as a "retiree," which is a person who is (A) a retired employee under the Lilly Retirement Plan; (B) a retired employee under the retirement plan or program of an Affiliate; or (C) a retired employee under a retirement program specifically approved by the Committee;
- ii. the Grantee's Service is terminated due to a plant closing or reduction in workforce (as defined below);
- iii. as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States (or equivalent as determined by the Committee).

"Plant closing" means the closing of a plant site or other corporate location that directly results in termination of the Grantee's Service.

"Reduction in workforce" means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of the Grantee's Service.

- d. Demotions, Disciplinary Actions and Misconduct. The Committee may, in its sole discretion, cancel this Shareholder Value Award or reduce the number of Shares eligible to vest, prorated according to time or other measure as determined appropriate by the Committee, if during any portion of the Performance Period the Grantee has been (i) subject to disciplinary action by the Company or (ii) determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the Company, as determined in the sole discretion of the Company.

The Committee's determination as to whether (1) a leave of absence or a transfer of employment between Lilly and an Affiliate or between Affiliates constitutes a termination of Service, (2) the Grantee's Service has been terminated by reason of Disability, (3) the Grantee's Service has been terminated as a result of the failure to locate a position within the Company or an Affiliate following reallocation or medical reassignment, and (4) the Grantee's Service has been terminated as a direct result of either a plant closing or a reduction in workforce shall be final and binding on the Grantee.

#### **Section 4. Change in Control**

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 4 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event of a Transaction that occurs prior to the end of the Performance Period, the Grantee will be credited with an award of Restricted Stock Units equal to the number of Shares eligible to vest, calculated in a manner consistent with Section 2, but the Final Lilly Stock Price shall be equal to the value of Shares established for the consideration to be paid to holders of Shares in the Transaction (the "Credited RSU Award"). The Credited RSU Award shall be eligible to vest on the last day of the Performance Period, subject to the Grantee's continued Service through the last day of the Performance Period, except as provided below:
  - i. In the event that (A) the Grantee is subject to a termination of Service as described in Sections 3(b) and (c) prior to the end of the Performance Period or (B) the Credited RSU Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Credited RSU Award shall vest automatically in full.
  - ii. In the event that the Credited RSU Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with the Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to the end of the Performance Period, then immediately as of the date of the Covered Termination, the Credited RSU Award shall vest automatically in full.

For purposes of this Award Agreement, "Covered Termination" shall mean a termination of Service as described in Sections 3(b) and (c), Grantee's termination of Service without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees (as amended from time to time) or any successor plan or arrangement thereto.

- c. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 4, then references to Shares in this Award Agreement shall be read to mean stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

#### **Section 5. Settlement**

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days, following the last day of the Performance Period.
- b. If the Award vests pursuant to Section 4(b)(i), the Award shall be paid to the Grantee immediately prior to the Transaction, provided that if the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code ("NQ Deferred Compensation") and the Transaction does not constitute a "change in control event," within the meaning of the U.S. Treasury Regulations (a "409A CIC"), then the Award shall be paid in cash (calculated based on the value of the Shares established for the consideration to be paid to holders of Shares in the Transaction) on the earliest of the date that the Grantee experiences a "separation from service" within the meaning of Section 409A of the Code (a "Section 409A Separation"), the date of the Grantee's death and the date set forth in Section 5(a) above.
- c. If the Award vests pursuant to Section 4(b)(ii), the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days, following the date the Grantee is subject to a Covered Termination, provided that if the Award is NQ Deferred Compensation, (i) the Award shall be paid within sixty (60) days following the date the Grantee experiences a Section 409A Separation and (ii) if the Grantee is a "specified employee" within the meaning of Section 409A of the Code as of the payment date, the Award shall instead be paid on the earliest of (1) the first day following the six (6) month anniversary of the Grantee's Section 409A Separation and (2) the date of the Grantee's death.
- d. At the time of settlement provided in this Section 5, Lilly shall issue or transfer Shares or the cash equivalent, as contemplated under Section 5(e) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee's discretion.
- e. At any time prior to the end of the Performance Period or until the Award is paid in accordance with this Section 5, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be calculated based on the Fair Market Value of the Shares on the last day of the Performance Period in the case of payment pursuant to Section 5(a) and on the date of payment in the case of a payment pursuant to Section 5(c).
- f. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

#### **Section 6. Rights of the Grantee**

- a. No Shareholder Rights. The Shareholder Value Award does not entitle the Grantee to any rights of a shareholder of Lilly until such time as the Shareholder Value Award is settled and Shares are issued or transferred to the Grantee.
- b. No Trust; Grantee's Rights Unsecured. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

#### **Section 7. Prohibition Against Transfer**

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

#### **Section 8. Responsibility for Taxes**

- a. Regardless of any action Lilly and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits

tax, payment on account or other tax related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by Lilly or the Employer. The Grantee further acknowledges that Lilly and the Employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Award, including the grant of the Shareholder Value Award, the vesting of the Shareholder Value Award, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Related Items in more than one jurisdiction.

- b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to Lilly and/or the Employer to satisfy all Tax Related Items.
  - i. If the Shareholder Value Award is paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
  - ii. If the Shareholder Value Award is paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes Lilly and/or the Employer, or their respective agents, at their discretion, to (A) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (B) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to Lilly or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, (C) withhold in Shares otherwise issuable to the Grantee pursuant to this Award, and/or (D) apply any other method of withholding determined by the Company and, to the extent required by Applicable Laws or the Plan, approved by the Committee.
  - iii. If the Shareholder Value Award is paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, Lilly will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by Applicable Laws or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax Related Items may be satisfied by one or a combination of the methods set forth in Section 8(b)(ii)(A) and (B) above.
- c. Depending on the withholding method, Lilly and/or the Employer may withhold or account for Tax Related Items by considering applicable statutory or other withholding rates, including minimum or maximum rates in the jurisdiction(s) applicable to the Grantee. In the event of over-withholding, the Grantee may receive a refund of any over-withheld amount in cash (without interest and without entitlement to the equivalent amount in Shares). If the obligation for Tax Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax Related Items.
- d. Lilly may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described in this Section 8.

#### **Section 9. Section 409A Compliance**

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

#### **Section 10. Grantee's Acknowledgment**

In accepting this Award, the Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by Lilly, it is discretionary in nature and it may be modified, amended, suspended or terminated by Lilly at any time, as provided in the Plan;

- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future Performance-Based Awards, or benefits in lieu thereof, even if Performance-Based Awards have been granted in the past;
- c. all decisions with respect to future Performance-Based Awards or other awards, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;
- g. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of Lilly or any subsidiary of Lilly, the Award shall not be interpreted to form an employment contract or relationship with Lilly or any Affiliate;
- h. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- i. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to Lilly or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- j. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company or an Affiliate and the Grantee's right, if any, to earn and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence) in accordance with Section 409A;
- k. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares;
- l. the Grantee is solely responsible for investigating and complying with any laws applicable to him or her in connection with the Award; and
- m. the Company has communicated share ownership guidelines that apply to the Grantee, and the Grantee understands and agrees that those guidelines may impact any Shares subject to, or issued pursuant to the Award.

**Section 11. Data Privacy**

- a. Data Collection and Usage. *The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Shareholder Value Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure are the Applicable Laws.*
- b. Stock Plan Administration Service Providers. *The Company transfers Data to Bank of America Merrill Lynch and/or its affiliated companies ("Merrill Lynch"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner.*

The Grantee may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan. The Company may also transfer Data to KPMG, an independent service provider, which is also assisting the Company with certain aspects of the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner.

- c. International Data Transfers. The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company also participates in the Swiss-U.S. Privacy Shield program under which the Company certifies compliance with certain Swiss data protection requirements with respect to employee data. The Company's legal basis, where required, for the transfer of Data is Grantee's consent.
- d. Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.
- e. Voluntariness and Consequences of Consent Denial or Withdrawal. Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.
- f. Data Subject Rights. The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Laws and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Laws, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and to (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.
- g. Declaration of Consent. By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

## **Section 12. Additional Terms and Conditions**

The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Shareholder Value Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

### Section 13. Governing Law and Choice of Venue

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

### Section 14. Miscellaneous Provisions

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, U.S.A. Any notice or communication by Lilly in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any successor Grantee, at the address specified in writing to Lilly by the successor Grantee. In addition, Lilly may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Lilly or a third party designated by Lilly.
- b. Language. The Grantee acknowledges that he or she is proficient in the English language, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Grantee to understand the terms and conditions of this Award Agreement. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
- c. Waiver. The waiver by Lilly of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.  
  
The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.
- e. No Advice Regarding Grant. Lilly is not providing any tax, legal or financial advice, nor is Lilly making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

### Section 15. Compensation Recovery

At any time during the three years following the date on which the number of Shares eligible to vest under this Award has been determined under Section 2 above, the Company reserves the right to and, in appropriate cases, will seek restitution of all or part of any Shares that have been issued or cash that has been paid pursuant to this Award if:

- a. (i) the number of Shares or the amount of the cash payment was calculated based, directly or indirectly, upon the achievement of financial results that were subsequently the subject of a restatement of all or a portion of the Company's financial statements, (ii) the Grantee engaged in intentional misconduct that caused or partially caused the need for such a restatement; and (iii) the number of Shares or the amount of cash payment that would have been issued or paid to the Grantee had the financial results been properly reported would have been lower than the number of Shares actually issued or the amount of cash actually paid; or
- b. the Grantee has been determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such misconduct causes significant harm to the company.

Furthermore, in the event the number of Shares issued or cash paid pursuant to this Award is determined to have been based on materially inaccurate financial statements or other Company performance measures or on calculation errors (without any misconduct on the part of the Grantee), the Company reserves the right to and, in appropriate cases, will (A) seek restitution of the Shares or cash paid pursuant to this Award to the extent that the number of Shares issued or the amount paid exceeded the number of Shares that would have been issued or the amount that would have been paid had the inaccuracy or error not occurred, or (B) issue additional Shares or make additional payment to the extent that the number of Shares issued or the amount paid was less than the correct amount.

This Section 15 is not intended to limit the Company's power to take such action as it deems necessary to remedy any misconduct, prevent its reoccurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer in a manner it deems appropriate.

**Section 16. Award Subject to Acknowledgement of Acceptance**

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee prior to 4:00 PM (EDT) April 30, 2020, through the website of Merrill Lynch, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) April 30, 2020, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances.

IN WITNESS WHEREOF, Lilly has caused this Award Agreement to be executed in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY



By: \_\_\_\_\_

David A. Ricks  
Chairman of the Board, President and  
Chief Executive Officer

## Eli Lilly and Company Relative Value Award Agreement (for Executive Officers)

This Relative Value Award has been granted on February 12, 2020 (“Grant Date”) by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana (“Lilly” or the “Company”), to the Eligible Individual who has received this Relative Value Award Agreement (the “Grantee”).

### Lilly Relative Total Shareholder Return Performance Levels:

<b>LLY TSR Difference from Median (PPs*)</b>	≤ -30%	-24.0% to -29.9%	-18.0% to -23.9%	-12.0% to -17.9%	-6.0% to -11.9%	-0.01% to -5.9%	<b>Peer Median to +5.9%</b>	+6.0% to +11.9%	+12.0% to +17.9%	+18.0% to +23.9%	+24.0% to +29.9%	≥ +30%
<b>Payout Multiple</b>	<b>0%</b>	<b>25%</b>	<b>40%</b>	<b>55%</b>	<b>70%</b>	<b>85%</b>	<b>100%</b>	<b>115%</b>	<b>130%</b>	<b>145%</b>	<b>160%</b>	<b>175%</b>

\*Percentage Points

**Performance Period:** January 1, 2020 - December 31, 2022

### Section 1. Grant of Relative Value Award

Eli Lilly and Company, an Indiana corporation (“Lilly” or the “Company”), has granted to the Eligible Individual who has received this Relative Value Award Agreement (the “Grantee”) a Performance-Based Award (the “Relative Value Award” or the “Award”) with respect to the target number of shares of Lilly Common Stock (the “Shares”) that the Grantee may view by logging on to the Merrill Lynch website at <http://myequity.lilly.com>. (the “Target Number of Shares”).

The Award is made pursuant to and subject to the terms and conditions set forth in the Amended and Restated 2002 Lilly Stock Plan (the “Plan”) and to the terms and conditions set forth in this Relative Value Award Agreement, including all appendices, exhibits and addenda hereto (the “Award Agreement”). In the event of any conflict between the terms of the Plan and this Award Agreement, the terms of the Plan shall govern.

Any capitalized terms used but not defined in this Award Agreement shall have the meanings set forth in the Plan.

### Section 2. Vesting

As soon as reasonably practicable following the end of the Performance Period, the Committee shall determine the number of Shares that are eligible to vest which shall be equal to the product of (i) the Target Number of Shares, multiplied by (ii) the Payout Multiple, where:

- a. “Payout Multiple” shall mean the payout multiple set forth in the Lilly Relative Total Shareholder Return Performance Levels table set forth on the first page of this document, representing the attainment level of Lilly’s rTSR, measured against the performance goal attainment levels set forth in the table.
- b. “Final Lilly Stock Price” shall mean the average of the closing price of a share of Lilly Common Stock on the New York Stock Exchange for each trading day in the last two months of the Performance Period, rounded to the nearest cent.
- c. “Total Shareholder Return” or “TSR” shall mean the quotient of (i) the Final Lilly Stock Price or Final Peer Stock Price, as applicable, minus the corresponding Beginning Stock Price, including the impact of Dividend reinvestment on each ex-dividend date, if any, paid by the applicable issuer during the Performance Period, divided by (ii) the corresponding Beginning Stock Price.

The stock prices and cash dividend payments reflected in the calculation of TSR shall be adjusted to reflect stock splits during the Performance Period and dividends shall be assumed to be reinvested in the relevant issuer's shares for purposes of the calculation of TSR.

- d. "Relative Total Shareholder Return" or "rTSR" shall mean the comparison between Lilly's TSR and the TSR of the Peer Group over the Performance Period, measured as the absolute percentage point difference in the performance of the Company's TSR compared to the Peer Group's median TSR.
- e. "Beginning Stock Price" shall mean the average closing price of a share of Lilly Common Stock on the New York Stock Exchange or a share of each Peer Group company's stock, as applicable, for each trading day in the two month period immediately preceding the Performance Period, rounded to the nearest cent.
- f. "Final Peer Stock Price" shall mean the average of the closing price of a share of each Peer Group company's stock, on Nasdaq, the New York Stock Exchange, or other market where an independent share price can be determined, for each trading day in the last two months of the Performance Period, rounded to the nearest cent.
- g. "Dividend" shall mean ordinary or extraordinary cash dividends paid by Lilly or a Peer Group company to its shareholders of record at any time during the Performance Period.
- h. "Peer Group" shall mean all companies identified and most recently approved by the Committee as a member of the Company's Peer Group in effect as of the Grant Date. Companies that are members of the Peer Group at the beginning of the Performance Period that subsequently cease to be traded on a market where an independent share price can be determined shall be excluded from the Peer Group.

In the event the Grantee's Service is terminated prior to the end of the Performance Period for any reason or in any circumstance other than as described in Section 3 below, the Award shall be forfeited.

### **Section 3. Impact of Certain Employment Status Changes**

Unless the Committee determines, in its sole discretion, that such treatment is not advisable after consideration of Applicable Laws, the number of Shares that are eligible to vest upon a change employment status of the Grantee during the Performance Period will be as follows:

- a. Leaves of Absence. In the event the Grantee is on an approved leave of absence during the Performance Period, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.
- b. Death; Disability. In the event the Grantee's Service is terminated (i) due to the Grantee's death, or (ii) by reason of Grantee's Disability, the number of Shares eligible to vest shall be the number determined in accordance with Section 2 above.
- c. Qualifying Termination. In the event the Grantee's employment is subject to a Qualifying Termination (as defined below), the number of Shares eligible to vest shall be reduced proportionally for the portion of the total days during the Performance Period in which the Grantee was not in active Service.

For purposes of this Award Agreement, a "Qualifying Termination" means any one of the following:

- i. retirement as a "retiree," which is a person who is (A) a retired employee under the Lilly Retirement Plan; (B) a retired employee under the retirement plan or program of an Affiliate; or (C) a retired employee under a retirement program specifically approved by the Committee;
- ii. the Grantee's Service is terminated due to a plant closing or reduction in workforce (as defined below);
- iii. as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States (or equivalent as determined by the Committee).

"Plant closing" means the closing of a plant site or other corporate location that directly results in termination of the Grantee's Service.

"Reduction in workforce" means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of the Grantee's Service.

- d. Demotions, Disciplinary Actions and Misconduct. The Committee may, in its sole discretion, cancel this Relative Value Award or reduce the number of Shares eligible to vest, prorated according to time or other measure as determined appropriate by the Committee, if during any portion of the Performance Period the Grantee has been (i) subject to disciplinary action by the Company or (ii) determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the Company, as determined in the sole discretion of the Company.

The Committee's determination as to whether (1) a leave of absence or a transfer of employment between Lilly and an Affiliate or between Affiliates constitutes a termination of Service, (2) the Grantee's Service has been terminated by reason of Disability, (3) the Grantee's Service has been terminated as a result of the failure to locate a position within the Company or an Affiliate following reallocation or medical reassignment, and (4) the Grantee's Service has been terminated as a direct result of either a plant closing or a reduction in workforce shall be final and binding on the Grantee.

#### **Section 4. Change in Control**

The provisions of Section 13.2 of the Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 4 shall be the consummation of a merger, share exchange, or consolidation of the Company, as defined in Section 2.6(c) of the Plan (a "Transaction").
- b. In the event of a Transaction that occurs prior to the end of the Performance Period, the Grantee will be credited with an award of Restricted Stock Units equal to the number of Shares eligible to vest, calculated in a manner consistent with Section 2, but the Final Lilly Stock Price shall be equal to the value of Shares established for the consideration to be paid to holders of Shares in the Transaction and the Final Peer Stock Price shall be equal to the closing price of a share of each Peer Group company's stock, on Nasdaq, the New York Stock Exchange, or other market where an independent share price can be determined, on the date the Transaction closes (or if such day is not a trading date, the first trading date immediately preceding such date) (the "Credited RSU Award"). The Credited RSU Award shall be eligible to vest on the last day of the Performance Period, subject to the Grantee's continued Service through the last day of the Performance Period, except as provided below:
- i. In the event that (A) the Grantee is subject to a termination of Service as described in Sections 3(b) and (c) prior to the end of the Performance Period or (B) the Credited RSU Award is not converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with a Transaction, then immediately prior to the Transaction, the Credited RSU Award shall vest automatically in full.
- ii. In the event that the Credited RSU Award is converted, assumed, substituted, continued or replaced by a successor or surviving corporation, or a parent or subsidiary thereof, in connection with the Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to the end of the Performance Period, then immediately as of the date of the Covered Termination, the Credited RSU Award shall vest automatically in full.

For purposes of this Award Agreement, "Covered Termination" shall mean a termination of Service as described in Sections 3(b) and (c), Grantee's termination of Service without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees (as amended from time to time) or any successor plan or arrangement thereto.

- c. If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 4, then references to Shares in this Award Agreement shall be read to mean stock of the successor or surviving corporation, or a parent or subsidiary thereof, as and when applicable.

#### **Section 5. Settlement**

- a. Except as provided below, the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days, following the last day of the Performance Period.
- b. If the Award vests pursuant to Section 4(b)(i), the Award shall be paid to the Grantee immediately prior to the Transaction, provided that if the Award is considered an item of non-qualified deferred compensation subject to Section 409A of the Code ("NQ Deferred Compensation") and the Transaction does not constitute a "change in control event," within the meaning of the U.S. Treasury Regulations

(a "409A CIC"), then the Award shall be paid in cash (calculated based on the value of the Shares established for the consideration to be paid to holders of Shares in the Transaction) on the earliest of the date that the Grantee experiences a "separation from service" within the meaning of Section 409A of the Code (a "Section 409A Separation"), the date of the Grantee's death and the date set forth in Section 5(a) above.

- c. If the Award vests pursuant to Section 4(b)(ii), the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days, following the date the Grantee is subject to a Covered Termination, provided that if the Award is NQ Deferred Compensation, (i) the Award shall be paid within sixty (60) days following the date the Grantee experiences a Section 409A Separation and (ii) if the Grantee is a "specified employee" within the meaning of Section 409A of the Code as of the payment date, the Award shall instead be paid on the earliest of (1) the first day following the six (6) month anniversary of the Grantee's Section 409A Separation and (2) the date of the Grantee's death.
- d. At the time of settlement provided in this Section 5, Lilly shall issue or transfer Shares or the cash equivalent, as contemplated under Section 5(e) below, to the Grantee. In the event the Grantee is entitled to a fractional Share, the fraction may be paid in cash or rounded, in the Committee's discretion.
- e. At any time prior to the end of the Performance Period or until the Award is paid in accordance with this Section 5, the Committee may, if it so elects, determine to pay part or all of the Award in cash in lieu of issuing or transferring Shares. The amount of cash shall be calculated based on the Fair Market Value of the Shares on the last day of the Performance Period in the case of payment pursuant to Section 5(a) and on the date of payment in the case of a payment pursuant to Section 5(c).
- f. In the event of the death of the Grantee, the payments described above shall be made to the successor of the Grantee.

#### **Section 6. Rights of the Grantee**

- a. No Shareholder Rights. The Relative Value Award does not entitle the Grantee to any rights of a shareholder of Lilly until such time as the Relative Value Award is settled and Shares are issued or transferred to the Grantee.
- b. No Trust; Grantee's Rights Unsecured. Neither this Award Agreement nor any action in accordance with this Award Agreement shall be construed to create a trust of any kind. The right of the Grantee to receive payments of cash or Shares pursuant to this Award Agreement shall be an unsecured claim against the general assets of the Company.

#### **Section 7. Prohibition Against Transfer**

The right of a Grantee to receive payments of Shares and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of the Grantee or to a successor of the Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award Agreement. A Grantee may not assign, sell, pledge, or otherwise transfer Shares or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

#### **Section 8. Responsibility for Taxes**

- a. Regardless of any action Lilly and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax related items related to the Grantee's participation in the Plan and legally applicable to the Grantee ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by Lilly or the Employer. The Grantee further acknowledges that Lilly and the Employer (i) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Award, including the grant of the Relative Value Award, the vesting of the Relative Value Award, the transfer and issuance of any Shares, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any Shares acquired pursuant to this Award; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Related Items in more than one jurisdiction.

- b. Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to Lilly and/or the Employer to satisfy all Tax Related Items.
  - i. If the Relative Value Award is paid to the Grantee in cash in lieu of Shares, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
  - ii. If the Relative Value Award is paid to the Grantee in Shares and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the Exchange Act, the Grantee authorizes Lilly and/or the Employer, or their respective agents, at their discretion, to (A) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (B) arrange for the sale of Shares to be issued upon settlement of the Award (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to Lilly or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, (C) withhold in Shares otherwise issuable to the Grantee pursuant to this Award, and/or (iv) apply any other method of withholding determined by the Company and, to the extent required by Applicable Laws or the Plan, approved by the Committee.
  - iii. If the Relative Value Award is paid to the Grantee in Shares and the Grantee is subject to the short-swing profit rules of Section 16(b) of the Exchange Act, Lilly will withhold in Shares otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by Applicable Laws or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax Related Items may be satisfied by one or a combination of the methods set forth in Section 8(b)(ii)(A) and (B) above.
- c. Depending on the withholding method, Lilly and/or the Employer may withhold or account for Tax Related Items by considering applicable statutory or other withholding rates, including minimum or maximum rates in the jurisdiction(s) applicable to the Grantee. In the event of over-withholding, the Grantee may receive a refund of any over-withheld amount in cash (without interest and without entitlement to the equivalent amount in Shares). If the obligation for Tax Related Items is satisfied by withholding Shares, for tax purposes, the Grantee will be deemed to have been issued the full number of Shares to which he or she is entitled pursuant to this Award, notwithstanding that a number of Shares are withheld to satisfy the obligation for Tax Related Items.
- d. Lilly may refuse to deliver Shares or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described in this Section 8.

#### **Section 9. Section 409A Compliance**

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A.

#### **Section 10. Grantee's Acknowledgment**

In accepting this Award, the Grantee acknowledges, understands and agrees that:

- a. the Plan is established voluntarily by Lilly, it is discretionary in nature and it may be modified, amended, suspended or terminated by Lilly at any time, as provided in the Plan;
- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future Performance-Based Awards, or benefits in lieu thereof, even if Performance-Based Awards have been granted in the past;
- c. all decisions with respect to future Performance-Based Awards or other awards, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the Plan is voluntary;
- e. the Award and any Shares subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any Shares subject to the Award, and the income and value of same, are not part of normal or expected compensation for any purpose, including but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar mandatory payments;

- g. unless otherwise agreed with Lilly, the Award and any Shares subject to the Award, and the income and value of same, are not granted as consideration for, or in connection with, the service the Grantee may provide as a director of an Affiliate;
- h. neither the Award nor any provision of this Award Agreement, the Plan or the policies adopted pursuant to the Plan, confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of Lilly or any subsidiary of Lilly, the Award shall not be interpreted to form an employment contract or relationship with Lilly or any Affiliate;
- i. the future value of the underlying Shares is unknown, indeterminable and cannot be predicted with certainty;
- j. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to Lilly or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- k. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company or an Affiliate and the Grantee's right, if any, to earn and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence) in accordance with Section 409A;
- l. unless otherwise provided in the Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award Agreement do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares;
- m. the Grantee is solely responsible for investigating and complying with any laws applicable to him or her in connection with the Award; and
- n. neither the Company, the Employer nor any Affiliate shall be liable for any foreign exchange rate fluctuation between the Grantee's local currency and the United States Dollar that may affect the value of the Award or any amounts due to the Grantee pursuant to the settlement of the Award or the subsequent sale of any Shares acquired upon settlement.

**Section 11. Data Privacy**

- a. *Data Collection and Usage. The Company and the Employer may collect, process and use certain personal information about the Grantee, and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address and telephone number, email address, date of birth, social insurance number, passport or other identification number (e.g., resident registration number), salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Relative Value Awards or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in the Grantee's favor ("Data"), for the purposes of implementing, administering and managing the Plan. The legal basis, where required, for the processing of Data is the Grantee's consent. Where required under Applicable Laws, Data may also be disclosed to certain securities or other regulatory authorities where the Company's securities are listed or traded or regulatory filings are made and the legal basis, where required, for such disclosure are the Applicable Laws.*
- b. *Stock Plan Administration Service Providers. The Company transfers Data to Bank of America Merrill Lynch and/or its affiliated companies ("Merrill Lynch"), an independent service provider, which is assisting the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner. The Grantee may be asked to agree on separate terms and data processing practices with the service provider, with such agreement being a condition to the ability to participate in the Plan. The Company may also transfer Data to KPMG, an independent service provider, which is also assisting the Company with certain aspects of the implementation, administration and*

management of the Plan. In the future, the Company may select a different service provider and share Data with such other provider serving in a similar manner.

- c. International Data Transfers. The Company and its service providers are based in the United States. The Grantee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, the European Commission has issued a limited adequacy finding with respect to the United States that applies only to the extent companies register for the EU-U.S. Privacy Shield program, which is open to companies subject to Federal Trade Commission jurisdiction and in which the Company participates with respect to employee data. The Company also participates in the Swiss-U.S. Privacy Shield program under which the Company certifies compliance with certain Swiss data protection requirements with respect to employee data. The Company's legal basis, where required, for the transfer of Data is Grantee's consent.
- d. Data Retention. The Company will hold and use the Data only as long as is necessary to implement, administer and manage the Grantee's participation in the Plan, or as required to comply with legal or regulatory obligations, including under tax and security laws.
- e. Voluntariness and Consequences of Consent Denial or Withdrawal. Participation in the Plan is voluntary and the Grantee is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke the Grantee's consent, the Grantee's salary from or employment and career with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant this Award or other awards to the Grantee or administer or maintain such awards.
- f. Data Subject Rights. The Grantee understands that data subject rights regarding the processing of Data vary depending on Applicable Laws and that, depending on where the Grantee is based and subject to the conditions set out in such Applicable Laws, the Grantee may have, without limitation, the right to (i) inquire whether and what kind of Data the Company holds about the Grantee and how it is processed, and to access or request copies of such Data, (ii) request the correction or supplementation of Data about the Grantee that is inaccurate, incomplete or out-of-date in light of the purposes underlying the processing, (iii) obtain the erasure of Data no longer necessary for the purposes underlying the processing, (iv) request the Company to restrict the processing of the Grantee's Data in certain situations where the Grantee feels its processing is inappropriate, (v) object, in certain circumstances, to the processing of Data for legitimate interests, and to (vi) request portability of the Grantee's Data that the Grantee has actively or passively provided to the Company or the Employer (which does not include data derived or inferred from the collected data), where the processing of such Data is based on consent or the Grantee's employment and is carried out by automated means. In case of concerns, the Grantee understands that he or she may also have the right to lodge a complaint with the competent local data protection authority. Further, to receive clarification of, or to exercise any of, the Grantee's rights, the Grantee understands that he or she should contact his or her local human resources representative.
- g. Declaration of Consent. By accepting the Award and indicating consent via the Company's online acceptance procedure, the Grantee is declaring that he or she agrees with the data processing practices described herein and consents to the collection, processing and use of Data by the Company and the transfer of Data to the recipients mentioned above, including recipients located in countries which do not adduce an adequate level of protection from a European (or other non-U.S.) data protection law perspective, for the purposes described above.

## **Section 12. Additional Terms and Conditions**

- a. Country-Specific Conditions. The Award shall be subject to any special terms and conditions set forth in any Appendix to this Award Agreement for the Grantee's country. Moreover, if the Grantee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Grantee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes part of this Award Agreement.
- b. Insider Trading / Market Abuse Laws. The Grantee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of Shares, rights to acquire Shares (e.g., the Relative Value Award) under the Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or

regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.

- c. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Award and any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Relative Value Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under Applicable Laws or any compensation recovery policy of the Company that reflects the provisions of Applicable Laws.

### **Section 13. Governing Law and Choice of Venue**

The validity and construction of this Award Agreement shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

### **Section 14. Miscellaneous Provisions**

- a. Notices and Electronic Delivery and Participation. Any notice to be given by the Grantee or successor Grantee shall be in writing, and any notice shall be deemed to have been given or made only upon receipt thereof by the Corporate Secretary of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, U.S.A. Any notice or communication by Lilly in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any successor Grantee, at the address specified in writing to Lilly by the successor Grantee. In addition, Lilly may, in its sole discretion, decide to deliver any documents related to the Award and participation in the Plan by electronic means or request the Grantee's consent to participate in the Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by Lilly or a third party designated by Lilly.
- b. Language. The Grantee acknowledges that he or she is proficient in the English language, or has consulted with an advisor who is sufficiently proficient in English, so as to allow the Grantee to understand the terms and conditions of this Award Agreement. If the Grantee has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.
- c. Waiver. The waiver by Lilly of any provision of this Award Agreement at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Award Agreement at any subsequent time or for any other purpose.
- d. Severability and Section Headings. If one or more of the provisions of this Award Agreement shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this Award Agreement to be construed so as to foster the intent of this Award Agreement and the Plan.

The section headings in this Award Agreement are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

- e. No Advice Regarding Grant. Lilly is not providing any tax, legal or financial advice, nor is Lilly making any recommendations regarding the Grantee's participation in the Plan or the Grantee's acquisition or sale of the underlying Shares. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the Plan before taking any action related to the Plan.

### **Section 15. Compensation Recovery**

At any time during the three years following the date on which the number of Shares eligible to vest under this Award has been determined under Section 2 above, the Company reserves the right to and, in appropriate cases, will seek restitution of all or part of any Shares that have been issued or cash that has been paid pursuant to this Award if:

- a. (i) the number of Shares or the amount of the cash payment was calculated based, directly or indirectly, upon the achievement of financial results that were subsequently the subject of a restatement of all or a portion of the Company's financial statements, (ii) the Grantee engaged in intentional misconduct that caused or partially caused the need for such a restatement; and (iii) the number of Shares or the amount of cash payment that would have been issued or paid to the Grantee had the financial results been properly reported would have been lower than the number of Shares actually issued or the amount of cash actually paid; or
- b. the Grantee has been determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such misconduct causes significant harm to the company.

Furthermore, in the event the number of Shares issued or cash paid pursuant to this Award is determined to have been based on materially inaccurate financial statements or other Company performance measures or on calculation errors (without any misconduct on the part of the Grantee), the Company reserves the right to and, in appropriate cases, will (A) seek restitution of the Shares or cash paid pursuant to this Award to the extent that the number of Shares issued or the amount paid exceeded the number of Shares that would have been issued or the amount that would have been paid had the inaccuracy or error not occurred, or (B) issue additional Shares or make additional payment to the extent that the number of Shares issued or the amount paid was less than the correct amount.

This Section 15 is not intended to limit the Company's power to take such action as it deems necessary to remedy any misconduct, prevent its reoccurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer in a manner it deems appropriate.

### **Section 16. Award Subject to Acknowledgement of Acceptance**

Notwithstanding any provisions of this Award Agreement, the Award is subject to acknowledgement of acceptance by the Grantee prior to 4:00 PM (EDT) April 30, 2020, through the website of Merrill Lynch, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM (EDT) April 30, 2020, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances.

IN WITNESS WHEREOF, Lilly has caused this Award Agreement to be executed in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY



By: \_\_\_\_\_  
David A. Ricks  
Chairman of the Board, President and  
Chief Executive Officer

## Appendix

### Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement

This Appendix includes special terms and conditions applicable to the Grantee's country. These terms and conditions supplement or replace (as indicated) the terms and conditions set forth in the Award Agreement to which it is attached. If the Grantee is a citizen or resident of a country other than the one in which the Grantee is currently working and/or residing (or is considered as such for local law purposes), or if the Grantee transfers employment or residency to a different country after the Award is granted, Lilly will, in its discretion, determine the extent to which the terms and conditions herein will apply. This Appendix also includes other information relevant to the Award.

Unless otherwise defined herein, the terms defined in the Plan or the Award Agreement, as applicable, shall have the same meanings in this Appendix.

There are no special terms and conditions or information for the following countries:

Austria

Belgium

Germany

Japan

Puerto Rico

However, the Grantee should be aware that he or she may be required to take certain steps to comply with Applicable Laws in the Grantee's country in connection with the Award. For example, exchange control, foreign asset and/or account and/or other tax reporting obligations may apply to the Grantee upon receipt of the Award or the Shares subject to the Award or upon the sale of Shares. *For more information regarding such obligations, the Grantee should refer to the Employee Information Supplement for the Grantee's country, if any. The Grantee should also consult with his or her own personal tax and legal advisors to determine what, if any, obligations exist with respect to the Award and/or the acquisition or sale of Shares. Neither the Company nor the Employer is responsible for any failure on the part of the Grantee to be aware of or comply with Applicable Laws.*

# Appendix for China

## Eli Lilly and Company

### Amended and Restated 2002 Lilly Stock Plan

### Relative Value Award Agreement

#### Vesting.

This provision supplements Section 2 of the Award Agreement:

To facilitate compliance with any Applicable Laws or regulations in China, the Grantee agrees and acknowledges that Lilly (or a brokerage firm instructed by Lilly) is entitled to sell any or all Shares issued to the Grantee on or as soon as practicable after the applicable Vesting Date or other vesting event (on behalf of the Grantee and at the Grantee's direction pursuant to this authorization), either immediately after such Shares are issued to the Grantee or when the Grantee ceases Service or at such other time as the Company may determine is necessary or advisable to facilitate compliance with Applicable Laws or the administration of the Plan. The Grantee also agrees to sign any forms and/or consents that may be required by the brokerage firm to effectuate the sale of the Shares and acknowledges that neither Lilly nor the brokerage firm are under any obligation to arrange for such sale of the Shares at any particular price. In any event, when the Shares acquired under the Plan are sold, the proceeds of the sale of the Shares, less any Tax Related Items and broker's fees or commissions, will be remitted to the Grantee in accordance with applicable exchange control laws and regulations.

#### Adjustments for Certain Employment Status Changes.

This provision replaces Section 3(b) of the Award Agreement:

In the event the Grantee's Service is terminated (i) due to the Grantee's death or (ii) by reason of Grantee's Disability, the number of shares eligible to vest shall be equal to the Target Number of Shares.

This provision replaces the first sentence of Section 3(c) of the Award Agreement:

In the event the Grantee's employment is subject to a Qualifying Termination (as defined below), the number of Shares eligible to vest shall be equal to the Target Number of Shares reduced proportionally for the portion of the total days during the Performance Period in which the Grantee was not in active Service.

#### Settlement.

This provision replaces Section 5(a) of the Award Agreement:

Except as provided below, the Award shall be paid to the Grantee as soon as practicable, but in no event later than sixty (60) days, following the last day of the Performance Period, provided, however, that (i) in the event the Grantee's Service is terminated (A) due to the Grantee's death, (B) by reason of Grantee's Disability, or (C) as a result of the Grantee's failure to locate a position within the Company or an Affiliate following the placement of the Grantee on reallocation or medical reassignment in the United States (or equivalent as determined by the Committee) or (ii) in the event of a Qualifying Termination, the Award shall be paid to the Grantee no later than sixty (60) days following the date of the Grantee's termination of Service.

#### Exchange Control Restrictions.

The Grantee understands and agrees that, due to exchange control laws in China, the Grantee will be required to immediately repatriate to China any funds (e.g., proceeds from the sale of Shares) received pursuant to this Award. The Grantee further understands that such repatriation of the funds may need to be effected through a special exchange control account established by Lilly or an Affiliate. The Grantee hereby consents and agrees that any funds received pursuant to this Award may be transferred to such special account prior to being delivered to the Grantee's personal account. The Grantee also understands that the Company will deliver the funds to the Grantee as soon as possible, but there may be delays in distributing the funds to the Grantee due to exchange control requirements in China. Funds may be paid to the Grantee in U.S. dollars or local currency at the Company's discretion. If the funds are paid to the Grantee in U.S. dollars, the Grantee will be required to set up a U.S. dollar bank account in China so that the funds may be deposited into this account. If the funds are paid to the Grantee

in local currency, the Company is under no obligation to secure any particular exchange conversion rate and the Company may face delays in converting the funds to local currency due to exchange control restrictions. The Grantee further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

## **Appendix for France**

### **Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement**

#### **Award Not French-Qualified.**

The Award is not intended to be "French-qualified," *i.e.*, it is not intended to qualify for specific tax and/or social security treatment in France.

#### **Language Consent.**

In accepting the Award, the Grantee confirms having read and understood the documents relating to the Award (the Plan and the Award Agreement including this Appendix), which were provided in English. The Grantee accepts the terms of those documents accordingly.

#### ***Consentement Relatif à la Langue Utilisée.***

*En acceptant cette Attribution, le Bénéficiaire confirme avoir lu et compris les documents relatifs à cette Attribution (le Plan le Contrat d'Attribution incluant cette Annexe), qui ont été remis en langue anglaise. Le Bénéficiaire accepte les termes de ces documents en conséquence.*

## **Appendix for Ireland**

### **Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement**

#### Director Notification Information.

Directors (including shadow directors A shadow director is an individual who is not on the board of the Irish Affiliate but who has sufficient control so that the board of directors acts in accordance with the "directions or instructions" of the individual.) and secretaries of an Irish Affiliate For purposes of this requirement, the interests of spouses, children under 18 years of age and family-held companies or trusts will be considered interests of the director or secretary, as applicable. whose interests exceed 1% of the Company's voting rights, pursuant to Section 53 of the Irish Company Act 1990, must notify the Irish Affiliate in writing when (i) receiving or disposing of an interest in the Company (e.g., Relative Value Awards, Shares), (ii) becoming aware of the event giving rise to the notification requirement, or (iii) becoming a director or secretary of an Irish Affiliate if such an interest exists at the time.

## **Appendix for Italy**

### **Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement**

#### Plan Document Acknowledgment.

In accepting the Award, the Grantee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement (including this Appendix) in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement (including this Appendix) and, in particular, Section 2 (Vesting).

## Appendix for Mexico

### Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement

#### Acknowledgement of the Award Agreement.

By accepting the Relative Value Awards, the Grantee acknowledges that he or she has received a copy of the Plan and the Award Agreement, including this Appendix, which he or she has reviewed. The Grantee further acknowledges that he or she accepts all the provisions of the Plan and the Award Agreement, including this Appendix. The Grantee also acknowledges that he or she has read and specifically and expressly approves the terms and conditions set forth in the "Grantee's Acknowledgement" section of the Award Agreement, which clearly provide as follows:

- (1) The Grantee's participation in the Plan does not constitute an acquired right;
- (2) The Plan and the Grantee's participation in it are offered by the Company on a wholly discretionary basis;
- (3) The Grantee's participation in the Plan is voluntary; and
- (4) The Company and its Affiliates are not responsible for any decrease in the value of any Shares acquired pursuant to the Relative Value Awards.

#### Labor Law Acknowledgement and Policy Statement.

By accepting the Award, the Grantee acknowledges that Eli Lilly and Company, with registered offices at Lilly Corporate Center, Indianapolis, Indiana, 46285, U.S.A., is solely responsible for the administration of the Plan. The Grantee further acknowledges that his or her participation in the Plan, the grant of Relative Value Awards and any acquisition of Shares under the Plan do not constitute an employment relationship between the Grantee and Eli Lilly and Company because the Grantee is participating in the Plan on a wholly commercial basis and his or her sole employer is Eli Lilly y Compania de Mexico, S.A. de C.V. ("Lilly-Mexico"). Based on the foregoing, the Grantee expressly acknowledges that the Plan and the benefits that he or she may derive from participation in the Plan do not establish any rights between the Grantee and his or her Employer, Lilly-Mexico, and do not form part of the employment conditions and/or benefits provided by Lilly-Mexico, and any modification of the Plan or its termination shall not constitute a change or impairment of the terms and conditions of the Grantee's employment.

The Grantee further understands that his or her participation in the Plan is the result of a unilateral and discretionary decision of Eli Lilly and Company and, therefore, Eli Lilly and Company reserves the absolute right to amend and/or discontinue the Grantee's participation in the Plan at any time, without any liability to the Grantee.

Finally, the Grantee hereby declares that he or she does not reserve to him- or herself any action or right to bring any claim against Eli Lilly and Company for any compensation or damages regarding any provision of the Plan or the benefits derived under the Plan, and that he or she therefore grants a full and broad release to Eli Lilly and Company, its subsidiaries, affiliates, branches, representation offices, shareholders, officers, agents or legal representatives, with respect to any claim that may arise.

#### **Spanish Translation**

##### *Reconocimiento del Convenio de Concesión*

*Al aceptar el Premio de Valor Relativo el Beneficiario reconoce que ha recibido y revisado una copia del Plan y del Convenio de Concesión, incluyendo este Apéndice. El Beneficiario reconoce y acepta todas las disposiciones del Plan y del Convenio de Concesión, incluyendo este apéndice. El Beneficiario también reconoce que ha leído y aprobado de forma expresa los términos y condiciones establecidos en la sección: "Naturaleza de la Concesión" del Convenio de Concesión, que claramente establece lo siguiente:*

- (1) *La participación del Beneficiario en el Plan no constituye un derecho adquirido;*
- (2) *El Plan y la participación del Beneficiario en el es ofrecido por la Compañía de manera completamente discrecional;*
- (3) *La participación del Beneficiario en el Plan es voluntaria; y*
- (4) *La Compañía y sus Afiliadas no son responsables por ninguna disminución en el valor de las Acciones adquiridas de conformidad con el Premio de Valor Relativo.*

*Reconocimiento de la legislación Laboral aplicable y Declaración de la Política*

*Al aceptar el Premio, el Beneficiario reconoce que Eli Lilly and Company, con domicilio social en Lilly Corporate Center, Indianapolis, Indiana, 46285, E.U.A., es la única responsable por la administración del Plan. Además, el Beneficiario reconoce que su participación en el Plan, la concesión de Premios de Valor Relativo y cualquier adquisición de Acciones bajo el Plan no constituyen una relación laboral entre el Beneficiario y Eli Lilly and Company, en virtud de que el Beneficiario está participando en el Plan en su totalidad sobre una base comercial y su único empleador es Eli Lilly y Compañía de México, S.A. de C.V. ("Lilly-México"). Por lo anterior, el Beneficiario expresamente reconoce que el Plan y los beneficios que puedan derivarse de su participación no establecen ningún derecho entre el Beneficiario y su empleador, Lilly-México, y que no forman parte de las condiciones de trabajo y/o beneficios otorgados por Lilly-México, y cualquier modificación del Plan o la terminación del mismo no constituirá un cambio o modificación de los términos y condiciones en el empleo del Beneficiario.*

*Además, el Beneficiario comprende que su participación en el Plan es el resultado de una decisión discrecional y unilateral de Eli Lilly and Company, por lo que Eli Lilly and Company se reserva el derecho absoluto de modificar y/o suspender la participación del Beneficiario en el Plan en cualquier momento, sin responsabilidad frente al Beneficiario.*

*Finalmente, el Beneficiario manifiesta que no se reserva acción o derecho alguno que origine una demanda en contra de Eli Lilly and Company, por cualquier compensación o daño relacionada con las disposiciones del Plan o de los beneficios otorgados en el mismo, y en consecuencia el Beneficiario libera de la manera más amplia y total de responsabilidad a Eli Lilly and Company, sus subsidiarias, afiliadas, sucursales, oficinas de representación, sus accionistas, directores, agentes y representantes legales de cualquier demanda que pudiera surgir.*

# Appendix for Spain

## Eli Lilly and Company

### Amended and Restated 2002 Lilly Stock Plan

### Relative Value Award Agreement

#### Vesting.

This provision supplements Section 2 of the Award Agreement:

As a condition of the grant of the Award, termination of the Grantee's Service for any reason (including for the reasons listed below but excluding for the reasons specified in Sections 3(b) and 3(c) of the Award Agreement) will automatically result in the forfeiture and loss of the Award and the underlying Shares to the extent that the Award has not yet vested as of the date of termination of the Grantee's Service. In particular, and without limitation to the provisions of the Award Agreement and the Plan, the Grantee understands and agrees that the Award will be cancelled without entitlement to the underlying Shares or to any amount as indemnification if the Grantee terminates employment by reason of, including, but not limited to: resignation, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without good cause (*i.e.*, subject to a "*despido improcedente*"), individual or collective layoff on objective grounds, whether adjudged to be with cause or adjudged or recognized to be without cause (unless such layoff falls within the meaning of a plant closing or reduction in workforce as described in Section 3(c)), material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, Article 50 of the Workers' Statute, unilateral withdrawal by the Employer, and under Article 10.3 of Royal Decree 1382/1985 (unless such layoff falls within the meaning of a medical reassignment as described in Section 3(c)). The Grantee acknowledges that he or she has read and specifically accepts the vesting conditions referred to in Section 2 of the Award Agreement.

#### Grantee's Acknowledgement.

This provision supplements Section 10 of the Award Agreement:

The Grantee understands that the Company has unilaterally, gratuitously and discretionally decided to grant Relative Value Awards under the Plan to individuals who may be Employees of the Company or its Affiliates throughout the world. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any of its Affiliates on an ongoing basis except to the extent otherwise provided in the Plan and this Award Agreement. Consequently, the Grantee understands that the Relative Value Awards are granted on the assumption and condition that the Relative Value Awards and any Shares acquired pursuant to the Relative Value Awards shall not become a part of any employment contract (either with the Company or any of its Affiliates) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever. In addition, the Grantee understands that this grant would not be made to the Grantee but for the assumptions and conditions referred to above; thus, the Grantee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then any grant of Relative Value Awards may be cancelled.

#### Securities Law Information.

No "offer of securities to the public," as defined under Spanish law, has taken place or will take place in the Spanish territory in connection with the Award. The Award Agreement has not nor will it be registered with the *Comisión Nacional del Mercado de Valores*, and does not constitute a public offering prospectus.

## **Appendix for Turkey**

### **Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement**

**Securities Law Information.**

Under Turkish law, the Grantee is not permitted to sell any Shares acquired under the Plan in Turkey. The Shares are currently traded on the New York Stock Exchange in the United States of America, under the ticker symbol of "LLY" and Shares acquired under the Plan may be sold through this exchange.

## **Appendix for the United Kingdom**

### **Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan Relative Value Award Agreement**

#### **Settlement.**

Section 5(e) of the Award Agreement shall not apply to Relative Value Awards granted in the United Kingdom.

#### **Responsibility for Taxes.**

This provision supplements Section 8 of the Award Agreement:

Without limitation to Section 8 of the Award Agreement, the Grantee agrees that he or she is liable for all Tax Related Items and hereby covenants to pay all such Tax Related Items, as and when requested by the Company and/or the Employer or by Her Majesty's Revenue & Customs ("HMRC") (or any other tax authority or any other relevant authority). The Grantee also agrees to indemnify and keep indemnified the Company and/or the Employer against any Tax Related Items that they are required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Grantee's behalf.

Notwithstanding the foregoing, if the Grantee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the foregoing provision will not apply. In this case, the amount of any Tax Related Items not collected from or paid by the Grantee may constitute a benefit to the Grantee on which additional income tax and National Insurance contributions ("NICs") may be payable. The Grantee understands that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to HMRC under the self-assessment regime and for paying to the Company and/or the Employer (as appropriate) the amount of any employee NICs due on this additional benefit.

#### **Joint Election.**

As a condition of the vesting of the Relative Value Awards, the Grantee agrees to accept any liability for secondary Class 1 national insurance contributions which may be payable by the Company and/or the Employer in connection with the Relative Value Awards and any event giving rise to Tax Related Items (the "Employer NICs"). Without prejudice to the foregoing, by accepting this Award, the Grantee is entering into a joint election with the Company or the Employer if he or she has not already done so, the form of such joint election being formally approved by HMRC (the "Joint Election"), a copy of which is attached to this Appendix for the United Kingdom as Annex 1, and any other required consent or election. The Grantee further agrees to execute such other joint elections as may be required between him or her and any successor to the Company and/or the Employer. The Grantee further agrees that the Company and/or the Employer may collect the Employer NICs from him or her by any of the means set forth in the Joint Election.

**Important Note on the Joint Election for Transfer of Liability for Employer National Insurance Contributions to the Grantee:**

As a condition of the Grantee's participation in the Eli Lilly and Company Amended and Restated 2002 Lilly Stock Plan, as amended from time to time (the "Plan"), the Grantee is required to enter into a joint election to transfer to the Grantee any liability for employer National Insurance contributions (the "Employer NICs") that may arise in connection with the Relative Value Award (the "Award") and in connection with future awards, if any, that may be granted to the Grantee under the Plan (the "Joint Election").

By entering into the Joint Election:

- the Grantee agrees that any liability for Employer NICs that may arise in connection with or pursuant to the vesting of the Award and the acquisition of shares of common stock of Eli Lilly and Company (the "Company") or other taxable events in connection with the Award will be transferred to the Grantee; and
- the Grantee authorizes the Company and/or the Grantee's employer to recover an amount sufficient to cover this liability by any method set forth in the Award Agreement and/or the Joint Election.

*To enter into the Joint Election, please selecting the button next to "Accept" where indicated on the Pending Acceptance screen. Please note that selecting the button next to "Accept" indicates the Grantee's agreement to be bound by all of the terms of the Joint Election.*

*Please note that even if the Grantee has indicated his or her acceptance of this Joint Election electronically, the Grantee may still be required to sign a paper copy of this Joint Election (or a substantially similar form) if the Company determines such is necessary to give effect to the Joint Election.*

**Please read the terms of the Joint Election carefully before accepting the Award Agreement and the Joint Election. The Grantee should print and keep a copy of this Joint Election for his or her records.**

**Joint Election for Transfer of Liability for  
Employer National Insurance Contributions to Employee**

**Election To Transfer the Employer's National Insurance Liability to the Employee**

This Election is between:

- A. The individual who has obtained authorised access to this Election (the "**Employee**"), who is employed by one of the employing companies listed in the attached schedule (the "**Employer**") and who is eligible to receive performance based awards (the "**Relative Value Award**") pursuant to the Amended and Restated 2002 Lilly Stock Plan (the "**Plan**"), and
- B. Eli Lilly and Company, an Indiana corporation, with registered offices at Lilly Corporate Center, Indianapolis, Indiana, 46285, U.S.A. (the "**Company**"), which may grant Relative Value Awards under the Plan and is entering into this Election on behalf of the Employer.

**1. Introduction**

1.1 This Election relates to all Relative Value Awards granted to the Employee under the Plan on or after November 15, 2018 up to the termination date of the Plan.

1.2 In this Election the following words and phrases have the following meanings:

- (a) "**Chargeable Event**" means any event giving rise to Relevant Employment Income.
- (b) "**ITEPA**" means the Income Tax (Earnings and Pensions) Act 2003.
- (c) "**Relevant Employment Income**" from Relative Value Awards on which Employer's National Insurance Contributions becomes due is defined as:
  - (i) an amount that counts as employment income of the earner under section 426 ITEPA (restricted securities: charge on certain post-acquisition events);
  - (ii) an amount that counts as employment income of the earner under section 438 of ITEPA (convertible securities: charge on certain post-acquisition events); or
  - (iii) any gain that is treated as remuneration derived from the earner's employment by virtue of section 4(4)(a) SSCBA, including without limitation:
    - (A) the acquisition of securities pursuant to the Relative Value Awards (within the meaning of section 477(3)(a) of ITEPA);
    - (B) the assignment (if applicable) or release of the Relative Value Awards in return for consideration (within the meaning of section 477(3)(b) of ITEPA);
    - (C) the receipt of a benefit in connection with the Relative Value Awards, other than a benefit within (i) or (ii) above (within the meaning of section 477(3)(c) of ITEPA).
- (d) "**SSCBA**" means the Social Security Contributions and Benefits Act 1992.

1.3 This Election relates to the Employer's secondary Class 1 National Insurance Contributions (the "Employer's Liability") which may arise in respect of Relevant Employment Income in respect of the Relative Value Awards pursuant to section 4(4)(a) and/or paragraph 3B(1A) of Schedule 1 of the SSCBA.

- 1.4 This Election does not apply in relation to any liability, or any part of any liability, arising as a result of regulations being given retrospective effect by virtue of section 4B(2) of either the SSCBA, or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- 1.5 This Election does not apply to the extent that it relates to relevant employment income which is employment income of the earner by virtue of Chapter 3A of Part VII of ITEPA (employment income: securities with artificially depressed market value).

## 2. **The Election**

The Employee and the Company jointly elect that the entire liability of the Employer to pay the Employer's Liability that arises on any Relevant Employment Income is hereby transferred to the Employee. The Employee understands that, by electronically accepting this Election, he or she will become personally liable for the Employer's Liability covered by this Election. This Election is made in accordance with paragraph 3B(1) of Schedule 1 of the SSCBA.

## 3. **Payment of the Employer's Liability**

- 3.1 The Employee hereby authorises the Company and/or the Employer to collect the Employer's Liability in respect of any Relevant Employment Income from the Employee at any time after the Chargeable Event:
- (a) by deduction from salary or any other payment payable to the Employee at any time on or after the date of the Chargeable Event; and/or
  - (b) directly from the Employee by payment in cash or cleared funds; and/or
  - (c) by arranging, on behalf of the Employee, for the sale of some of the securities which the Employee is entitled to receive in respect of the Relative Value Awards, the proceeds from which must be delivered to the Employer in sufficient time for payment to be made to Her Majesty's Revenue & Customs ("HMRC") by the due date; and/or
  - (d) where the proceeds of the gain are to be paid through a third party, the Employee will authorize that party to withhold an amount from the payment or to sell some of the securities which the Employee is entitled to receive in respect of the Relative Value Awards, such amount to be paid in sufficient time to enable the Company and/or the Employer to make payment to HMRC by the due date; and/or
  - (e) by any other means specified in the applicable Relative Value Award agreement entered into between the Employee and the Company.
- 3.2 The Company hereby reserves for itself and the Employer the right to withhold the transfer of any securities to the Employee in respect of the Relative Value Awards until full payment of the Employer's Liability is received.
- 3.3 The Company agrees to procure the remittance by the Employer of the Employer's Liability to HMRC on behalf of the Employee within 14 days after the end of the UK tax month during which the Chargeable Event occurs (or within 17 days after the end of the UK tax month during which the Chargeable Event occurs if payments are made electronically).
- ## 4. **Duration of Election**
- 4.1 The Employee and the Company agree to be bound by the terms of this Election regardless of whether the Employee is transferred abroad or is not employed by the Employer on the date on which the Employer's Liability becomes due.
- 4.2 Any reference to the Company and/or the Employer shall include that entity's successors in title and assigns as permitted in accordance with the terms of the Plan and relevant award agreement. This

Election will continue in effect in respect of any awards which replace the Relative Value Awards in circumstances where section 483 of ITEPA applies.

4.3 This Election will continue in effect until the earliest of the following:

- (a) the date on which the Employee and the Company agree in writing that it should cease to have effect;
- (b) the date on which the Company serves written notice on the Employee terminating its effect;
- (c) the date on which HMRC withdraws approval of this Election; or
- (d) the date on which, after due payment of the Employer's Liability in respect of the entirety of the Relative Value Awards to which this Election relates or could relate, the Election ceases to have effect in accordance with its own terms.

4.4 This Election will continue in force regardless of whether the Employee ceases to be an employee of the Employer.

**Acceptance by the Employee**

The Employee acknowledges that, by clicking on the button next to "Accept" to accept the Relative Value Awards Agreement and this Election (or by signing this Election), the Employee agrees to be bound by the terms of this Election.

**Acceptance by the Company**

The Company acknowledges that, by signing this Election or arranging for the scanned signature of an authorised representative to appear on this Election, the Company agrees to be bound by the terms of this Election.



Signature for and on behalf of the Company

Sr VP-Human Resources and Diversity  
Position

**Schedule of Employer Companies**

The employing companies to which this Election relates include:

Name	Eli Lilly and Company Limited
Registered Office:	Lilly House, Priestley Road, Basingstoke, Hants RG24 9NL
Company Registration Number:	00284385
Corporation Tax Reference:	7953096404
PAYE Reference:	581/ML114

# Eli Lilly and Company Restricted Stock Unit (for Executive Officer)

This Restricted Stock Unit Award has been granted on January 2, 2020, by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana (“Lilly” or the “Company”), to Grantee.

**Number of Shares:** Log into Merrill Lynch recordkeeping information at <http://myequity.lilly.com>

**Restriction Lapse:** January 2, 2021 (except as otherwise provided in this instrument)

## A. Recitals

Under the AMENDED AND RESTATED 2002 LILLY STOCK PLAN (“2002 Plan”), the Compensation Committee (“Committee”) has determined the form of this Restricted Stock Unit Award (“Award”) and selected the Grantee, an Eligible Employee of the Company or one of its subsidiaries, to receive a Restricted Stock Unit Award. The applicable terms of the 2002 Plan are incorporated in this Restricted Stock Unit Award by reference, including the definitions of terms contained in the 2002 Plan.

## B. Restricted Stock Unit

Lilly grants to the Grantee this Award of Restricted Stock Units, with each Restricted Stock Unit representing the right to receive one share of Eli Lilly and Company Common Stock (“Lilly Stock”), plus an amount of cash pursuant to Section 2 (b), subject to certain restrictions and on the terms and conditions contained in this Award and the 2002 Plan. In the event of any conflict between the terms of the 2002 Plan and this Award, the terms of the 2002 Plan shall govern, except as specifically provided in Sections 3, 7 and 9.

### Section 1. Number of Restricted Stock Units

Subject to adjustment as provided in Section 26, the Grantee may receive the number of shares of Lilly Stock as outlined on the first page of this document.

### Section 2. Rights of the Grantee

- a. No Shareholder Rights. The Restricted Stock Units granted pursuant to this Award do not and shall not entitle Grantee to any rights of a shareholder of Lilly Stock until the Restricted Stock Units vest and shares of Lilly Stock are issued or transferred. No shares of Lilly Stock shall be issued or transferred to Grantee prior to the date on which the Restricted Stock Units vest and the restrictions with respect to the Restricted Stock Units lapse. The rights of Grantee with respect to the Restricted Stock Units shall remain forfeitable at all times prior to the date on which the Restricted Stock Units become vested and the restrictions with respect to the Restricted Stock Units lapse.
- b. Dividend Equivalent Units. As long as the Grantee holds Restricted Stock Units granted pursuant to this Award, the Company shall accrue for the Grantee, on each date that the Company pays a cash dividend to holders of Lilly Stock, Dividend Equivalent Units equal to the total number of Restricted Stock Units credited to the Grantee under this Award multiplied by the dollar amount of the cash dividend paid per share of Lilly Stock by the Company on such date. Dividend Equivalent Units shall accrue in an account denominated in U.S. dollars and shall not accrue interest or other credits prior to being paid. The accrued Dividend Equivalent Units shall be subject to the same restrictions as the Restricted Stock Units to which the Dividend Equivalent Units relate, and the Dividend Equivalent Units shall be forfeited in the event that the Restricted Stock Units with respect to which such Dividend Equivalent Units were credited are forfeited.
- c. No Trust; Grantee's Rights Unsecured. Neither this Award nor any action pursuant to or in accordance with this Award shall be construed to create a trust of any kind. The right of Grantee

to receive payments of cash or Lilly Stock under this Award shall be an unsecured claim against the general assets of the Company.

### **Section 3. Restriction Period**

The period of restriction ("Restriction Period") under this Award shall commence on the effective date of the Award and expire at the close of business on the earliest of the following dates:

- a. January 2, 2021, or
- b. the date the Grantee's employment is subject to a Qualifying Termination.

A "Qualifying Termination" means any one of the following:

- (i) the date of death of the Grantee while in the active service of the Company or any subsidiary;
- (ii) the date the Grantee's employment is terminated by reason of "disability," within the meaning of Section 409A of the U.S. Internal Revenue Code (the "Code");
- (iii) the date the Grantee suffers a "separation from service" from Lilly or the Employer, within the meaning of Section 409A of the Code (a "Section 409A Separation"), and such separation from service is due to a plant closing or reduction in workforce as defined below, or, in the event that the Award constitutes an item of non-qualified deferred compensation subject to Section 409A of the Code, the date that the Grantee suffers a Section 409A Separation;
- (iv) the date the Grantee's employment is terminated as a result of the Grantee's failure to locate a position within the Company or any of its subsidiaries or affiliates following the placement of the Grantee on reallocation or medical reassignment in the United States (or its equivalent outside the United States as determined by the Committee).

Plant closing means the closing of a plant site or other corporate location that directly results in termination of employment. Reduction in workforce means the elimination of a work group, functional or business unit or other broadly applicable reduction in job positions that directly results in termination of employment.

The Committee's determination as to whether (i) the Grantee's employment has been terminated by reason of disability, (ii) a leave of absence or a transfer of employment between Lilly and a subsidiary or between Lilly subsidiaries constitutes a termination of employment, (iii) a Grantee's termination is a direct result of either a plant closing or a reduction in workforce, or (iv) the Grantee's employment has been terminated as a result of the failure to locate a position within the Company or any of its subsidiaries or affiliates following reallocation or medical reassignment (or its equivalent outside the United States as determined by the Committee), shall be final and binding on the Grantee. Notwithstanding anything in Section 10(a) of the 2002 Plan to the contrary, the Committee shall not modify the expiration dates set forth in this Award so as to accelerate the termination of the Restriction Period.

### **Section 4. Retirement**

In the event the Grantee's employment is terminated due to retirement, the Award will continue pursuant to the established Restriction Period schedule. The Award will be paid in full to the retiree upon the lapse of all restrictions as noted in Section 9. A retiree is a person who is (i) a retired employee under the Lilly Retirement Plan; (ii) a retired employee under the retirement plan or program of a Lilly subsidiary; or (iii) a retired employee under a retirement program specifically approved by the Committee.

A Grantee who has not received a year-end individual performance rating and (i) is on employment probation (or its equivalent outside the United States, as determined by the Committee) for unsatisfactory performance and takes retirement in lieu of a termination of employment; or (ii) takes retirement in lieu of termination of employment because of an immediately terminable offense (e.g., absence of three days without notice, insubordination, violation of substance abuse policy, possession of firearms, misconduct) will not be considered to have terminated due to retirement as described herein.

### **Section 5. Record of the Award**

During the Restriction Period, records of the Award and accumulated Dividend Equivalent Units will reside in an account at the Company or an Equity Administration Agent designated by the Company.

## **Section 6. Conditions During Restriction Period**

- a. During the entire Restriction Period, the employment of the Grantee with the Company (or a subsidiary of the Company) must not terminate except for reasons specified in Sections 3(b) or 4. "Termination of employment" shall mean the cessation for any reason of the relationship of employer and employee between the Grantee and the Company (or a subsidiary of the Company).
- b. The Committee may, at its discretion, cancel this Restricted Stock Unit Award or reduce the number of Restricted Stock Units and any accrued Dividend Equivalent Units, prorated according to time or other measure as deemed appropriate by the Committee, if during any portion of the Award Period, including the Restriction Period, the Grantee has been (i) subject to disciplinary action by the Company, or (ii) determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the Company.

## **Section 7. Consequences of Breach of Conditions**

If any of the conditions that must continue to be satisfied during the Restriction Period under Section 6(a) is breached during the Restriction Period, either by act of the Grantee or otherwise, the Grantee, by accepting this Award, agrees that upon such breach all interest of the Grantee in the Restricted Stock Units and associated Dividend Equivalent Units shall terminate and be forfeited.

The Committee's determination regarding the conditions specified in Section 6 (and any breach thereof) shall be final and binding on the Grantee. The Company shall incur no liability to the Grantee under this Award by terminating the Grantee's status as an Eligible Employee, whether by action with respect to the Grantee individually, either with or without cause, or by dissolution or liquidation of Lilly or merger or consolidation of Lilly with a corporation in which Lilly is not the surviving corporation, or otherwise. Notwithstanding anything in Section 10(a) of the 2002 Plan to the contrary, the Committee shall not waive the breach of the conditions set forth in Section 6.

## **Section 8. Committee Election to Pay Cash**

At any time during the Restriction Period or until paid in accordance with Section 9, the Committee may, if it so elects, determine to pay part or all of the Restricted Stock Units in cash in lieu of issuing or transferring shares of Lilly Stock. The amount of cash shall be based upon the fair market value of Lilly Stock at the end of the Restriction Period as outlined in Section 9.

## **Section 9. Lapse of Restrictions**

At the end of the Restriction Period, if the conditions specified in Section 6 have not been breached during the Restriction Period, all restrictions shall terminate. The Award shall be paid to Grantee within a sixty-day period starting the day after the end of the Restriction Period and ending on the sixtieth day after the end of the Restriction Period, but no later than December 31 of the year in which the Restriction Period ends, as follows:

- a. Lilly shall issue or transfer to the Grantee shares of Lilly Stock or the cash equivalent, as described in Section 8 above, equal to one share per Restricted Stock Unit subject to the withholding tax provisions in Section 14 below. In the event Grantee is entitled to a fractional share, the fraction may be paid in cash or rounded, in the Committee's discretion.
- b. Lilly shall pay to the Grantee in cash all accrued Dividend Equivalent Units following deduction for Tax-Related Items in accordance with Section 13 below.

In the event that the Restriction Period ends by reason of death of the Grantee, the payments as described above shall be made to the Successor Grantee. Notwithstanding anything in Section 10(a) of the 2002 Plan to the contrary, the Committee shall not direct that the restrictions on this Award will lapse other than as expressly set forth in this Award. Notwithstanding the foregoing, if the Grantee is treated as a "specified employee" within the meaning of Section 409A of the Code as of the date of any payment hereunder, the commencement of any payment shall be delayed in accordance with Section 15 below.

#### **Section 10. Revocation or Modification of Award**

This Award shall be irrevocable except that Lilly shall have the right to revoke or modify this Award under Sections 13(e) and/or 13(k) of the 2002 Plan or pursuant to Section 7 above or Section 27 below.

#### **Section 11. Prohibition Against Transfer**

The right of a Grantee to receive payments of Lilly Stock and/or cash under this Award may not be transferred except to a duly appointed guardian of the estate of Grantee or to a Successor Grantee by will or the applicable laws of descent and distribution and then only subject to the provisions of this Award. A Grantee may not assign, sell, pledge, or otherwise transfer Lilly Stock or cash to which he or she may be entitled hereunder prior to transfer or payment thereof to the Grantee, and any such attempted assignment, sale, pledge or transfer shall be void.

#### **Section 12. Notices, Payments and Electronic Delivery and Participation**

Any notice to be given by the Grantee or Successor Grantee shall be in writing, and any notice or payment shall be deemed to have been given or made only upon receipt thereof by the Treasurer of Lilly at Lilly Corporate Center, Indianapolis, Indiana 46285, U.S.A. Any notice or communication by Lilly in writing shall be deemed to have been given in the case of the Grantee if mailed or delivered to the Grantee at any address specified in writing to Lilly by the Grantee and, in the case of any Successor Grantee, at the address specified in writing to Lilly by the Successor Grantee. In addition, Lilly may, in its sole discretion, decide to deliver any documents related to the Award and participation in the 2002 Plan by electronic means or request the Grantee's consent to participate in the 2002 Plan by electronic means. By accepting this Award, the Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the 2002 Plan through an on-line or electronic system established and maintained by Lilly or a third party designated by Lilly.

#### **Section 13. Waiver**

The waiver by Lilly of any provision of this instrument at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this instrument at any subsequent time or for any other purpose.

#### **Section 14. Responsibility for Taxes**

Regardless of any action Lilly and/or the Grantee's employer (the "Employer") takes with respect to any or all income tax (including federal, state, local and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Grantee's participation in the 2002 Plan and legally applicable to the Grantee ("Tax Related Items"), the Grantee acknowledges that the ultimate liability for all Tax Related Items is and remains the Grantee's responsibility and may exceed the amount actually withheld by Lilly or the Employer. The Grantee further acknowledges that Lilly and the Employer (a) make no representations or undertakings regarding the treatment of any Tax Related Items in connection with any aspect of the Award, including the grant of the Restricted Stock Units, the accrual of Dividend Equivalent Units, the vesting of the Restricted Stock Units and the lapse of restrictions, the transfer and issuance of any shares of Lilly Stock, the receipt of any cash payment pursuant to the Award, the receipt of any dividends and the sale of any shares of Lilly Stock acquired pursuant to this Award; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Grantee's liability for Tax Related Items or achieve any particular tax result. Furthermore, if the Grantee becomes subject to Tax Related Items in more than one jurisdiction, the Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Related Items in more than one jurisdiction.

Prior to the applicable taxable or tax withholding event, as applicable, the Grantee shall pay or make adequate arrangements satisfactory to Lilly and/or the Employer to satisfy all Tax Related Items.

- a. In the case of Dividend Equivalent Units paid to the Grantee in cash and in the case of any Restricted Stock Units paid to the Grantee in cash in lieu of shares of Lilly Stock, the Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any obligation for Tax Related Items by withholding from the cash amount paid to the Grantee pursuant to the Award or from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer.
- b. If the Restricted Stock Units are paid in shares of Lilly Stock and the Grantee is not subject to the short-swing profit rules of Section 16(b) of the 1934 Act, the Grantee authorizes Lilly and/or the

Employer, or their respective agents, at their discretion, to (i) withhold from the Grantee's wages or other cash compensation paid to the Grantee by the Company and/or the Employer, (ii) arrange for the sale of shares of Lilly Stock to be issued upon the expiration of the Restriction Period (on the Grantee's behalf and at the Grantee's direction pursuant to this authorization or such other authorization as the Grantee may be required to provide to Lilly or its designated broker in order for such sale to be effectuated) and withhold from the proceeds of such sale, and/or (iii) withhold in shares of Lilly Stock otherwise issuable to the Grantee pursuant to this Award.

- c. If the Restricted Stock Units are paid in shares of Lilly Stock and the Grantee is subject to the short-swing profit rules of Section 16(b) of the 1934 Act, Lilly will withhold in shares of Lilly Stock otherwise issuable to the Grantee pursuant to this Award, unless the use of such withholding method is prevented by applicable law or has materially adverse accounting or tax consequences, in which case the withholding obligation for Tax Related Items may be satisfied by one or a combination of the methods set forth in Section 14(b)(i) and (ii) above.

Depending on the withholding method, Lilly and/or the Employer may withhold or account for Tax Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates, including maximum applicable rates, in which case the Grantee may receive a refund of any over-withheld amount in cash as soon as practicable and without interest and will not be entitled to the equivalent amount in shares of Lilly Stock. If the obligation for Tax Related Items is satisfied by withholding shares of Lilly Stock as described in Section 14(b)(iii) or Section 14(c) above, for tax purposes, the Grantee will be deemed to have been issued the full number of shares of Lilly Stock to which he or she is entitled pursuant to this Award, notwithstanding that a number of shares of Lilly Stock are withheld to satisfy the obligation for Tax Related Items. Lilly may require the Grantee to pay Lilly and/or the Employer any amount of Tax Related Items that Lilly and/or the Employer may be required to withhold or account for as a result of any aspect of this Award that cannot be satisfied by the means previously described. Lilly may refuse to deliver shares of Lilly Stock or any cash payment to the Grantee if the Grantee fails to comply with the Grantee's obligation in connection with the Tax Related Items as described in this Section 14.

#### **Section 15. Section 409A Compliance**

To the extent applicable, it is intended that this Award comply with the requirements of Section 409A of the U.S. Internal Revenue Code of 1986, as amended and the Treasury Regulations and other guidance issued thereunder ("Section 409A") and this Award shall be interpreted and applied by the Committee in a manner consistent with this intent in order to avoid the imposition of any additional tax under Section 409A. Notwithstanding anything elsewhere in this Award to the contrary, if the Award constitutes an item of non-qualified deferred compensation subject to Section 409A ("NQ Deferred Compensation") and the Grantee is treated as a "specified employee" as of the date of any payment pursuant to the Award in connection with the Grantee's Section 409A Separation, as determined by the Company in accordance with its procedures, then, to the extent required, the Award shall be paid on the earliest of (a) the date set forth in Section 3(a), (b) the first day following the six (6) month anniversary of the Grantee's Section 409A Separation, (c) the date of a "change in control event" within the meaning of Section 409A (a "Section 409A CIC"), and (c) the date of the Grantee's death. This Award is subject to Section 13(k) of the 2002 Plan concerning Section 409A.

#### **Section 16. Severability and Section Headings**

If one or more of the provisions of this instrument shall be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and the invalid, illegal or unenforceable provisions shall be deemed null and void; however, to the extent permissible by law, any provisions which could be deemed null and void shall first be construed, interpreted or revised retroactively to permit this instrument to be construed so as to foster the intent of this Award and the 2002 Plan.

The section headings in this instrument are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this instrument.

#### **Section 17. Determinations by Committee**

Determinations by the Committee pursuant to any provision of the 2002 Plan, pursuant to rules, regulations, and procedures adopted by the Committee, or pursuant to this instrument, including what constitutes "misconduct"

for purposes of Section 28 below and any other determinations under Section 28, shall be final and binding on the Grantee and any Successor Grantee.

### **Section 18. Change in Control**

The provisions of Section 12(a) of the 2002 Plan apply to this Award with the following modifications:

- a. The only Change in Control event that shall result in a benefit under this Section 18 shall be the consummation of a change in ownership of the Company as defined in Section 12(b)(i) of the 2002 Plan (a "Transaction").
- b. In the event that the acquiring entity or successor to the Company does not assume, continue or substitute the Award in connection with the Transaction, then the Company shall issue or transfer to the Grantee shares of Lilly Stock, as noted in Section 9, immediately prior to the consummation of the Transaction in order to allow the shares of Lilly Stock to be outstanding and for the Grantee to be eligible to receive the consideration being paid to Lilly shareholders in connection with the Transaction; provided, however, that if (i) the Grantee is subject to U.S. taxation and (ii) the Award constitutes NQ Deferred Compensation and the Transaction is not a Section 409A CIC, then the Grantee shall receive an equivalent amount in cash (based on the fair market value of the Lilly Stock at the time of the consummation of the Transaction) at the time provided under Section 9.
- c. In the event that the acquiring entity or successor to the Company assumes, continues or substitutes the Award in connection with the Transaction and the Grantee is subject to a Covered Termination (as defined below) prior to the end of the Restriction Period, the Award shall vest automatically in full and shall be settled in stock of the acquiring or successor corporation within sixty (60) days of the date of the Covered Termination; provided however, that in the event that the Award constitutes NQ Deferred Compensation, the Award shall instead be settled within sixty (60) days of a Covered Termination that also constitutes a Section 409A Separation, but in no event later than December 31 of the year in which the Section 409A Separation occurs.

"Covered Termination" for purposes of this Award shall mean a Qualifying Termination, Grantee's termination due to retirement, Grantee's termination without Cause or the Grantee's resignation for Good Reason. "Cause" and "Good Reason" shall have the meanings ascribed to them in the Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Employees or the Eli Lilly and Company 2007 Change in Control Severance Pay Plan for Select Employees (both as amended from time to time) or any successor plan or arrangement thereto, as applicable.

If the Grantee is entitled to receive stock of the acquiring entity or successor to the Company as a result of the application of this Section 18, then references to shares of Lilly Stock in this instrument shall be read to mean stock of the acquiring entity or successor to the Company as and when applicable.

### **Section 19. Nature of 2002 Plan and Award**

In accepting this Award, the Grantee acknowledges, understands and agrees that:

- a. the 2002 Plan is established voluntarily by Lilly, it is discretionary in nature and it may be modified, amended, suspended or terminated by Lilly at any time, as provided in the 2002 Plan;
- b. the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of Restricted Stock Units and/or Dividend Equivalent Units, or benefits in lieu thereof, even if Restricted Stock Units and/or Dividend Equivalent Units have been granted in the past;
- c. all decisions with respect to future awards of Restricted Stock Units, Dividend Equivalent Units or other grants, if any, will be at the sole discretion of the Committee;
- d. the Grantee's participation in the 2002 Plan is voluntary;
- e. the Award and any shares of Lilly Stock subject to the Award are not intended to replace any pension rights or compensation;
- f. the Award and any shares of Lilly Stock subject to the Award, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, holiday pay, leave pay, pension or welfare or retirement benefits or similar payments;
- g. unless otherwise agreed with Lilly, the Award and any shares of Lilly Stock subject to the Award, and the income and value of same, are not granted as consideration for, or in connection with, the service the Grantee may provide as a director of a subsidiary of Lilly;

- h. neither the Award nor any provision of this instrument, the 2002 Plan or the policies adopted pursuant to the 2002 Plan confer upon the Grantee any right with respect to employment or continuation of current employment, and in the event that the Grantee is not an employee of Lilly or any subsidiary of Lilly, the Award shall not be interpreted to form an employment contract or relationship with Lilly or any subsidiary of Lilly;
- i. the future value of the underlying shares of Lilly Stock is unknown, indeterminable and cannot be predicted with certainty;
- j. the value of shares of Lilly Stock acquired upon lapse of the Restriction Period may increase or decrease, even below the tax valuation price;
- k. no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from the Grantee ceasing to provide employment or other services to Lilly or the Employer (for any reason whatsoever, whether or not later found to be invalid or in breach of local labor laws in the jurisdiction where the Grantee is employed or the terms of Grantee's employment agreement, if any);
- l. for purposes of the Award, the Grantee's employment will be considered terminated as of the date he or she is no longer actively providing services to the Company or a subsidiary of the Company and the Grantee's right, if any, to earn and be paid any portion of the Award after such termination of employment or services (regardless of the reason for such termination and whether or not such termination is later found to be invalid or in breach of employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any) will be measured by the date the Grantee ceases to actively provide services and will not be extended by any notice period (e.g., active service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Grantee is employed or the terms of the Grantee's employment agreement, if any); the Committee shall have the exclusive discretion to determine when the Grantee is no longer actively providing services for purposes of the Award (including whether the Grantee may still be considered to be actively providing services while on a leave of absence); and
- m. unless otherwise provided in the 2002 Plan or by the Committee in its discretion, the Award and the benefits evidenced by this Award do not create any entitlement to have the Award or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of Lilly Stock.

#### **Section 20. No Advice Regarding Grant**

Lilly is not providing any tax, legal or financial advice, nor is Lilly making any recommendations regarding the Grantee's participation in the 2002 Plan or the Grantee's acquisition or sale of the underlying shares of Lilly Stock. The Grantee should consult with his or her own personal tax, legal and financial advisors regarding the Grantee's participation in the 2002 Plan before taking any action related to the 2002 Plan.

#### **Section 21. Insider Trading Restrictions/Market Abuse Laws**

The Grantee acknowledges that he or she may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including but not limited to the United States and the Grantee's country of residence, which may affect the Grantee's ability to directly or indirectly, for the Grantee or for a third party, acquire or sell, or attempt to sell, or otherwise dispose of shares of Lilly Stock or rights to acquire shares of Lilly Stock (e.g., Restricted Stock Units) under the 2002 Plan during such times as the Grantee is considered to have "inside information" regarding the Company (as determined under the laws or regulations in the applicable jurisdictions). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy. The Grantee acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Grantee should consult with his or her personal legal advisor on this matter.

#### **Section 22. Data Privacy**

The Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Grantee's personal data as described in this Award and any other Award materials by and among, as applicable, the Employer, Lilly, its subsidiaries and its affiliates for the exclusive purpose of implementing, administering and managing the Grantee's participation in the 2002 Plan.

The Grantee understands that Lilly and the Employer may hold certain personal information about the Grantee and persons closely associated with the Grantee, including, but not limited to, the Grantee's name, home address

and telephone number, email address, date of birth, social insurance, passport, or other identification number (e.g. resident registration number), salary, nationality, job title, any shares of stock or directorships held in Lilly, details of all Awards or any other entitlement to shares of stock awarded, canceled, vested, unvested or outstanding in the Grantee's favor, for the purpose of implementing, administering and managing the 2002 Plan ("Data").

The Grantee understands that Data will be transferred to Merrill Lynch, KPMG and/or any other stock plan service provider or tax or legal advisor as may be selected by the Company in the future, which is assisting in the implementation, administration and management of the 2002 Plan. Where required under applicable law, Data may also be disclosed to certain securities or other regulatory authorities where Lilly's securities are listed or traded or regulatory filings are made. The Grantee understands that these recipients may be located in the Grantee's country, or elsewhere, and that the recipient's country may have different data privacy laws and protections than the Grantee's country. The Grantee understands that he or she may request a list with the names and addresses of any potential recipients of Data by contacting the Grantee's local human resources representative. The Grantee authorizes the Company, Merrill Lynch, KPMG and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering, and managing the 2002 Plan to receive, possess, use, retain and transfer Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Grantee's participation in the 2002 Plan, including any requisite transfer of such Data as may be required to a broker, escrow agent or other third party with whom any shares or cash received pursuant to the Award may be deposited. The Grantee understands that Data will be held only as long as is necessary to implement, administer and manage the Grantee's participation in the 2002 Plan. The Grantee understands that the Grantee may, at any time, request an equity award transaction statement, request any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Grantee's local human resources representative. Further, the Grantee understands that he or she is providing the consents herein on a purely voluntary basis. If the Grantee does not consent, or if the Grantee later seeks to revoke his or her consent, the Grantee's employment status or service with the Employer will not be affected; the only consequence of refusing or withdrawing the Grantee's consent is that the Company would not be able to grant the Grantee the Award or other equity awards or administer or maintain such awards. Therefore, the Grantee understands that refusal or withdrawal of consent may affect the Grantee's ability to participate in the 2002 Plan. For more information on the consequences of the Grantee's refusal to consent or withdrawal of consent, the Grantee understands that the Grantee may contact the Grantee's local human resources representative.

Finally, upon request of the Company or the Employer, the Grantee agrees to provide an executed data privacy consent form (or any other agreements or consents) that the Company and/or the Employer may deem necessary to obtain from the Grantee for the purpose of administering the Grantee's participation in the 2002 Plan in compliance with the data privacy laws in the Grantee's country, either now or in the future. The Grantee understands and agrees that he or she will not be able to participate in the 2002 Plan if he or she fails to provide any such consent or agreement requested by the Company and/or the Employer.

#### **Section 23. Effective Date**

The effective date of this instrument shall be the date of grant.

#### **Section 24. Governing Law and Choice of Venue**

The validity and construction of this Award shall be governed by the laws of the State of Indiana, U.S.A. without regard to laws that might cause other law to govern under applicable principles of conflict of laws. For purposes of litigating any dispute that arises under this Award, the parties hereby submit to and consent to the jurisdiction of the State of Indiana, and agree that such litigation shall be conducted in the courts of Marion County, Indiana, or the federal courts for the United States for the Southern District of Indiana, and no other courts, where this Award is granted and/or to be performed.

#### **Section 25. Language**

If the Grantee has received this instrument or any other document related to the 2002 Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

#### **Section 26. Adjustments to Number of Shares**

The number of shares of Lilly Stock subject to this Award shall be subject to adjustment in accordance with the provisions of Section 4(b) of the 2002 Plan for certain corporate recapitalizations and other events.

## **Section 27. Imposition of Other Requirements**

The Company reserves the right to impose other requirements on the Award and any shares of Lilly Stock acquired under the 2002 Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Grantee to execute any additional agreements or undertakings that may be necessary to accomplish the foregoing. Without limitation to the foregoing, the Grantee agrees that the Restricted Stock Unit Award and any benefits or proceeds the Grantee may receive hereunder shall be subject to forfeiture and/or repayment to the Company to the extent required to comply with any requirements imposed under applicable laws or any compensation recovery policy of the Company that reflects the provisions of applicable laws.

## **Section 28. Compensation Recovery**

At any time during the three years following the date on which the number of shares of Lilly Stock subject to this Award was determined, the Company reserves the right to and, in appropriate cases, will seek restitution of all or part of any shares of Lilly Stock subject to or issued (or cash paid) pursuant to this Award if:

- a. (i) the number of shares of Lilly Stock subject to the Award was calculated based, directly or indirectly, upon the achievement of financial results (e.g., earnings per share) that were subsequently the subject of restatement of all or a portion of the Company's financial statements;
- (ii) the Grantee engaged in intentional misconduct that caused or partially caused the need for such a restatement; and
- (iii) the number of shares of Lilly Stock that would have been subject to the Award had the financial results been properly reported would have been lower than the number of shares of Lilly Stock actually subject to the Award.
- b. the Grantee has been determined to have committed a material violation of law or Company policy or to have failed to properly manage or monitor the conduct of an employee who has committed a material violation of law or Company policy whereby, in either case, such conduct causes significant harm to the company.

In the event the number of shares of Lilly Stock subject to the Award is determined to have been based on materially inaccurate financial statements or other Company performance measures or on calculation errors (without any misconduct on the part of the Grantee), the Company reserves the right to and, in appropriate cases, will:

- a. seek restitution of the shares of Lilly Stock subject to or issued (or cash paid) pursuant to this Award to the extent that the number of shares of Lilly Stock subject to the Award exceeded the number of shares of Lilly Stock that would have been subject to the Award had the inaccuracy or error not occurred, or
- b. issue additional shares of Lilly Stock or make additional cash payment to the extent that the number of shares of Lilly Stock subject to the Award was less than the correct amount.

This Section 28 is not intended to limit the Company's power to take such action as it deems necessary to remedy any misconduct, prevent its reoccurrence and, if appropriate, based on all relevant facts and circumstances, punish the wrongdoer in a manner it deems appropriate.

## **Section 29. Award Subject to Acknowledgement of Acceptance**

Notwithstanding any provisions of this instrument, the Award is subject to acknowledgement of acceptance by the Grantee prior to 4:00 PM. (EDT) February 15, 2020 through the website of Merrill Lynch, the Company's stock plan administrator. If the Grantee does not acknowledge acceptance of the Award prior to 4:00 PM. (EDT) February 15, 2020, the Award will be cancelled, subject to the Committee's discretion for unforeseen circumstances.

IN WITNESS WHEREOF, Lilly has caused this Award to be executed in Indianapolis, Indiana, by its proper officer.

ELI LILLY AND COMPANY

A handwritten signature in black ink, appearing to read "D. A. Ricks", is written over a light gray rectangular background.

By: \_\_\_\_\_  
David A. Ricks  
Chairman of the Board, President and  
Chief Executive Office

**Exhibit 21 — List of Subsidiaries & Affiliates**

**The following are subsidiaries and affiliated corporations of the company at December 31, 2019.  
Certain subsidiaries have been omitted as they are not significant in the aggregate.**

	<b>State or Jurisdiction of Incorporation or Organization</b>
1096401 B.C. Unlimited Liability Company	Canada
Alnara Pharmaceuticals, Inc.	Delaware
Andean Technical Operations Center	Peru
ARMO Bioscience	Delaware
AurKa Pharma	Canada
Avid Radiopharmaceuticals, Inc.	Delaware
CoLucid Pharmaceuticals, Inc.	Delaware
Dista Ilac Ticaret Ltd. Sti.	Turkey
Dista, S.A.	Spain
Dista-Produtos Quimicos & Farmaceuticos, LDA	Portugal
Elanco Animal Health Ireland Limited	Ireland
Elanco Switzerland Holding Sarl	Switzerland
ELCO Dominicana SRL	Dominican Republic
ELCO for Trade and Marketing, S.A.E.	Egypt
ELCO Insurance Company Limited	Bermuda
ELCO Management, Inc.	Delaware
ELGO Insurance Company Limited	Bermuda
Eli Lilly (Malaysia) Sdn. Bhd.	Malaysia
Eli Lilly (Philippines), Incorporated	Philippines
Eli Lilly (S.A.) (Proprietary) Limited	South Africa
Eli Lilly (Singapore) Pte. Ltd.	Singapore
Eli Lilly (Suisse) S.A.	Switzerland
Eli Lilly and Company	Indiana
Eli Lilly and Company (India) Pvt. Ltd.	India
Eli Lilly and Company (Ireland) Limited	Ireland
Eli Lilly and Company (N.Z.) Limited	New Zealand
Eli Lilly and Company (Taiwan), Inc.	Taiwan
Eli Lilly and Company Limited	United Kingdom
Eli Lilly Asia Pacific SSC Sdn Bhd	Malaysia
Eli Lilly Asia, Inc.	Delaware
Eli Lilly Australia Pty. Limited	Australia
Eli Lilly Benelux S.A.	Belgium
Eli Lilly B-H d.o.o.	Bosnia
Eli Lilly Bienes y Servicios S de RL de CV	Mexico
Eli Lilly Canada Inc.	Canada
Eli Lilly Cork Limited	Ireland
Eli Lilly CR s.r.o.	Czech Republic
Eli Lilly Danmark A/S	Denmark
Eli Lilly de Centro America, S.A.	Guatemala

	<b>State or Jurisdiction of Incorporation or Organization</b>
Eli Lilly do Brasil Limitada	Brazil
Eli Lilly Egypt for Trading	Egypt
Eli Lilly European Clinical Trial Services SA	Belgium
Eli Lilly Export S.A.	Switzerland
Eli Lilly farmacevtska druzba, d.o.o.	Slovenia
Eli Lilly Finance, S.A.	Switzerland
Eli Lilly Ges.m.b.H.	Austria
Eli Lilly Group Limited	United Kingdom
Eli Lilly Holdings Ltd.	United Kingdom
Eli Lilly Hrvatska d.o.o.	Croatia
Eli Lilly Interamerica Inc., y Compania Limitada	Chile
Eli Lilly Interamerica, Inc.	Indiana
Eli Lilly International Corporation	Indiana
Eli Lilly Ireland Holdings Limited	Ireland
Eli Lilly Israel Ltd.	Israel
Eli Lilly Italia S.p.A.	Italy
Eli Lilly Japan K.K.	Japan
Eli Lilly Kinsale Limited	Ireland
Eli Lilly Nederland B.V.	Netherlands
Eli Lilly Nigeria Ltd.	Nigeria
Eli Lilly Norge A.S.	Norway
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan
Eli Lilly Polska Sp.z.o.o. (Ltd.)	Poland
Eli Lilly Regional Operations GmbH	Austria
Eli Lilly Romania SRL	Romania
Eli Lilly S.A.	Switzerland
Eli Lilly Saudi Arabia Limited	Saudi Arabia
Eli Lilly Services India Private Limited	India
Eli Lilly Services, Inc	British Virgin Islands
Eli Lilly Slovakia s.r.o.	Slovakia
Eli Lilly Sweden AB	Sweden
Eli Lilly Vostok S.A., Geneva	Switzerland
Eli Lilly y Compania de Mexico, S.A. de C.V.	Mexico
Eli Lilly y Compania de Venezuela, S.A.	Venezuela
Glycostasis, Inc	Delaware
Greenfield-Produtos Farmaceuticos, Lda.	Portugal
ICOS Corporation	Washington
ImClone GmbH	Switzerland
ImClone LLC	Delaware
ImClone Systems Holdings, Inc.	Delaware
ImClone Systems LLC	Delaware
Irisfarma S.A.	Spain
Kinsale Financial Services Unlimited Company	Ireland
Lilly (Shanghai) Management Co., Ltd	China

	<b>State or Jurisdiction of Incorporation or Organization</b>
Lilly Asia Ventures Fund I, L.P.	Cayman Islands
Lilly Asia Ventures Fund II, L.P.	Cayman Islands
Lilly Asian Ventures Fund III, L.P.	Cayman Islands
Lilly Cayman Holdings	Cayman Islands
Lilly Centre for Clinical Pharmacology PTE. LTD.	Singapore
Lilly China Research and Development Co., Ltd.	China
Lilly del Caribe, Inc.	Cayman Islands
Lilly Deutschland GmbH	Germany
Lilly France S.A.S.	France
Lilly Global Nederland Holdings B.V.	Netherlands
Lilly Global Services, Inc.	Indiana
Lilly Holding GmbH	Germany
Lilly Holdings B.V.	Netherlands
Lilly Hungaria KFT	Hungary
Lilly ilaç ticaret limited şirketi	Turkey
Lilly Japan Financing G.K.	Japan
Lilly Korea Ltd.	Korea
Lilly Nederland Finance B.V.	Netherlands
Lilly Nederland Finance B.V. - GCC	Netherlands
Lilly Nederland Holding B.V.	Netherlands
Lilly Pharma Ltd.	Russia
Lilly Portugal - Produtos Farmaceuticos, Lda.	Portugal
Lilly S.A.	Spain
Lilly Suzhou Pharmaceutical Co. Ltd.	China
Lilly Trading Co. LTD	China
Lilly USA, LLC	Indiana
Lilly Ventures Fund I LLC	Delaware
Loxo Oncology, Inc	Delaware
OY Eli Lilly Finland AB	Finland
Pharmaserve-Lilly S.A.C.I.	Greece
PT. Eli Lilly Indonesia	Indonesia
SGX Pharmaceuticals, Inc	Delaware
Spaly Bioquimica, S.A.	Spain
UAB Eli Lilly Lietuva	Lithuania
Valquifarma S.A.	Spain
Vital Pharma Productos Farmaceuticos	Portugal

## **Exhibit 23**

### **Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (Form S-3 ASR No. 333-229735; and Form S-8 Nos. 333-104057 and 333-172422) of Eli Lilly and Company and in the related Prospectus of our reports dated February 19, 2020, with respect to the consolidated financial statements of Eli Lilly and Company and subsidiaries, and the effectiveness of internal control over financial reporting of Eli Lilly and Company and subsidiaries, included in this Annual Report (10-K) for the year ended December 31, 2019.

/s/ Ernst and Young LLP

Indianapolis, Indiana

February 19, 2020

**EXHIBIT 31.1 Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer**

**CERTIFICATIONS**

I, David A. Ricks, Chairman, President, and Chief Executive Officer, certify that:

1. I have reviewed this report on Form 10-K of Eli Lilly and Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

By: /s/ David A. Ricks

David A. Ricks

Chairman, President, and Chief Executive Officer

**EXHIBIT 31.2 Rule 13a-14(a) Certification of Joshua L. Smiley, Senior Vice President and Chief Financial Officer**

**CERTIFICATIONS**

I, Joshua L. Smiley, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-K of Eli Lilly and Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

By: /s/ Joshua L. Smiley

Joshua L. Smiley

Senior Vice President and Chief Financial Officer

**EXHIBIT 32 Section 1350 Certification**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Eli Lilly and Company, an Indiana corporation (the "Company"), does hereby certify that, to the best of his knowledge:

The Annual Report on Form 10-K for the year ended December 31, 2019 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2020

/s/ David A. Ricks

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David A. Ricks

Chairman, President, and Chief Executive Officer

Date: February 19, 2020

/s/ Joshua L. Smiley

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Joshua L. Smiley

Senior Vice President and  
Chief Financial Officer