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, 1996 — Commission File Number 1-6351

ELI LILLY AND COMPANY

An Indiana Corporation — I.R.S. Employer Number 35-0470950

Address: Lilly Corporate Center, Indianapolis, Indiana 46285

Telephone number, including area code: (317) 276-2000

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

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock	New York and Pacific Stock Exchanges
Preferred Stock Purchase Rights	New York and Pacific Stock Exchanges
8-1/8% Notes Due December 1, 2001	New York Stock Exchange
8-3/8% Notes Due December 1, 2006	New York Stock Exchange
6.57% Notes Due January 1, 2016	New York Stock Exchange
6.77% Notes Due January 1, 2036	New York Stock Exchange

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of voting stock of the Registrant held by non-affiliates as of February 14, 1997 (Common Stock): $42,991,879,970.

Number of shares of common stock outstanding as of February 14, 1997: 554,528,339

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

Document	Parts Into Which Incorporated
Registrant's Annual Report to Shareholders for fiscal year ended December 31, 1996	Parts I, II, and IV
Registrant's Proxy Statement dated March 5, 1997	Part III

PART I

Item 1. BUSINESS

Eli Lilly and Company was incorporated in 1901 under the laws of Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. The Company*, including its subsidiaries, is engaged in the discovery, development, manufacture, and sale of products and the provision of services in one industry segment--Life Sciences. Products are manufactured or distributed through owned or leased facilities in the United States, Puerto Rico, and 25 other countries, in 19 of which the Company owns or has an interest in manufacturing facilities. Its products are

sold in approximately 155 countries. Through its PCS Health Systems ("PCS") and Integrated Medical Systems ("IMS") subsidiaries, the Company provides health care management services in the United States.

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

FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS AND CLASSES OF PRODUCTS

Financial information relating to industry segments and classes of products, set forth in the Company's 1996 Annual Report at pages 34-35 under "Review of Operations--Segment Information" (pages 12-13 of Exhibit 13 to this Form 10-K), is incorporated herein by reference.

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

PRODUCTS AND SERVICES

Pharmaceutical Products

Pharmaceutical products include

Central-nervous-system agents, the Company's largest-selling product group, including Prozac(R), a selective serotonin reuptake inhibitor, indicated for the treatment of depression and, in many countries, for bulimia and obsessive-compulsive disorder; Zyprexa(TM), a product approved in the fall of 1996 in the United States and several other countries for the treatment of schizophrenia; the Darvon(R) line of analgesic products; and PermaxR, a treatment for Parkinson's disease;

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

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

Endocrine products, including Humulin(R), human insulin produced through recombinant DNA technology; Humalog(R), approved in 1996, a rapid-acting injectable human insulin analog of recombinant DNA origin; Iletin(R), animal-source insulin in its various pharmaceutical forms; and Humatrope(R), human growth hormone produced by recombinant DNA technology;

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

Cardiovascular agents, including ReoPro(R), a monoclonal antibody product developed and manufactured by Centocor, Inc. and marketed by the Company for use in angioplasty patients considered at high risk for suffering abrupt reclosure of the treated artery; Dobutrex(R), an inotropic agent; and Cynt(TM), marketed outside the United States for treatment of hypertension;

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

Additional pharmaceuticals, including sedatives and vitamins.

Animal Health Products

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

Health Care Management Services

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

underwrite or administer prescription benefit plans. PCS helps these customers manage prescription benefit costs by providing drug utilization reviews, clinically-based formularies, generic substitution programs, and disease-management programs. RECAP(R), PCS's on-line prescription claims management system, is linked with over 95% of retail pharmacies in the U.S. In 1996, PCS introduced a mail order pharmacy program for its customers known as Performance Mail. Integrated Medical Systems operates physician-based electronic communication networks, called IMS MEDACOM(R) networks, that deliver clinical, administrative, and financial information to hospitals, payers/managed-care plans, laboratories, and physicians.

MARKETING

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

In the United States, the Company distributes pharmaceutical products principally through approximately 210 independent wholesale distributing outlets. Marketing policy is designed to assure immediate availability of these products to physicians, pharmacies, hospitals, and appropriate health care professionals throughout the country. Four wholesale distributing companies in the United States accounted for approximately 11%, 11%, 10%, and 8%, respectively, of the Company's consolidated net sales in 1996. No other distributor accounted for as much as 5% of consolidated net sales. The Company also makes direct sales of its pharmaceutical products to the United States government and to other manufacturers, but those direct sales do not constitute a material portion of consolidated net sales.

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

In the past few years, large purchasers of pharmaceuticals, such as managed-care groups and government and long-term care institutions, have begun to account for an increasing portion of total pharmaceutical purchases in the United States with a resulting intensification of price competition. The Company has created special sales groups to service managed-care organizations, government and long-term care institutions, hospital contract administrators, and certain retail pharmacies. In response to competitive pressures, the Company has entered into arrangements with a number of these organizations providing for discounts or rebates on one or more Company products or other cost-sharing arrangements. The Company has also entered into agreements with generic pharmaceutical companies for the promotion, distribution and/or supply of generic forms of certain brand name products.

Outside the United States, pharmaceutical products are promoted primarily by salaried sales representatives. While the products marketed vary from country to country, anti-infectives constitute the

largest single group in total sales. Distribution patterns vary from country to country. In recent years, the Company has significantly expanded its marketing efforts in a number of overseas markets, including emerging markets in Central and Eastern Europe, Latin America, Asia and Africa.

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

RAW MATERIALS

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

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

PATENTS AND LICENSES

The Company owns, has applications pending for, or is licensed under, a substantial number of patents, both in the United States and in other countries, relating to products, product uses, and manufacturing processes. There can be no assurance that patents will result from the Company's pending applications. Moreover, patents relating to particular products, uses, or processes do not preclude other manufacturers from employing alternative processes or from successfully marketing substitute products to compete with the patented products or uses. Outside the United States, patent protection varies widely. In many countries, patent protection is weak or nonexistent. Patent protection of certain products, processes, and uses--particularly that relating to Prozac, Axid, Gemzar, Lorabid, and Zyprexa--is considered to be important to the operations of the Company. The United States compound patent covering Prozac expires in 2001 and a use patent for the mechanism of action by which Prozac works expires in 2003. See "Legal Proceedings" at page 10 for a discussion of certain litigation involving these two patents. In other countries, Prozac patents generally either have expired or will expire over the next several years. Other U.S. compound patent expirations include the following: Axid, 2002; Lorabid, 2006; and Zyprexa, 2011. The Gemzar compound patent in the U.S. expires in 2006, but a use patent covering treatment of neoplasms with Gemzar is in force until 2012.

The Company also grants licenses under patents and know-how developed by the Company and manufactures and sells products and uses technology and know-how under licenses from others. Royalties received by the Company in relation to licensed pharmaceuticals amounted to approximately $7 million in 1996, and royalties paid by it in relation to pharmaceuticals amounted to approximately $119 million in 1996.

COMPETITION

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

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

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

GOVERNMENTAL REGULATION

The Company's operations have for many years been subject to extensive regulation by the federal government, to some extent by state governments, and in varying degrees by foreign governments. The Federal Food, Drug, and Cosmetic Act, other federal statutes and regulations, various state statutes and regulations, and laws and regulations of foreign governments govern testing, approval, production, labeling, distribution, post-market surveillance, advertising, and promotion of most of the Company's products. The lengthy process of laboratory testing, clinical testing, data analysis and regulatory review necessary for required governmental approvals is extremely costly and can significantly delay product introductions in a given market. In addition, the Company's operations are subject to complex federal, state, local, and foreign environmental and occupational safety laws and regulations. It is anticipated that compliance with regulations affecting the manufacture and sale of current products and the introduction of new products will continue to require substantial scientific and technical effort, time, and expense and significant capital investment.

In the United States, the Omnibus Budget Reconciliation Act of 1990 requires the Company to provide rebates to state governments in connection with their purchase of certain Company products under state Medicaid programs, and other cost containment measures have been adopted or proposed by federal, state, and local government entities that provide or pay for health care. In most international markets the Company operates in an environment of government-mandated cost containment programs, which may include price controls, discounts and rebates, restrictions on physician prescription levels, compulsory licenses and generic substitution. The Company expects that governments inside and outside the United States will continue to adopt a variety of measures to contain health care costs, including pharmaceutical costs. The Company cannot predict the extent to which its business may be affected by these or other future legislative or regulatory developments.

RESEARCH AND DEVELOPMENT

The Company's research and development activities are responsible for the discovery or development of most of the products offered by the Company today. Its commitment to research and development dates back more than 100 years. The Company invests heavily in research and development, which management believes is critical to long-term competitiveness in the pharmaceutical industry. The growth in research and development expenditures and personnel over the past several years demonstrates both the continued vitality of the Company's commitment and the increasing costs and complexity of bringing new products to the market. At the end of 1996, approximately 4,950 people, including a substantial number who are physicians or scientists holding graduate or postgraduate degrees or highly skilled technical personnel, were engaged in pharmaceutical and animal health research and development activities. The Company expended $838.7 million on these research and development activities in 1994, $1.04 billion in 1995, and $1.19 billion in 1996.

The Company's research is concerned primarily with the effects of synthetic chemicals and natural products on biological systems. The results of that research are applied to the development of products for use by or on humans and animals, and for other uses. Major effort is devoted to pharmaceutical products. The Company concentrates its pharmaceutical research and development efforts in five therapeutic categories: central nervous system and related diseases; endocrine diseases, including diabetes and osteoporosis; infectious diseases; cancer; and cardiovascular diseases. The Company is engaged in biotechnology research programs involving recombinant DNA, protein research, and genomics (the development of therapeutics through identification of disease-causing genes and their cellular function).

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

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

QUALITY ASSURANCE

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

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

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth certain information regarding the executive officers of the Company. All but three of the executive officers have been employed by the Company in executive or managerial positions during the last five years. Randall L. Tobias became Chairman of the Board and Chief Executive Officer in June 1993. He had served as Vice Chairman of the Board of AT&T from 1986 until he assumed his present position. He has been a member of the Board of Directors of the Company since 1986. Charles E. Golden joined the Company as Executive Vice President and Chief Financial Officer and was elected to the Board of Directors on March 4, 1996. He previously had held a number of executive positions with General Motors Corporation ("GM") including Vice President of GM and Chairman and Managing Director of Vauxhall Motors Limited, a GM subsidiary in the United Kingdom, from 1993 to 1996, Vice President and Treasurer from 1992 to 1993, and Treasurer from 1989 to 1992. Thomas Trainer joined the Company in January 1995. Since 1991 he had served as Vice President and Chief Information Officer of Reebok International Ltd. Prior to joining Reebok, he was Senior Vice President of Operations of A.C. Nielson Co.

Except as indicated in the following table, the term of office for each executive officer indicated herein expires on the date of the annual meeting of the Board of Directors, to be held on April 21, 1997, or on the date his or her successor is chosen and qualified. No director or executive officer of the Company has a "family relationship" with any other director or executive officer of the Company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer of the Company and any other person pursuant to which the executive officer was selected.

NAME	AGE	OFFICES
Randall L. Tobias	55	Chairman of the Board and Chief Executive Officer (since June 1993) and a Director
Sidney Taurel	48	President and Chief Operating Officer (since February 1996) and a Director
Charles E. Golden	50	Executive Vice President and Chief Financial Officer (since March 1996) and a Director
August M. Watanabe, M.D.	55	Executive Vice President, Science and Technology (since February 1996) and a Director
Mitchell E. Daniels, Jr.	47	Vice President, Corporate Strategy and Policy (since January 1997)
Rebecca O. Goss	49	Vice President and General Counsel (since March 1995)
Pedro P. Granadillo	49	Vice President, Human Resources (since April 1993)
Alan S. Clark	62	President, U.S. Operations (since January 1997)*
Michael L. Eagle	49	Vice President, Manufacturing (since January 1994)*
Brendan P. Fox, D.V.M.	53	President, Elanco Animal Health Business Unit (since January 1991)*
Michael E. Hanson	49	President, Internal Medicine Business Unit (since August 1994)*
James A. Harper	49	President, Endocrine Business Unit (since August 1994)*
Gerhard N. Mayr	50	President, European, Middle East and African Operations (since January 1993)*
Robert N. Postlethwait	48	President, Neuroscience Business Unit (since August 1994)*
William R. Ringo, Jr.	51	President, Infectious Diseases Business Unit (since September 1995)*
Gino Santini	40	Vice President, Corporate Strategy and Business Development (since September 1995)*
Thomas Trainer	50	Vice President, Information Technology, and Chief Information Officer (since January 1995)*

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*Serves in office until successor is appointed.

EMPLOYEES

At the end of 1996, the Company had approximately 29,200 employees, including approximately 13,700 employees outside the United States. A substantial number of the Company's employees have long records of continuous service.

FINANCIAL INFORMATION RELATING TO FOREIGN AND DOMESTIC OPERATIONS

Financial information relating to foreign and domestic operations, set forth in the Company's 1996 Annual Report at pages 34-35 under "Review of Operations--Segment Information" (pages 12-13 of Exhibit 13), is incorporated herein by reference.

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

Local restrictions on the transfer of funds from branches and subsidiaries located abroad (including the availability of dollar exchange) have not to date been a significant deterrent in the Company's overall operations abroad. The Company cannot predict what effect these restrictions or the other risks inherent in foreign operations, including possible nationalization, might have on its future operations or what other restrictions may be imposed in the future. In addition, changing currency values can either favorably or unfavorably affect the financial position and results of operations of the Company. The Company actively manages its foreign exchange risk through various hedging techniques including the use of foreign currency contracts. Further information on the Company's hedging program is contained in Note 6 to the Company's financial statements for 1996, "Financial Instruments -- Risk Management Instruments and Off-Balance Sheet Risk", at pages 41-42 of the Company's 1996 Annual Report (pages 19-20 of Exhibit 13).

Item 2. PROPERTIES

The Company's principal domestic and international executive offices are located in Indianapolis. At December 31, 1996, the Company owned 14 production and distribution facilities in the United States and Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 9.4 million square feet of floor area. Major production sites include Indianapolis; Clinton and Lafayette, Indiana; and Carolina and Mayaguez, Puerto Rico. The Company also leases sales offices in a number of cities located in the United States and abroad. PCS owns or leases administrative facilities in Scottsdale, Arizona, containing an aggregate of approximately 473,000 square feet, and leases a 94,000 square foot mail-order pharmacy facility in Fort Worth, Texas. It also leases administrative space in other cities in the United States. Integrated Medical Systems leases administrative space in a number of locations.

The Company has 27 production and distribution facilities in 19 countries outside the United States and Puerto Rico, containing an aggregate of approximately 4.0 million square feet of floor space. Leased production and warehouse facilities are utilized in Puerto Rico and 15 countries outside the United States.

The Company's research and development facilities in the United States consist of approximately 3.7 million square feet and are located primarily in Indianapolis and Greenfield, Indiana. Its major

research and development facilities abroad are located in Belgium and the United Kingdom and contain approximately 341,000 square feet. The Company also owns two tracts of land, containing an aggregate of approximately 1,700 acres, a portion of which is used for field studies of products.

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

Item 3. LEGAL PROCEEDINGS

Prozac Patent Litigation. In March 1996 the Company was informed by Barr Laboratories, Inc. ("Barr") that it had submitted an abbreviated new drug application to the U.S. FDA seeking to market a generic form of Prozac in the United States several years before the expiration of the Company's patents. Barr has alleged that the Company's U.S. patents covering Prozac are invalid and unenforceable. On April 11, 1996, the Company filed suit in the United States District Court for the Southern District of Indiana seeking a ruling that Barr's challenge to the Company's patents is without merit. A trial date has been set for January 1998. The compound patent expires in February 2001 and a use patent for the mechanism of action by which Prozac operates expires in December 2003. These patents are material to the Company. The Company believes that Barr's claims are without merit and that the Company should be successful in this litigation. However, it is not possible to predict or determine the outcome of this litigation and accordingly there can be no assurance that the Company will prevail. An unfavorable outcome could have a material adverse effect on the Company's consolidated financial position, liquidity, or results of operations.

Product Liability Litigation. The Company is currently a defendant in a variety of product litigation matters involving primarily diethylstilbestrol ("DES") and Prozac. In approximately 275 actions, including several with multiple claimants, plaintiffs seek to recover damages on behalf of children or grandchildren of women who ingested DES during pregnancy. In March 1996 a suit was filed in the federal district court for the Eastern District of New York against the Company and several other manufacturers purporting to be a class action on behalf of New York resident women who were exposed to DES in utero. The suit does not seek compensation for personal injuries but instead seeks establishment of a fund for various expenses allegedly incurred as a result of DES exposure. In another approximately 28 actions, plaintiffs seek to recover damages as a result of the ingestion of Prozac.

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

The federal suits include a certified class action on behalf of a majority of retail pharmacies in the United States (the "Federal Class Action"). The class plaintiffs allege an industrywide agreement in violation of the Sherman Act to deny favorable pricing

on sales of brand-name prescription pharmaceuticals to certain retail pharmacies in the United States. The Company and several other manufacturers have agreed to settle the Federal Class Action. The settlement amount, which is not material, was accrued by the Company in the fourth quarter of 1995. The settlement was approved by the District Court but an appeal was subsequently taken and is pending. The other federal suits, brought as individual claims by several thousand pharmacies, allege price discrimination in violation of the Robinson-Patman Act as well as Sherman Act claims. The suits seek treble damages and injunctive relief against allegedly discriminatory pricing practices. With respect to the Robinson-Patman Act claims, the District Court has designated certain plaintiffs and defendants named in the individual suits (not including the Company) to participate in an initial trial or trials of the claims. No trial dates have been set. Robinson-Patman claims asserted in the suits against nondesignated defendants, including the Company, are stayed.

In addition, there are a number of related state court cases. The state court suits typically seek money damages and injunctive relief against allegedly discriminatory pricing practices. Cases have been brought in Alabama, California, Minnesota, and Wisconsin by retail pharmacies alleging violations of various state antitrust and pricing laws, purporting to be class actions on behalf of all retail pharmacies in those states. The court in California has certified a class of retail pharmacies. Cases have also been brought in state courts in Alabama, Arizona, California, District of Columbia, Florida, Kansas, Maine, Michigan, Minnesota, New York, Tennessee, Washington and Wisconsin that purport to be class actions on behalf of consumers of prescription pharmaceuticals, alleging violations of state antitrust and pricing laws. The courts in California and the District of Columbia have certified classes of consumer plaintiffs, while the Minnesota court denied class certification. The New York and Washington cases have been dismissed and appeals are pending. The Alabama, Florida, and Kansas cases have been removed to federal court. The Alabama case was transferred to the MDL court in Chicago, and the court denied a motion to remand to the state court. In the Florida and Kansas cases, there are pending both motions to remand to the state courts and petitions to transfer to the MDL court in Chicago.

Other Matters. In June 1995, Bank Pharmacy, a California retail pharmacy, filed an action in federal district court in the Northern District of California against the Company and PCS alleging that the Company's acquisition of PCS violated federal antitrust laws. The suit seeks divestiture of PCS by the Company. The Company believes the claim is without merit.

In March 1996, the Federal Trade Commission ("FTC") commenced a non-public investigation focusing on the pricing practices described under "Pricing Litigation" above. In July 1996, the Company received a subpoena from the FTC requesting production of certain documents. The Company believes that all of its actions have been lawful and proper and is cooperating with the investigation.

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

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

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

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

During the fourth quarter of 1996, no matters were submitted to a vote of security holders.

PART II

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

Information relating to the principal market for the Company's common stock and related stockholder matters, set forth in the Company's 1996 Annual Report under "Review of Operations---elected Quarterly Data (unaudited)," at page 36 (page 14 of Exhibit 13), and "Review of Operations---elected Financial Data (unaudited)," at page 37 (page 15 of Exhibit 13), is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

Selected financial data for each of the Company's five most recent fiscal years, set forth in the Company's 1996 Annual Report under "Review of Operations--Selected Financial Data (unaudited)," at page 37 (page 15 of Exhibit 13), are incorporated herein by reference.

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

The following portions of the Company's 1996 Annual Report (found at pages 1-6 and 32-34 of Exhibit 13) constitute management's discussion and analysis of results of operations and financial condition and are incorporated herein by reference:

"Review of Operations--Operating Results and Net Income--1996" (pages 24, 25, and 27)
"Review of Operations--Operating Results and Net Income--1995" (pages 27-28)
"Review of Operations--Financial Condition" (pages 28-29)
"Review of Operations--Environmental and Legal Matters" (pages 29 and 32)
"Review of Operations--Private Securities Litigation Reform Act of 1995 -- A Caution Concerning Forward-Looking Statements" (page 32)

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and its subsidiaries, listed in Item 14(a)1 and included in the Company's 1996 Annual Report at pages 26, 30, 31, and 33 (Consolidated Statements of Income, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows), pages 34 and 35 (Segment Information), and pages 38-51 (Notes to Consolidated Financial Statements) (together, pages 8-13 and 16-29 of Exhibit 13), and the Report of Independent Auditors set forth in the Company's 1996 Annual Report at page 52 (page 31 of Exhibit 13), are incorporated herein by reference.

Information on quarterly results of operations, set forth in the Company's 1996 Annual Report under "Review of Operations--Selected Quarterly Data (unaudited)," at page 36 (page 14 of Exhibit 13), is incorporated herein by reference.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the Company's directors, set forth in Section 1 of the Company's Proxy Statement dated March 5, 1997 (the "Proxy Statement"), under "Nominees for Election" and "Certain Information Concerning Director Nominees and Directors Continuing in Office," at pages 1-5, is incorporated herein by reference. Information relating to the Company's executive officers is set forth at pages 7-8 of this Form 10-K under "Executive Officers of the Company." Information relating to certain filing obligations of directors and executive officers under the federal securities laws, set forth in the Proxy Statement under "Other Matters -- Section 16(a) Beneficial Ownership Reporting Compliance" at page 19, is also incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information relating to executive compensation, set forth in Section 1 of the Proxy Statement under "Directors' Compensation", "Executive Compensation", "Compensation Committee Interlocks", "Retirement Plan", and "Change-in-Control Severance Pay Arrangements" at pages 8-18, is incorporated herein by reference, except that the Compensation and Management Development Committee Report and Performance Graph are not so incorporated.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to ownership of the Company's common stock by persons known by the Company to be the beneficial owners of more than 5% of the outstanding shares of common stock and by management, set forth in Section 1 of the Proxy Statement under "Common Stock Ownership by Directors and Executive Officers," at pages 6-7, and "Principal Holders of Common Stock," at page 7, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in Section 1 of the Proxy Statement entitled "Certain Business Relationships" at page 18 is incorporated herein by reference.

PART IV

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

(a)1. Financial Statements

The following consolidated financial statements of the Company and its subsidiaries, included in the Company's 1996 Annual Report at the pages indicated in parentheses, are incorporated by reference in Item 8:

Consolidated Statements of Income--Years Ended December 31, 1996, 1995, and 1994 (page 26) (page 8 of Exhibit 13)

Consolidated Balance Sheets--December 31, 1996 and 1995 (pages 30-31) (pages 9-10 of Exhibit 13)

Consolidated Statements of Cash Flows--Years Ended December 31, 1996, 1995, and 1994 (page 33) (page 11 of Exhibit 13)

Segment Information (pages 34-35) (pages 12-13 of Exhibit 13)

Notes to Consolidated Financial Statements (pages 38-51) (pages 16-29 of Exhibit 13)

(a)2. Financial Statement Schedules

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

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

(a)3. Exhibits

3.1 Amended Articles of Incorporation

3.2 By-laws

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

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

4.3 Form of Eli Lilly and Company Five Year Convertible Note

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

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

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

4.7 Form of Fiscal and Paying Agency Agreement dated July 8, 1993, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 5-1/2% Notes Due 19981

4.8 Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-1/8% Notes Due February 7, 20001

4.9 Form of Fiscal and Paying Agency Agreement dated February 7, 1995, between Eli Lilly and Company and Citibank, N.A., Fiscal and Paying Agent, including forms of Notes, relating to 8-3/8% Notes Due February 7, 20051

10.1 1984 Lilly Stock Plan, as amended2

10.2 1989 Lilly Stock Plan, as amended2

10.3 1994 Lilly Stock Plan, as amended2

10.4 The Lilly Deferred Compensation Plan, as amended2

10.5 The Lilly Directors' Deferral Plan, as amended2

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

2 Indicates management contract or compensatory plan.

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

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

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

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

12. Computation of Ratio of Earnings to Fixed Charges

13. Annual Report to Shareholders for the Year Ended December 31, 1996 (portions incorporated by reference into this Form 10-K)

21. List of Subsidiaries

23. Consent of Independent Auditors

27. Financial Data Schedule

99. Cautionary Statement under Private Securities Litigation Reform Act of 1995 -- "Safe Harbor" for Forward-Looking Disclosures

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the fourth quarter of 1996.

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2 Indicates management contract or compensatory plan.

SIGNATURES

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

ELI LILLY AND COMPANY

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

March 18, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 18, 1997 by the following persons on behalf of the Registrant and in the capacities indicated.

SIGNATURE	TITLE
s/Randall L. Tobias (RANDALL L. TOBIAS)	Chairman of the Board, Chief Executive Officer, and Director (principal executive officer)
s/Charles E. Golden (CHARLES E. GOLDEN)	Executive Vice President, Chief Financial Officer, and a Director (principal financial officer)
s/Arnold C. Hanish (ARNOLD C. HANISH)	Chief Accounting Officer (principal accounting officer)
s/Evan Bayh (EVAN BAYH)	Director
s/Steven C. Beering, M.D. (STEVEN C. BEERING, M.D.)	Director
s/James W. Cozad (JAMES W. COZAD)	Director
s/Karen N. Horn (KAREN N. HORN, Ph.D.)	Director
s/Alfred G. Gilman, M.D., Ph.D. (ALFRED G. GILMAN, M.D., Ph.D.)	Director
s/J. Clayburn La Force, Jr., Ph.D. (J. CLAYBURN LA FORCE, JR., Ph.D.)	Director
s/Kenneth L. Lay, Ph.D. (KENNETH L. LAY, Ph.D.)	Director
s/Franklyn G. Prendergast, M.D., Ph.D.	Director

(FRANKLYN G. PRENDERGAST, M.D., Ph.D.)

s/Kathi P. Seifert Director

(KATHI P. SEIFERT)

s/Sidney Taurel Director

(SIDNEY TAUREL)

s/August M. Watanabe, M.D. Director

(AUGUST M. WATANABE, M.D.)

s/Alva O. Way Director

(ALVA O. WAY)

TRADEMARKS USED IN THIS REPORT

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

THE LILLY DIRECTORS' DEFERRAL PLAN
(As amended and restated through January 1, 1997)

Section 1. Establishment of the Plan.

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

Section 2. Definitions.

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

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

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

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

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

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

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

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

2.8. Deferral Allocation Date. The term "Deferral Allocation Date" means the third Monday of any month, or if Shares are not traded on The New York Stock Exchange on such third Monday of the month, the last day before the third Monday of the month on which Shares are traded on The New York Stock Exchange, that follows the earlier of (a) the date on which an

amount deferred under the Plan would have been paid in cash if a deferral election had not been made hereunder, or (b) in the case of an award of compensation which by its terms is subject to a deferred payment date, the date of award.

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

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

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

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

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

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

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

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

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

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

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

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Each person who is thereafter elected or appointed as a Director, and who is not and has never been a full-time salaried employee of the Company, shall become a Deferred Stock Participant beginning with the month in which such Director takes office. A Deferred Stock Participant shall cease to participate in the Plan when the Participant ceases to be a

Director. For purposes of the Plan, a Deferred Stock Participant shall be deemed to cease to be a Director on the first day of the month next following the month in which he last serves as a Director.

Section 4. Deferred Compensation Participants.

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

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

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

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

The amount deferred may not exceed the Director's Compensation for the calendar year. Notwithstanding the foregoing, any individual who is newly elected or appointed to serve as a Director may, not later than thirty (30) days after his election or appointment becomes effective, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Compensation earned during the portion of the current calendar year that follows the filing of the election with the Company. Except as provided in subsections 8.2 and 8.4 hereof, any elections made pursuant to this Section 4 with respect to a calendar year shall be irrevocable when made. If a Participant fails to make an election under section 5 with respect to his Deferred Amount for a future calendar year, the Participant's previous election shall remain in effect, provided that the Participant may amend his election with regard to a future calendar year at any time.

Section 5. Form of Deferred Compensation Credits.

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

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

5.3. Transfer of Deferred Compensation Account Balance to Share Account. Prior to the effective date of the Plan, a Deferred Compensation Participant may elect to have all or a portion of his final credited account balance in The Lilly Directors' Deferred Compensation Plan converted to Shares and credited to the Participant's Share Account. Such conversion shall take place as of January 1, 1996 based upon the combined average of the high and low prices of Shares on The New York Stock Exchange on each of the last five (5) days of 1995 on which Shares are traded on The New York Stock Exchange. Such conversion shall, however, be contingent upon receipt by the Company of (a) a no-action letter from the Securities and Exchange Commission ("EC"), or (b) an opinion of counsel satisfactory to the Company, to the effect that such conversion

shall not disqualify the Participant from being a "is interested person" within the meaning of prior SEC Rule 16b-3(d)(3) and new SEC Rule 16b-3(c)(2)(i) for purposes of administering the Company's employee stock incentive plans.

Section 6. Allocations to Share Accounts.

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

6.2. Special Allocation. As of February 1, 1996, there shall be allocated to the Share Account of each Deferred Stock Participant the number of Shares having a market value (calculated as set forth below) equal to the present value as of December 31, 1995 of the accrued benefit of the Participant in The Lilly Non-Employee Directors' Retirement Plan, whether or not such Participant was vested in such benefit on that date. Such present value calculation shall be performed by the Company in its discretion and shall be converted to Shares based upon the combined average of the high and low prices of Shares on The New York Stock Exchange on each of the last five (5) days preceding February 1, 1996 on which Shares are traded on The New York Stock Exchange. Such conversion shall, however, be contingent upon receipt by the Company of (a) a no-action letter from the Securities and Exchange Commission ("SEC"), or (b) an opinion of counsel satisfactory to the Company, to the effect that such conversion shall not disqualify the participant from being a "disinterested person" within the meaning of prior SEC Rule 16b-3(d)(3) and new SEC Rule 16b-3(c)(2)(i) for purposes of administering the Company's employee stock incentive plans.

Section 7. Individual Accounts.

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

7.1. Deferred Compensation Account. The Company shall maintain a Deferred Compensation Account in the name of each Deferred Compensation Participant in respect of each calendar year the Deferred Compensation Participant elects to defer the receipt of Compensation pursuant to Section 4 hereof and does not elect to have the Deferred Amount for such calendar year credited in Shares pursuant to subsection 5.2 hereof. The opening balance of each Deferred Compensation Account on January 1, 1996 shall be equal to the closing balance on December 31, 1995 of the corresponding account maintained under The Lilly Directors' Deferred Compensation Plan, less any portion of such account converted to Shares and allocated to the Participant's Share Account pursuant to subsection 5.3 hereof. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. A Deferred Amount allocated to a Deferred Compensation Account pursuant to subsection 5.1 hereof shall be credited to the Deferred Compensation Account as of the Deferral Allocation Date.

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

be maintained in fractions rounded to three (3) decimal places.

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

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

7.4. Accrual of Company Credit. The Treasurer of the Company shall determine the annual rate of Company Credit on or before December 31 of each calendar year. This rate shall be effective for the following calendar year. The Company Credit shall accrue monthly, at one-twelfth of the applicable annual rate, on all amounts credited to a Participant's Deferred Compensation Account, including the Company Credits for prior years. The Company Credit shall not accrue on any amount distributed to a Participant (or to the Participant's Beneficiary) during the month for which the accrual is determined, except where an amount is distributed to a Beneficiary in the month of the Participant's death. The Company Credit for each year shall be credited to each Deferred Compensation Account as of December 31 of that year and shall be compounded monthly.

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

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

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

Section 8. Payment Provisions.

8.1. Method of Payment. All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Deferred Compensation Account shall be paid in cash. All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Share Account shall be paid in

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

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

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

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

If the payment option described in paragraph (i), above, has been elected, the amount of the lump sum with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the December 31 next preceding the date of the payment, and the amount of the lump sum with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Share Account as of the December 31 next preceding the date of payment. If the payment option described in paragraph (ii), above, has been elected, the amount of each installment with respect to the Participant's Deferred Compensation Account shall be equal to the amount credited to the Participant's Deferred Compensation Account as of the last day of the month next preceding the date of a monthly installment payment, or the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. The amount of each installment with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Participant's Share Account as of the December 31 next preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made.

A Participant may elect that his final payment election may control over all prior payment elections. If the Participant fails to elect a payment option, the amount credited to the Participant's Individual Account shall be distributed in a lump sum in accordance with the payment option described in paragraph (i), above. If the amount credited to a Participant's Deferred Compensation Account or the value of Shares credited to a Participant's Share Account is less than $25,000, the Committee, in its sole discretion, may pay out the amount credited to the Participant's Individual Account in a lump sum.

8.3. Payment Upon Death. Within a reasonable period of time following the death of a Participant, the amount credited to a Participant's Deferred Compensation Account and all of the Shares credited to the Participant's Share Account shall be paid by the Company in a lump sum to the Participant's Beneficiary. For purposes of this subsection 8.3, the amount credited to the Participant's Deferred Compensation Account and the number of Shares credited to the Participant's Share Account shall be determined as of the date of payment. A Participant may designate the Beneficiary, in writing, in a form acceptable to the Committee before the Participant's death. A Participant may, before the Participant's death, revoke a prior designation of Beneficiary and may also designate a new Beneficiary without the consent of the previously designated Beneficiary, provided that

such revocation and new designation (if any) are in writing, in a form acceptable to the Committee, and filed with the Committee before the Participant's death. If the Participant does not designate a Beneficiary, or if no designated Beneficiary survives the Participant, any amount not distributed to the Participant during the Participant's life shall be paid to the Participant's estate in a lump sum in accordance with this subsection 8.3.

8.4. Payment on Unforeseeable Emergency. The Administrator may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Individual Account balance, notwithstanding an election under subsection 8.2 above, at any time that it determines that such Participant has an unforeseeable emergency, and then only to the extent reasonably necessary to meet the emergency. For purposes of this section, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is, or may be, relieved --

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

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

(iii) by cessation of deferrals under the Plan.

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

Section 9. Ownership of Shares.

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

Section 10. Prohibition Against Transfer.

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

Section 11. General Provisions.

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

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

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

11.4. Liability. Any decision made or action taken by the

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

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

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

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

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

Section 12. Amendment, Suspension, and Termination.

The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, provided that no amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account, and provided further that the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year.

Section 13. Applicable Law.

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

Section 14. Effective Date.

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

EXHIBIT 11. COMPUTATION OF EARNINGS PER SHARE ON PRIMARY AND FULLY DILUTED BASES

Eli Lilly and Company and Subsidiaries

	Year Ended December 31		
	1996	1995	1994
	(Dollars in millions, except per-share data; shares in thousands)		
PRIMARY:			
Net income	$1,523.5	$2,290.9	$1,286.1
Preferred stock dividends	(3.6)	-	-
Adjusted net income	1,519.9	2,290.9	1,286.1
Average number of common shares outstanding	546,827	569,026	578,378
Add incremental shares:			
Stock plans and contingent payments	13,105	8,655	4,614
Adjusted average shares	559,932	577,681	582,992
Primary earnings per share	$ 2.71	$ 3.97	$ 2.21
FULLY DILUTED:			
Net income	$1,523.5	$2,290.9	$1,286.1
Preferred stock dividends	(3.6)	-	-
Adjusted net income	1,519.9	2,290.9	1,286.1
Average number of common shares outstanding	546,827	569,026	578,378
Add incremental shares:			
Stock plans and contingent payments	16,978	15,023	7,080
Adjusted average shares	563,805	584,049	585,458
Fully diluted earnings per share	$ 2.70	$ 3.92	$ 2.20

Common stock equivalents are not materially dilutive and, accordingly, have not been considered in the computation of reported net earnings per common shares.

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

	Years Ended December 31,				
	1996	1995	1994	1993	1992
Consolidated Pretax Income From Continuing Operations Before Accounting Changes	$2,031.3	$1,765.6	$1,698.6	$ 662.8	$1,193.5
Interest from Continuing Operations.....	324.9	324.6	129.2	96.1	108.4
Less Interest Capitalized During the Period from Continuing Operations	(36.1)	(38.3)	(25.4)	(25.5)	(35.2)
Earnings.....	$2,320.1	$2,051.9	$1,802.4	$ 733.4	$1,266.7
Fixed Charges(1).....	$329.6	$324.6	$ 129.2	$ 96.1	$ 108.4
Ratio of Earnings to Fixed Charges.....	7.0	6.3	14.0	7.6	11.7

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

EXHIBIT 13. ANNUAL REPORT TO SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1996

REVIEW OF OPERATIONS

OPERATING RESULTS AND NET INCOME--1996

Worldwide sales rose 9 percent in 1996, to $7.3 billion. The factor that contributed most to the increase was an 11 percent growth in unit volume. Foreign exchange rates and selling prices each decreased sales by 1 percent.

The company achieved sales increases both in the United States and abroad. Sales in the United States were $4.2 billion, a 12 percent increase. Sales outside the United States were $3.1 billion, an increase of 4 percent from 1995.

Pharmaceutical sales for the year increased 9 percent, to $6.8 billion, led by the antidepressant Prozac (up $290 million, or 14 percent, to approximately $2.4 billion). Prozac sales increased despite continuing competition from generic forms of Prozac in Australia and Canada and substantial competitive pressures in France. Other products contributing significantly to the worldwide pharmaceutical sales growth included the human insulin product Humulin (up 11 percent, to $884 million) and three of the company's new products, Gemzar, ReoPro and Zyprexa. Gemzar, an oncolytic launched in the U.S. in May 1996, contributed $62 million to sales, while sales of ReoPro, a cardiovascular product launched in February 1995, contributed $149 million, an increase of $127 million over 1995. Zyprexa, a treatment for schizophrenia and related psychoses, had a very strong first three months after its October launch with sales of $87 million. The company's sales also benefited from increased health-care-management revenues, which rose $112 million, to $370 million, in 1996, substantially all of which was in the U.S. The company anticipates that Humulin, Prozac and the newer products Gemzar, ReoPro and Zyprexa, among others, will experience continued sales growth in 1997. The pharmaceutical sales growth for the year was partially offset by a reduction in worldwide anti-infectives sales, discussed further below, and slightly lower sales of Axid (down 3 percent, to $531 million) as a result of increased competitive pressures.

Worldwide anti-infectives sales of $1.5 billion reflected a 13 percent decline, most of which occurred in the U.S. where the company experienced a decline of 37 percent due largely to continued generic competition. Although sales growth was achieved in many of the emerging markets, sales of anti-infectives outside the U.S. reflected a 2 percent decline compared with 1995. The primary contributor to this worldwide decline was cefaclor, which was down 25 percent. In spite of continued strong generic competition and substantial pricing pressures, worldwide sales of cefaclor for 1996 exceeded $540 million. All the company's other anti-infective products, except Dynabac, experienced declines in the U.S. where competition has stiffened in a field increasingly crowded by both generic products and newer branded products. The company expects that worldwide anti-infectives sales in 1997 are likely to be approximately equal to 1996 levels.

Pharmaceutical sales in the United States in 1996 increased 12 percent, to $4.0 billion, all of which was due to increased volume. Major products contributing to this growth were Humulin (up $37 million), Prozac (up $292 million, or 20 percent), ReoPro (up $112 million), and Zyprexa, which had U.S. sales of $78 million since its October 1996 launch. Also, Gemzar contributed $32 million in U.S. sales. This growth was offset, in part, by the decline in anti-infectives sales and an increase in Medicaid rebates compared with 1995. The company anticipates that rebates associated with Medicaid programs will increase in 1997.

Pharmaceutical sales outside the U.S. increased 4 percent, to nearly $2.8 billion, in 1996. The increase reflects volume growth of 10 percent resulting from the company's continued globalization

efforts offset, in part, by price decreases and the negative effects of exchange rate fluctuations. Major products contributing to this increase were Gemzar, Humulin, Permax and ReoPro. These sales increases were partially offset by declines in anti-

infectives and Axid. Sales of Prozac outside the U.S. decreased slightly compared with the prior year. Increases in Prozac sales achieved in most countries around the world were offset by declines in certain countries, primarily Australia and Canada, due to generic competition, and France, due to competitive pressures.

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

Cost of sales was 28.8 percent of sales for 1996 compared with 27.9 percent in 1995. This increase primarily reflects the impact of increased health-care-management revenues, which have lower margins than pharmaceuticals, and reduced production volumes of certain products as the company endeavors to reduce inventory levels (which resulted in greater amounts of overhead costs being charged against income). These increases were partially offset by productivity improvements and an improved pharmaceutical sales mix. The company anticipates that cost of sales as a percent of sales may increase slightly in 1997 as reductions in costs as a percent of sales for the core pharmaceutical business will likely be more than offset by increases in revenues from health-care-management services, which have higher costs as a percent of revenues.

Research and development expenses increased 14 percent in 1996. Expenses in support of global clinical trials, as well as an increase in external research collaborations relating to the discovery and development of new technologies, compounds and delivery systems, drove this increase. The company expects spending in research and development to increase approximately 14 to 17 percent during the next year. The actual increase may vary depending upon the level of research collaboration activity.

Marketing and administrative expenses increased 7 percent in 1996. In the second quarter of 1996, the company implemented cost-containment programs designed to reduce the overall rate of expense growth while directing greater funding to new product launches and globalization efforts. These programs helped slow the rate of marketing and administrative expense growth to 4 percent for the last half of 1996 compared with 11 percent during the first six months. Overall, marketing and administrative expenses for 1996 increased largely due to costs associated with the launches of the company's new products, Gemzar, Humalog and Zyprexa; continued efforts to expand globally, especially in emerging markets; the development of enhanced information technology capabilities; and increased compensation accruals due to the company's performance-based bonus programs.

In both 1993 and 1992, the company initiated various restructuring and streamlining initiatives and strategic actions. See Note 3 to the consolidated financial statements for a further discussion. During 1996, the company continued the implementation of these initiatives. Of these restructuring charges, approximately $33 million and $51 million were paid in cash in 1996 and 1995, respectively. Charges yet to be paid in cash total approximately $212 million and are expected to be funded from operations primarily over the next few years.

Interest expense of $289 million in 1996 was approximately the same as in 1995. Net other income for 1996 amounted to $273 million, which was $203 million higher than in 1995. The increase was primarily the result of several nonrecurring items: the sale of the U.S. marketing rights of Ceclora CD and Keftaba to Dura Pharmaceuticals, Inc., in the third quarter for approximately $100 million; income received under royalty, codevelopment and comarketing contracts; the sale of marketing rights for ReoProa in Japan and Tapazolea in the U.S.; and gains from the sale of certain equity securities.

The effective tax rate for 1996 was 25 percent compared with 26 percent in 1995. The decline is primarily the result of changes in the mix of earnings between jurisdictions having lower tax rates

compared with those having higher rates and the effectiveness of various tax-planning strategies. The company expects to sustain a comparable effective tax rate for 1997.

Income from continuing operations was $1.5 billion and $2.78 per share, which represents increases of 17 percent and 21 percent, respectively, from last year. Income was favorably affected by increased sales and other income and a lower effective tax rate, offset in part by reduced gross margins and higher operating expenses. Earnings per share from continuing operations also benefited from a reduced average number of shares of stock outstanding as a result of the Guidant splitoff.

In 1995, the company completed the divestiture of all its Medical Devices and Diagnostics (MDD) Division subsidiaries, realizing a net gain of $922 million. This gain and the results of operations of the MDD operations through the date of divestiture added $984 million ($1.73 per share) to net income in 1995. Reported net income and earnings per share in 1996 do not include income from discontinued operations. As a consequence, net income and earnings per share in 1996 reflect decreases of 33 percent and 31 percent, respectively, as compared with 1995.

OPERATING RESULTS AND NET INCOME--1995

Worldwide sales increased 18 percent in 1995, to nearly $6.8 billion. The factor contributing most to the increase was a 17 percent rise in unit volume. Prices decreased 1 percent, while exchange rates increased sales by 2 percent. Sales in the United States were $3.8 billion, a 16 percent increase. Sales outside the United States were $3.0 billion, an increase of 21 percent from 1994.

Pharmaceutical sales for 1995 increased approximately 19 percent, to approximately $6.3 billion, led by Prozac (up 24 percent, to approximately $2.1 billion). Other products contributing significantly to worldwide pharmaceutical sales growth included Axid (up 13 percent, to $548 million), Humulin (up 19 percent, to $794 million), Humatrope (up 19 percent, to $269 million) and Lorabid (up 31 percent, to $169 million). Sales also benefited from the inclusion of PCS service revenue. All the company's therapeutic classes achieved increased sales compared with 1994 levels. Pharmaceutical sales in the United States increased 17 percent, to nearly $3.6 billion, in 1995 despite continued growth in product discounts and rebates associated with the company's increased participation in managed-care programs. The negative effects of federally mandated rebates to the states on sales to Medicaid recipients declined in 1995, to $143 million, a 14 percent decrease from 1994. This decline is primarily the result of changes in the mix of products sold to Medicaid recipients. Pharmaceutical sales outside the U.S. increased 22 percent, to nearly $2.7 billion, in 1995. The international sales growth related largely to volume growth resulting from the company's continued globalization efforts and favorable exchange rates.

U.S. sales of the oral antibiotic cefaclor, which were $228 million in 1995, declined by 42 percent compared with 1994. This decline was offset in part by sales of cefaclor outside the U.S., which increased 18 percent, to $495 million. The decline in U.S. cefaclor sales was primarily due to pricing pressures and strong generic competition.

Worldwide sales of Elanco Animal Health products increased 11 percent, to $512 million. Sales increased 6 percent in the United States and 14 percent outside the U.S. compared with 1994. The worldwide sales increase occurred across the entire product line but was led primarily by TylanR, an antibiotic for swine and cattle.

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

Research and development expenses increased 24 percent in 1995. Research expenditures continued to increase primarily due to the growth of global clinical trials to support the company's pipeline of potential new products, including olanzapine and raloxifene.

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

Interest expense increased in 1995, to $286 million, due to increased debt levels associated with the purchase of PCS. Net other income of $70 million for 1995 was $62 million lower than in 1994 due primarily to the amortization of goodwill related to the PCS acquisition of approximately $100 million. The goodwill amortization was partially offset by nonrecurring income from the sale of the U.S. marketing rights to certain products and income received under a development contract.

The effective tax rate for 1995 was 26 percent compared with 30.2 percent in 1994. The decline was primarily the result of changes in the mix of earnings between jurisdictions having lower tax rates compared with those having higher rates and the effectiveness of various tax-planning strategies. The full-year impact of the tax rate reduction was recognized in the fourth quarter, resulting in a benefit of $42 million in fourth-quarter income from continuing operations and net income.

For 1995, increased sales-related gross margins and the favorable impact of the reduced estimated tax rate were partially offset by the growth in operating expenses, including PCS and the impact of PCS-acquisition-related expenses, resulting in a 10 percent increase in income from continuing operations and a 12 percent increase in earnings per share from continuing operations, to $1.3 billion and $2.30, respectively. The percentage increase would have been lower if not for the special charges of $66 million incurred in 1994 relating to a voluntary antibiotic recall and a charge of $58 million for acquired research associated with the acquisition of Sphinx Pharmaceuticals Corporation.

Net income and earnings per share increased $1.0 billion and $1.81, respectively, in 1995 compared with 1994. Net income was significantly affected by the net gain of $922 million realized from the company's divestiture of its MDD businesses, primarily Guidant Corporation.

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

FINANCIAL CONDITION

The company further strengthened its sound financial position in 1996. Cash generated from operations provided the resources to fund capital expenditures, dividends and debt service. As of December 31, 1996, cash, cash equivalents and short-term investments totaled approximately $1.0 billion compared with $1.1 billion at December 31, 1995. Total debt at December 31, 1996, was $3.7 billion, a decrease of $772 million from the prior year. Short-term debt aggregating $1.2 billion is primarily in the form of commercial paper. The company believes that cash generated from operations will be sufficient to fund essentially all the company's operating needs, including debt service, capital expenditures and dividends in 1997.

The company believes that amounts available through existing commercial paper programs should be adequate to fund maturities of short-term borrowings. The outstanding commercial paper is also backed by $3 billion of committed bank credit facilities.

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

The company uses foreign currency forward contracts, currency swaps and purchased option contracts to reduce the effect of fluctuating foreign currencies. Instruments related to transactional exposures are carried in the financial statements at current rates with rate changes reflected directly in income. Gains and losses on instruments designed to hedge anticipated foreign currency transactions are deferred and recognized in the same period as the hedged transactions. Further, interest rate swap agreements are used to reduce the impact of interest rate changes on net income. In 1996, as a result of these risk-management activities, the net impact of foreign currency and interest rate fluctuations was not material to the company's results of operations.

Capital expenditures of $444 million during 1996 were $107 million less than in 1995 as new manufacturing, development, research and administrative facilities construction neared completion. The company expects near-term capital expenditures to decline from 1996 levels. Sufficient cash flows exist to meet these near-term requirements.

The company is a 40 percent partner in DowElanco, a global agricultural products joint venture, with The Dow Chemical Company. The company holds a put option, which became exercisable after October 31, 1994, which requires Dow to purchase the company's interest in DowElanco at specified amounts based on fair market value. The company did not exercise its put option in 1996.

Dividends of $1.37 per share were paid in 1996, an increase of approximately 5 percent from the $1.31 per share paid in 1995. In the fourth quarter of 1996, the quarterly dividend was increased $.0175 per share (5 percent), resulting in an indicated annual rate for 1997 of $1.44 per share. The year 1996 was the 112th consecutive year in which the company made dividend payments and the 29th consecutive year in which dividends have been increased.

ENVIRONMENTAL AND LEGAL MATTERS

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

During 1996, the company continued to be named as a defendant in lawsuits involving Prozac. However, the number of new case filings in 1996 and the number of pending cases declined significantly from 1995 levels.

The company has been named, together with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions in federal courts and the courts of several states brought by retail pharmacies and, in some cases, consumers, alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The class plaintiffs allege an industrywide agreement to deny favorable prices on prescription drugs to retail pharmacies that manufacturers grant to managed-care organizations and certain other purchasers. Other related suits, brought by several thousand pharmacies, involve claims of price discrimination under the federal Robinson-Patman Act or other pricing laws. In addition, claims have been brought on behalf of consumers of prescription drugs in several states. The company and several other manufacturers have agreed to settle the federal class action case. The settlement amount, which is not material, was accrued in the fourth quarter of 1995. The settlement has been approved by the U.S. District Court but an appeal of that decision is pending. In the federal Robinson-Patman Act cases, the court in the Northern District of Illinois has designated certain plaintiffs and defendants named in the individual suits, not including the company, to participate in an initial trial or trials of the plaintiffs' Robinson-Patman Act claims. Robinson-Patman claims asserted in suits filed against nondesignated defendants, including the company, are stayed.

Barr Laboratories, Inc. (Barr), has submitted an Abbreviated New Drug Application to the U.S. Food and Drug Administration seeking to market a generic form of Prozac in the United States several years before the expiration of the company's patents. Barr has alleged that the company's U.S. Prozac patents are invalid and unenforceable. Lilly has filed suit in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. While the company believes Barr's claims are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this matter could have a material adverse effect on the company's consolidated financial position, liquidity or results of operations.

While it is not possible to predict or determine the outcome of the patent, product liability, antitrust or other legal actions brought against the company or the ultimate cost of environmental matters, the company believes that, except as noted above, the costs associated with all such matters will not have a material adverse effect on its consolidated financial position or liquidity but could possibly be material to the consolidated results of operations in any one accounting period. For additional information on litigation and environmental matters, see Note 12 to the consolidated financial statements.

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

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

1996 Financial Highlights
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions, except per-share data)

December 31	1996	1995	Change (Percent)
Net sales	$7,346.6	$6,763.8	9
Research and development expenses	1,189.5	1,042.3	14
Income from continuing operations	1,523.5	1,306.6	17
Net income	1,523.5	2,290.9(1)	(33)
Earnings per share:			
Income from continuing operations	$2.78	$2.30	21
Net income	2.78	4.03(1)	(31)
Dividends paid per share	1.37	1.31	5
Capital expenditures	$443.9	$551.3	(19)
Economic Value Added (EVA)	$460.0	$333.0	38
Income from continuing operations as a percent of sales	20.7%	19.3%	

(1) Net income for 1995 includes the results of operations of the company's discontinued Medical Devices and Diagnostics (MDD) Division ($62.8 million) and a net gain of $921.5 million on the divestiture of MDD. See Note 4 to the consolidated financial statements.

Consolidated Statements of Income

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

Year Ended December 31	1996	1995	1994
Net sales	$7,346.6	$6,763.8	$5,711.6
Cost of sales	2,118.4	1,885.7	1,679.7
Research and development	1,189.5	1,042.3	838.7
Acquired research (Note 2)	-	-	58.4
Marketing and administrative	1,991.9	1,854.0	1,398.3
Special charges (Note 3)	-	-	66.0
Interest expense	288.8	286.3	103.8
Other income--net	(273.3)	(70.1)	(131.9)
	5,315.3	4,998.2	4,013.0
Income from continuing operations before income taxes	2,031.3	1,765.6	1,698.6
Income taxes (Note 10)	507.8	459.0	513.5
Income from continuing operations	1,523.5	1,306.6	1,185.1
Discontinued operations, net of tax (Note 4)	-	984.3	101.0
Net income	$1,523.5	$2,290.9	$1,286.1
Earnings per share:			
Income from continuing operations	$2.78	$2.30	$2.05
Discontinued operations	-	1.73	.17
Net income	$2.78	$4.03	$2.22

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

December 31	1996	1995
Assets		
Current Assets		
Cash and cash equivalents	$813.7	$999.5
Short-term investments	141.4	84.6
Accounts receivable, net of allowances of $82.4 (1996) and $55.1 (1995)	1,474.6	1,520.5
Other receivables	262.5	287.9
Inventories (Note 1)	881.4	839.6
Deferred income taxes (Note 10)	145.2	259.2
Prepaid expenses	172.5	147.3
Total current assets	3,891.3	4,138.6
Other Assets		
Prepaid retirement (Note 11)	512.9	484.2
Investments (Note 6)	443.5	573.8
Goodwill and other intangibles, net of allowances for amortization of $311.0 (1996) and $192.2 (1995) (Note 2)	4,028.2	4,105.2
Sundry	1,124.3	871.4
	6,108.9	6,034.6
Property and Equipment (Note 1)	4,307.0	4,239.3
	$14,307.2	$14,412.5

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

December 31	1996	1995
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings (Note 7)	$1,212.9	$1,908.8
Accounts payable	829.3	1,018.0
Employee compensation	388.4	316.0
Dividends payable	198.8	189.1
Income taxes payable (Note 10)	691.8	660.5
Other liabilities	901.0	874.6
Total current liabilities	4,222.2	4,967.0
Other Liabilities		
Long-term debt (Note 7)	2,516.5	2,592.9
Deferred income taxes (Note 10)	376.0	295.5
Retiree medical benefit obligation (Note 11)	136.4	147.8
Other noncurrent liabilities	956.0	976.7
	3,984.9	4,012.9
Commitments and contingencies (Note 12)	-	-
Shareholders' Equity (Notes 8 and 9)		
Common stock--no par value		
Authorized shares: 1,600,000,000		
Issued shares: 568,902,054	355.6	355.6
Additional paid-in capital	67.4	418.3
Retained earnings	7,207.3	6,484.3
Deferred costs---SOP	(176.9)	(199.5)
Currency translation adjustments	(57.4)	(0.6)
	7,396.0	7,058.1
Less cost of common stock in treasury:		
1996 -- 16,079,323 shares		
1995 -- 18,149,494 shares	1,295.9	1,625.5
	6,100.1	5,432.6
	$14,307.2	$14,412.5

See notes to consolidated financial statements.

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

Year Ended December 31	1996	1995	1994
Cash Flows From Operating Activities			
Net income	$1,523.5	$2,290.9	$1,286.1
Adjustments To Reconcile Net Income to Cash Flows From Operating Activities			
Depreciation and amortization	543.5	553.7	432.2
Change in deferred taxes	207.3	144.0	172.2
Net gain on disposition of discontinued operations	-	(921.5)	-
Other noncash (income) expense--net	(97.8)	(9.8)	63.1
	2,176.5	2,057.3	1,953.6
Changes in operating assets and liabilities:			
Receivables--(increase) decrease	104.4	(189.3)	(322.9)
Inventories--(increase) decrease	(42.2)	(22.1)	107.1
Other assets--(increase)	(51.7)	(114.5)	(130.6)
Accounts payable and other liabilities--increase (decrease)	(195.6)	93.2	(74.9)
	(185.1)	(232.7)	(421.3)
Net Cash From Operating Activities	1,991.4	1,824.6	1,532.3
Cash Flows From Investing Activities			
Acquisitions	(97.1)	(36.8)	(4,050.8)
Additions to property and equipment	(443.9)	(551.3)	(576.5)
Disposals of property and equipment	11.2	21.5	58.7
Additions to other assets	(40.8)	(54.1)	(72.9)
Reductions of investments	396.9	430.8	1,387.0
Additions to investments	(294.3)	(372.9)	(1,150.5)
Net Cash Used for Investing Activities	(468.0)	(562.8)	(4,405.0)
Cash Flows From Financing Activities			
Dividends paid	(753.2)	(747.2)	(723.1)
Purchase of common stock and other capital transactions	(314.5)	(156.0)	(111.0)
Issuance under stock plans	218.4	54.7	50.5
Increase (decrease) in short-term borrowings	(801.4)	(967.7)	2,126.1
Additions to long-term debt	-	1,019.5	1,478.1
Reductions of long-term debt	(10.4)	(17.0)	(175.8)
Proceeds from Guidant initial public offering	-	-	192.5
Net Cash From (Used for) Financing Activities	(1,661.1)	(813.7)	2,837.3
Effect of exchange rate changes on cash	(48.1)	14.5	32.7
Net increase (decrease) in cash and cash equivalents	(185.8)	462.6	(2.7)
Cash and cash equivalents at beginning of year	999.5	536.9	539.6
Cash and cash equivalents at end of year	$813.7	$ 999.5	$ 536.9

See notes to consolidated financial statements.

Segment Information

Industry Data (Dollars in millions)	1996	1995	1994
Net sales--to unaffiliated customers			
Life-sciences products and services			
Central nervous system	$2,659.4	$2,266.4	$1,835.6
Anti-infectives	1,451.4	1,673.9	1,634.4
Endocrine	1,302.2	1,179.1	1,006.1
Animal health	547.3	512.4	463.6
Gastrointestinal	531.4	548.4	487.4
Health care management	372.2	259.4	25.1
Cardiovascular	326.5	195.8	142.8
All other	156.2	128.4	116.6
Net sales	$7,346.6	$6,763.8	$5,711.6

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

Most of the pharmaceutical products are distributed through wholesalers that serve physicians, dentists, pharmacies and hospitals. In 1996, two of the company's largest wholesalers each accounted for approximately 11 percent of consolidated net sales. Animal health products are sold to wholesale distributors, retailers, manufacturers and producers.

Geographic Information (Dollars in millions)	1996	1995	1994
Net sales			
United States			
Sales to unaffiliated customers..	$4,265.6	$3,812.9	$3,281.5
Transfers to other geographic areas	517.3	485.5	405.2
	4,782.9	4,298.4	3,686.7
Europe, Middle East and Japan			
Sales to unaffiliated customers..	2,310.0	2,193.8	1,765.3
Transfers to other geographic areas	488.3	336.9	269.0
	2,798.3	2,530.7	2,034.3
Other			
Sales to unaffiliated customers..	771.0	757.1	664.8
Transfers to other geographic areas	17.7	13.8	11.3
	788.7	770.9	676.1
Eliminations - transfers between geographic areas.....	(1,023.3)	(836.2)	(685.5)
	$7,346.6	$6,763.8	$5,711.6
Income from continuing operations before income taxes			
United States.....	$1,273.5	$ 997.8	$1,067.0
Europe, Middle East and Japan....	772.1	697.1	554.2
Other.....	58.9	92.1	102.9
Eliminations and adjustments.....	(73.2)	(21.4)	(25.5)
	$2,031.3	$1,765.6	$1,698.6
Total assets			
United States.....	$11,101.3	$11,321.8	$12,105.0
Europe, Middle East and Japan....	3,332.6	3,178.0	3,209.1
Other.....	590.7	527.0	505.3
Eliminations and adjustments.....	(717.4)	(614.3)	(1,312.0)
	$14,307.2	$14,412.5	$14,507.4

Transfers between geographic areas are made at prices that are intended to reasonably approximate an arms-length value of the products. Remittances to the United States are subject to various regulations of the respective governments as well as to fluctuations in exchange rates.

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

1996	Fourth	Third(1)	Second	First
Net sales	$2,061.1	$1,803.9	$1,698.3	$1,783.3
Cost of sales	592.4	502.9	505.1	518.0
Operating expenses	929.2	763.8	752.4	736.0
Other income (expense) - net	(56.7)	22.2	24.5	(5.5)
Income before income taxes	482.8	559.4	465.3	523.8
Net income	373.0	415.6	345.7	389.2
Earnings per share	.68	.76	.63	.71
Dividends paid per share	.3425	.3425	.3425	.3425
Common stock prices:				
High	80.38	66.13	67.25	67.63
Low	63.50	53.50	53.50	49.38

1995(2)	Fourth(3)	Third	Second	First
Net sales	$1,799.8	$1,631.9	$1,614.8	$1,717.3
Cost of sales	494.1	419.7	459.4	512.5
Operating expenses	850.9	704.7	696.8	643.9
Other (expense) - net	(91.0)	(70.2)	(22.0)	(33.0)
Income from:				
Continuing operations	311.3	310.5	310.0	374.8
Discontinued operations	31.3	917.5	17.1	18.4
Net income	342.6	1,228.0	327.1	393.2
Earnings per share:				
Continuing operations	.57	.54	.54	.65
Discontinued operations	.06	1.60	.03	.03
Net income	.63	2.14	.57	.68
Dividends paid per share	.3425	.3225	.3225	.3225
Common stock prices:				
High	57.00	47.19	39.69	38.44
Low	44.31	37.56	34.63	31.25

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

(2) Per-share data and common stock prices reflect the two-for-one stock split in 1995.

(3) Fourth-quarter income from continuing operations includes a benefit of $42.1 million ($.08 per share) resulting from a decline in the 1995 effective tax rate from 29 percent to 26 percent.

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

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

	1996	1995	1994	1993	1992
Operations					
Net sales	$7,346.6	$6,763.8	$5,711.6	$5,198.5	$4,963.1
Research and development expenses	1,189.5	1,042.3	838.7	755.0	731.0
Other costs and expenses	4,110.3	3,739.7	3,136.4	2,780.4	2,664.5
Restructuring and special charges	-	-	66.0	1,032.6	404.4
Income from continuing operations before taxes and accounting changes	2,031.3	1,765.6	1,698.6	662.8	1,193.5
Income taxes	507.8	459.0	513.5	198.0	351.0
Income from continuing operations before accounting changes	1,523.5	1,306.6	1,185.1	464.8	842.5
Income (loss) from discontinued operations	-	984.3	101.0	26.3	(14.9)
Net income	1,523.5	2,290.9	1,286.1	480.2	708.7
Income from continuing operations before accounting changes as a percent of sales	20.7%	19.3%	20.7%	8.9%	17.0%
Per-share data(1):					
Income from continuing operations before accounting changes.	$2.78	$2.30	$2.05	$ .79	$1.43
Income (loss) from discontinued operations	-	1.73	.17	.05	(.03)
Net income	2.78	4.03	2.22	.82	1.20
Dividends declared	1.388	1.33	1.26	1.22	1.128
Average number of shares and share equivalents (thousands)(1)	546,827	569,026	578,378	588,578	588,956
Financial Position					
Current assets	$3,891.3	$4,138.6	$3,962.3	$3,697.1	$3,006.0
Current liabilities	4,222.2	4,967.0	5,669.5	2,928.0	2,398.6
Property and equipment-net	4,307.0	4,239.3	4,411.5	4,200.2	4,072.1
Total assets	14,307.2	14,412.5	14,507.4	9,623.6	8,672.8
Long-term debt	2,516.5	2,592.9	2,125.8	835.2	582.3
Shareholders' equity	6,100.1	5,432.6	5,355.6	4,568.8	4,892.1
Supplementary Data(2)					
Return on shareholders' equity	26.4%	42.5%	25.9%	10.2%	14.4%
Return on assets	10.7%	15.6%	11.8%	5.2%	8.3%
Capital expenditures	$443.9	$551.3	$576.5	$633.5	$912.9
Depreciation and amortization	543.5	553.7	432.2	398.3	368.1
Effective tax rate	25.0%	26.0%	30.2%	29.9%	29.4%
Number of employees	29,200	28,500	26,400	26,200	25,800
Number of shareholders of record	54,500	52,600	55,900	59,300	53,900

(1) Earnings per share for the years 1994-1996 are calculated based on the weighted- average number of shares outstanding, while prior years were calculated on a fully diluted basis using average shares and share equivalents. Per-share data and average number of shares have been adjusted to reflect the two-for-one stock

split in 1995.

(2) All supplementary financial data, other than the effective tax rate, have been computed using net income, which in 1995 includes a net gain of $921.5 million from the divestiture of discontinued operations. See Note 4 to the consolidated financial statements. The effective tax rate reflects continuing operations only. The number of employees reflects continuing operations including joint ventures.

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

Note 1: Summary of Significant Accounting Policies

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

The number of shares of common stock and per-share data for all periods presented reflect the impact of the company's November 1995 stock split.

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

Inventories: The company states all its inventories at the lower of cost or market. The company uses the last-in, first-out (LIFO) method for substantially all its inventories located in the continental United States, or approximately 51 percent of its total inventories. Other inventories are valued by the first-in, first-out (FIFO) method. Inventories at December 31 consisted of the following:

	1996	1995
Finished products	$294.5	$273.8
Work in process	423.4	446.4
Raw materials and supplies	171.7	154.0
	889.6	874.2
Less reduction to LIFO cost	8.2	34.6
	$881.4	$839.6

Investments: All short-term debt securities are classified as held-to-maturity because the company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Substantially all long-term debt and marketable equity securities are classified as available-for-sale at December 31, 1996. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The company owns no investments that are considered to be trading securities.

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

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

Property and Equipment: Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives. At December 31, property and equipment consisted of the following:

	1996	1995
Land	$ 143.9	$ 136.1
Buildings	2,103.5	1,925.7
Equipment	4,247.0	3,990.5
Construction in progress	602.0	776.0
	7,096.4	6,828.3
Less allowances for depreciation	2,789.4	2,589.0
	$4,307.0	$4,239.3

Depreciation expense relating to continuing operations for 1996, 1995 and 1994 was $394.9 million, $371.4 million and $328.7 million, respectively. Approximately $35.8 million, $38.3 million and $25.4 million of interest costs were capitalized as part of property and equipment in 1996, 1995 and 1994, respectively. Total rental expense for all leases related to continuing operations, including contingent rentals (not material), amounted to approximately $119.6 million for 1996, $106.8 million for 1995 and $81.8 million for 1994. Capital leases included in property and equipment in the consolidated balance sheets and future minimum rental commitments are not material. However, the company entered into capital lease obligations aggregating $27.4 million in 1996.

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

Earnings per Share: Earnings per share are calculated based on the weighted-average number of outstanding common shares.

Note 2: Acquisitions

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

In November 1994, the company purchased PCS Health Systems, Inc. (PCS), McKesson Corporation's pharmaceutical-benefits-management business, for approximately $4.1 billion. Substantially all the purchase price was allocated to goodwill, which is being amortized over 40 years.

The results of operations of the acquired businesses from the dates of acquisition are included in the company's consolidated financial statements.

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

Note 3: Restructuring and Special Charges

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

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

Significant components of these charges and their status at December 31, 1995 and 1996, respectively, are summarized as follows:

	Original Charges	1995	1996
1993			
Work force reductions	$ 534.5	$ 37.7	$ 24.7
Manufacturing consolidations and other closings	204.3	125.2	91.8
Pharmaceutical streamlining	35.3	6.3	-
Asset write-downs, legal accruals and other	258.5	30.2	4.4
Total - continuing operations	$1,032.6	$199.4	$120.9
1992			
Global manufacturing strategy	$ 218.9	$ 87.3	$ 59.1
Legal, environmental, asbestos abatement and other	185.5	65.4	61.3
Total - continuing operations	$ 404.4	$152.7	$120.4

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

Note 4: Discontinued Operations

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

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

	Year ended December 31	
	1995	1994
Net sales	$ 771.6	$1,289.2
Cost of sales	258.2	536.6
Other operating expenses	356.8	561.5
Income before tax	111.9	168.1
Income from operations, net of tax	62.8	101.0
Net gain on disposition, net of tax ($88.1 million)	921.5	-
Discontinued operations	$ 984.3	$ 101.0

Due to the disposition, all assets, liabilities and equity of the MDD businesses have been removed from the company's balance sheets.

Note 5: Implementation of New Financial Accounting Standards

Effective January 1, 1996, the company adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS 121 requires that impairments, measured using fair market value, are recognized whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable and the future undiscounted cash flows attributable to the asset are less than its carrying value. Adoption of this statement did not affect the company's consolidated results of operations.

Effective January 1, 1996, the company adopted SFAS No. 123, "Stock Based Compensation." This statement requires the company to choose between two different methods of accounting for stock options. The statement defines a fair-value-based method of accounting for stock options but allows an entity to continue to measure compensation cost for stock options using the accounting prescribed by APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." The company has elected to continue using the accounting methods prescribed by APB No. 25 but has included the pro forma disclosures required by SFAS No. 123 in Note 8.

In June 1996, SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," was issued. The statement must be adopted by the company in the first quarter of 1997. Under the provisions of this statement, each party to a transfer would be required to analyze the components of financial asset transfers and to recognize only assets it controls and liabilities it has incurred, to derecognize assets only when control has been surrendered and to derecognize liabilities only when they have been extinguished. This statement is not expected to have a material impact on the company's consolidated results of operations or financial position.

Note 6: Financial Instruments

Risk-Management Instruments and Off-Balance-Sheet Risk

In the normal course of business, operations of the company are exposed to continuing fluctuations in currency values and interest rates. These fluctuations can vary the costs of financing, investing and operating. The company addresses these risks through a controlled program of risk management that includes the use of derivative financial instruments. The company's derivative activities, all of which are for purposes other than trading, are initiated within the guidelines of documented corporate risk-management policies and do not create risk because gains and losses on derivative contracts offset losses and gains on the assets, liabilities and transactions being hedged.

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

Foreign Exchange Risk Management: The company enters into foreign currency forward and option contracts to reduce the effect of fluctuating currency exchange rates (principally European currencies and the Japanese yen) on two types of foreign currency exposures. Exposures arising from affiliate foreign currency balances are managed principally through the use of forward contracts. These contracts are marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposures. The company also enters into option contracts to hedge anticipated foreign currency transactions, primarily intercompany inventory purchases expected to occur within the next year, and foreign currency forward contracts and currency swaps to hedge firm commitments. Gains and losses on these contracts that qualify as hedges are deferred and recognized as an adjustment of the subsequent transaction when it occurs. Forward and option contracts generally have maturities not exceeding 12 months.

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

	1996	1995
Forward exchange contracts	$ 688.2	$ 838.2
Foreign currency options - purchased	331.9	415.2

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

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

Fair Value of Financial Instruments

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

	1996		1995	
	Cost/Carrying Amount	Fair Value	Cost/Carrying Amount	Fair Value
Short-term investments:				
Debt securities	$ 141.4	$ 144.5	$ 84.6	$ 85.0
Noncurrent investments:				
Marketable equity	72.0	91.4	66.1	140.3
Debt securities	56.9	57.0	143.0	148.0
Nonmarketable equity	20.3	19.0	34.5	35.3
Long-term debt	2,465.5	2,511.6	2,734.3	2,885.6

The company determines fair values based on quoted market values where available or discounted cash flow analyses (principally

long-term debt). The fair values of nonmarketable equity securities, which represent either equity investments in start-up technology companies or partnerships that invest in start-up technology companies, are estimated based on the fair value information provided by these ventures. The fair value and carrying amount of risk-management instruments were not material at December 31, 1996 or 1995.

At December 31, 1996 and 1995, the gross unrealized holding gains on available-for-sale securities were $27.5 million and $88.2 million, respectively, and the gross unrealized holding losses were $9.4 million and $8.2 million, respectively. Substantially all these gains and losses are associated with the marketable equity securities. The proceeds from sales of available-for-sale securities totaled $102.1 million and $46.0 million in 1996 and 1995, respectively. Realized gains and losses and purchases of available-for-sale securities were not significant in 1996 and 1995. The net adjustment to unrealized gains and losses on available-for-sale securities increased (reduced) shareholders' equity by ($39.0) million and $52.9 million in 1996 and 1995, respectively.

The company is a limited partner in certain affordable housing investments that generate benefits in the form of tax credits. The determination of fair value of these investments is not practicable. The carrying value of such investments was $276.3 million and $250.2 million as of December 31, 1996 and 1995, respectively.

Note 7: Borrowings

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

	1996	1995
6.57 to 7.13 percent notes (due 2016-2036)	$1,000.0	$ 500.0
6.25 to 8.38 percent notes (due 1999-2006)	750.0	750.0
5.50 to 8.38 percent Eurodollar bonds (due 1998-2005)	500.0	500.0
6.09 to 7.10 percent medium-term notes (due 1997-1999)	100.7	185.8
8.18 percent ESOP debentures (due 2006)	114.4	128.8
Commercial paper to be refinanced as long-term	-	500.0
Other, including capitalized leases	178.6	211.0
	2,643.7	2,775.6
Less current portion	127.2	182.7
	$2,516.5	$2,592.9

The company's acquisition of PCS (see Note 2) was financed primarily through the issuance of $3.8 billion in commercial paper. Through December 1996, the company had replaced $1.8 billion of the commercial paper with long-term debt, including the January 1996 issuance of 20 and 40 year notes aggregating $500 million at 6.57 percent and 6.77 percent, respectively.

The company enters into interest rate swaps to lower funding costs, to diversify sources of funding or to alter interest rate exposures arising from mismatches between assets and liabilities. The notional amounts of interest rate swaps outstanding at December 31, 1996 and 1995, were $30 million and $280 million, respectively.

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

The aggregate amounts of maturities on long-term debt for the next five years are as follows: 1997, $127.2 million; 1998, $196.4 million; 1999, $160.7 million; 2000, $219.3 million; and 2001, $168.3 million.

At December 31, 1996, short-term borrowings included $1 billion of commercial paper and $85.7 million of notes payable to banks. At December 31, 1995, commercial paper and notes payable to banks totaled $1,626.3 million and $99.8 million, respectively. The weighted-average interest rates on short-term borrowings outstanding were 5.7 percent in 1996 and 5.8 percent in 1995. At

December 31, 1996, unused committed lines of credit totaled $3 billion. Compensating balances and commitment fees are not

material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

Cash payments of interest on borrowings totaled $292.9 million, $271.7 million and $102.4 million in 1996, 1995 and 1994, respectively.

Note 8: Stock Plans

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

In October 1995, the company issued its second grant under the GlobalShares program. Essentially all employees were given an option to buy 200 shares of the company's common stock at a price equal to the fair market value of the company's stock at the date of grant. Options to purchase approximately 5.2 million shares were granted as part of the program. Individual grants generally become exercisable on or after the third anniversary of the grant date and have a term of 10 years.

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

	1996	1995
Net income	$27.0	$5.6
Earnings per share	.05	.01

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

The weighted-average fair value of the individual options granted during 1996 and 1995 is estimated as $16.50 and $10.05, respectively, on the date of grant. The fair values for both years were determined using a Black-Scholes option-pricing model with the following assumptions:

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

Stock option activity during 1994-1996 is summarized below:

	Shares of Common Stock Attributable to Options	Weighted-Average Exercise Price of Options
Unexercised at January 1, 1994	28,903,636	$25.8060
Granted	5,727,444	29.2984
Exercised	(2,583,370)	20.9725
Forfeited	(966,350)	25.4890
Unexercised at December 31, 1994	31,081,360	26.8604
Granted	10,770,663	46.4970
Exercised	(2,892,178)	21.2058
Forfeited	(1,343,050)	24.2344
Unexercised at December 31, 1995	37,616,795	33.0129
Granted	3,170,437	67.1045
Exercised	(7,291,710)	25.8880
Forfeited	(540,584)	41.8539
Unexercised at December 31, 1996	32,954,938	37.7287

The following table summarizes information concerning outstanding and exercisable options at December 31, 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$5 - $20	61,040	1.1688	$16.6428	61,040	$16.6428
$20 - $30	13,827,250	6.1617	25.1785	9,513,570	23.5177
$30 - $40	4,112,277	4.5159	33.8680	3,739,783	33.8685
$40 - $50	11,981,803	8.0785	45.9193	1,949,457	41.3100
$50 - $70	2,972,568	9.6831	68.8661	18,900	69.1900

Shares exercisable at December 31, 1996 and 1995, were 15,282,750 and 13,396,245, respectively.

At December 31, 1996, additional options, performance awards or restricted stock grants may be granted under the 1994 Lilly Stock Plan for not more than 3,293,328 shares (1995 - 7,366,003 shares).

Note 9: Shareholders' Equity

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

	Additional Paid-in Capital	Retained Earnings	Deferred Costs-- ESOP	Common Stock in Treasury	
				Shares	Amount
Balance at January 1, 1994	$294.6	$4,500.9	$(242.8)	59,277	$ 3.4
Net income		1,286.1			
Cash dividends declared per share: $1.26		(728.6)			
Purchase for treasury				1,990,000	115.0
Issuance of stock under employee stock plans	(12.0)			(1,162,516)	(62.5)
ESOP transactions	(0.2)		24.6		
Unrealized investment gains and losses, net of tax		(3.0)			
Net impact of Guidant public offering	139.9				
Other	(0.6)	6.7		(15,247)	(0.9)
Balance at December 31, 1994	421.7	5,062.1	(218.2)	871,514	55.0
Net income		2,290.9			
Cash dividends declared per share: $1.33		(747.8)			
Stock dividend declared		(172.6)			
Purchase for treasury				2,630,000	160.0
Increase in treasury shares from Guidant exchange transaction (Note 4)	10.9			16,504,298	1,533.6
Issuance of stock under employee stock plans	(24.1)			(1,841,175)	(122.0)
ESOP transactions	9.9		18.7		
Unrealized investment gains and losses, net of tax		52.9			
Other	(0.1)	(1.2)		(15,143)	(1.1)
Balance at December 31, 1995	418.3	6,484.3	(199.5)	18,149,494	1,625.5
Net income		1,523.5			
Cash dividends declared per share: $1.39		(762.9)			
Purchase for treasury				5,315,000	318.5
Issuance of stock under employee stock plans	(368.4)			(7,384,672)	(648.0)
ESOP transactions	17.5		22.6		
Unrealized investment gains and losses, net of tax		(39.0)			
Other		1.4		(499)	(0.1)
Balance at December 31,1996	$67.4	$7,207.3	$(176.9)	16,079,323	$1,295.9

The company has an Employee Stock Ownership Plan (ESOP) as a funding vehicle for the existing employee savings plan. The ESOP used the proceeds of a loan from the company to purchase shares of common stock from the treasury. In 1991, the ESOP issued $200 million of third-party debt, repayment of which was guaranteed by the company (see Note 7). The proceeds were used to purchase shares of the company's common stock on the open market. Shares of common stock held by the ESOP will be allocated to participating employees annually through 2006 as part of the company's savings plan contribution. The fair value of shares allocated each period is recognized as compensation expense.

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

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

Under the terms of the company's Shareholder Rights Plan, all shareholders of common stock received for each share owned a preferred stock purchase right entitling them to purchase from the company one four-hundredth of a share of Series A Participating Preferred Stock at an exercise price of $81.25. The rights are not exercisable until after the date on which the company's right to redeem has expired. The company may redeem the rights for $.0025 per right up to and including the tenth business day after the date of a public announcement that a person (the "Acquiring Person") has acquired ownership of stock having 20 percent or more of the company's general voting power (the "Stock Acquisition Date").

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

Note 10: Income Taxes

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

	1996	1995	1994
Current:			
Federal	$306.0	$177.0	$244.9
Foreign	143.1	140.1	60.2
State	7.4	3.8	30.9
	456.5	320.9	336.0
Deferred:			
Federal	26.6	114.2	140.4
Foreign	7.8	1.9	1.9
State	16.9	22.0	35.2
	51.3	138.1	177.5
Income taxes	$ 507.8	$459.0	$513.5

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

	1996	1995
Deferred tax assets:		
Compensation and benefits	$149.9	$148.4
Restructuring and special charges	91.0	164.7
Litigation, environmental and asbestos	91.4	95.3
Inventory	73.6	90.5
Net operating losses of subsidiaries	68.0	63.9
Divestiture related	-	143.6
Other	266.5	202.2
	740.4	908.6
Valuation allowances	(63.0)	(85.9)
Total deferred tax assets	677.4	822.7
Deferred tax liabilities:		
Property and equipment	(570.0)	(519.7)
Prepaid employee benefits	(215.7)	(200.7)
Other	(61.4)	(77.0)

Total deferred tax liabilities	(847.1)	(797.4)
Deferred tax assets (liabilities)--net	$(169.7)	$ 25.3

At December 31, 1996, the company had net operating loss carryforwards for income tax purposes of $174 million, of which $18 million will expire within five years. The majority of the remaining carryforwards do not expire.

Unremitted earnings of foreign subsidiaries that have been, or are intended to be, permanently reinvested for continued use in foreign operations and which, if distributed, would result in taxes at approximately the U.S. statutory rate, aggregated $1,883 million at December 31, 1996 ($1,544 million at December 31, 1995). Cash payments of taxes totaled $289 million, $449 million and $378 million in 1996, 1995 and 1994, respectively.

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

	1996	1995	1994
United States federal statutory tax rate	35.0%	35.0%	35.0%
Add (deduct):			
State taxes, net of federal tax benefit	.8	.9	2.5
Tax savings from operations in Puerto Rico	(4.3)	(4.2)	(2.1)
General business credits	(1.7)	(1.2)	(0.5)
Effect of international operations	(5.0)	(5.7)	(3.7)
Nondeductible goodwill amortization	2.0	2.1	0.3
Sundry	(1.8)	(.9)	(1.3)
Effective income tax rate	25.0%	26.0%	30.2%

Note 11: Retirement Benefits

Pension Plans:

The company has noncontributory defined benefit retirement plans that cover substantially all United States employees and a majority of employees in other countries. Benefits under the domestic plans are calculated by using one of several formulas. These formulas are based on a combination of the following: (1) years of service, (2) final average earnings, (3) primary social security benefit and (4) age. The benefits for the company's plans in countries other than the United States are based on years of service and compensation.

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

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

	1996	1995	1994
Service cost--benefits earned during the year	$ 84.4	$ 69.8	$ 69.3
Interest cost on projected benefit obligations	167.2	160.2	156.3
Actual return on assets	(356.1)	(434.8)	(38.3)
Net amortization and deferral	130.2	227.4	(164.3)
Net annual pension expense	$ 25.7	$ 22.6	$ 23.0

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

	Plans in Which Assets Exceed Accumulated Benefits		Plans in Which Accumulated Benefits Exceed Assets	
	1996	1995	1996	1995
Plan assets at fair value	$2,629.2	$2,374.4	$ -	$ 4.2
Actuarial present value of benefit obligations:				
Vested benefits	1,721.5	1,682.3	113.3	119.2
Nonvested benefits	112.7	100.0	2.5	4.0
Accumulated benefit obligation	1,834.2	1,782.3	115.8	123.2
Effect of projected future salary increases	348.2	320.9	5.3	9.4
Projected benefit obligation	2,182.4	2,103.2	121.1	132.6
Funded status	446.8	271.2	(121.1)	(128.4)
Unrecognized net (gain) loss	(43.1)	114.3	6.3	8.1
Unrecognized prior service cost	107.5	96.7	14.8	16.2
Unrecognized net obligation at January 1, 1986	1.7	2.0	1.4	1.8
Additional minimum liability	-	-	(17.2)	(20.1)
Prepaid (accrued) pension cost	$512.9	$ 484.2	$(115.8)	$(122.4)

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

(percents)	1996	1995	1994
Weighted-average discount rate	8.1	7.6	8.6
Rate of increase in future compensation levels	4.5-8.0	4.5-9.5	4.5-9.5
Weighted-average expected long-term rate of return on plan assets	10.5	10.5	10.9

The discount rate increase at December 31, 1996, decreased the projected benefit obligation by approximately $122.7 million.

The company has defined contribution savings plans that cover its eligible employees worldwide. The purpose of these defined contribution plans is generally to provide additional financial security during retirement by providing employees with an incentive to make regular savings. Company contributions to the plans are based on employee contributions and the level of company match. Expenses attributable to continuing operations under the plans totaled $42.6 million, $38.3 million and $37.9 million for the years 1996, 1995 and 1994, respectively.

Retiree Health Benefits:

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

The company's funding practice for all plans is consistent with local governmental and tax funding regulations. Plan assets

consist primarily of equity and fixed income instruments.

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

	1996	1995	1994
Service cost--benefits earned during the year	$11.7	$ 9.8	$11.4
Interest cost on accumulated postretirement benefit obligations	28.8	24.7	25.9
Actual return on assets	(29.7)	(20.4)	1.1
Net amortization and deferral	6.0	(4.9)	(23.3)
Net periodic postretirement benefit cost	$16.8	$ 9.2	$15.1

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

	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	$308.4	$308.3
Fully eligible active plan participants	35.9	26.5
Other active plan participants	67.8	59.8
	412.1	394.6
Plan assets at fair value	200.1	168.2
Accumulated postretirement benefit obligation in excess of plan assets	212.0	226.4
Unrecognized benefit of plan amendment	11.0	20.6
Unrecognized net loss	(86.6)	(99.2)
Accrued postretirement benefit cost	$136.4	$147.8

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

(percents)	1996	1995	1994
Weighted-average discount rate	8.0	7.5	8.5
Expected long-term rate of return	10.5	10.5	11.0
Health care cost trend rate for participants:			
Under age 65	7.0	7.0	8.0
Over age 65	5.0	5.0	6.0

If these trend rates were to be increased by one percentage point each future year, the December 31, 1996, accumulated postretirement benefit obligation would increase by 10 percent and the aggregate of the service and interest cost components of 1996 annual expense from continuing operations would increase by 14 percent. The increase in the discount rate at December 31, 1996, decreased the accumulated postretirement benefit obligation by approximately $19.1 million.

Postemployment Benefits:

The company provides certain other postemployment benefits, primarily related to disability benefits, and accrues for the related cost over the service lives of the employees. Expenses associated with these benefit plans in 1996, 1995 and 1994 were not significant.

Note 12: Contingencies

The company has been named as a defendant in numerous product liability lawsuits involving primarily two products, diethylstilbestrol and Prozac. The company has accrued for its estimated exposure, including costs of litigation, with respect to all current product liability claims. In addition, the company has accrued for certain future anticipated product liability claims to the extent the company can formulate a reasonable estimate of their costs. The company's estimates of these expenses are based primarily on historical claims experience and

data regarding product usage. The company expects the cash amounts related to the accruals to be paid out over the next several years. The majority of costs associated with defending and disposing of these suits are covered by insurance. The

company's estimate of insurance recoverables is based on existing deductibles, coverage limits, and the existing and projected future level of insolvencies among its insurance carriers.

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund, the company has been designated as one of several potentially responsible parties with respect to certain sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup. The company also continues remediation of certain of its own sites. The company has accrued for estimated Superfund cleanup costs, remediation and certain other environmental matters, taking into account, as applicable, available information regarding site conditions, potential cleanup methods, estimated costs and the extent to which other parties can be expected to contribute to payment of those costs. The company reached a settlement with its primary liability insurance carrier providing for coverage for certain environmental liabilities and has reserved its rights to pursue claims against certain excess carriers. However, because of uncertainties with respect to the timing and ultimate realization of recoveries under the excess policies, the company has not recorded any environmental insurance recoverables with respect to those policies.

The company has been named, along with numerous other U.S. prescription drug manufacturers, as a defendant in a large number of related actions brought by retail pharmacies alleging violations of federal and state antitrust and pricing laws. The federal suits include a class action on behalf of the majority of U.S. retail pharmacies. The company and several other manufacturers agreed to settle the federal class action case and the anticipated settlement was accrued in the fourth quarter of 1995. The settlement has been approved by the U.S. District Court but an appeal of that decision is pending. Other related suits, brought in federal and several state courts by several thousand pharmacies, involve claims of price discrimination or claims under other pricing laws. Additional cases have been brought on behalf of consumers in several states.

The environmental liabilities and litigation accruals have been reflected in the company's consolidated balance sheet at a gross amount of approximately $437.8 million. Estimated insurance recoverables of approximately $279.5 million have been reflected as assets in the consolidated balance sheet.

Barr Laboratories, Inc. (Barr), has submitted an Abbreviated New Drug Application (ANDA) seeking FDA approval to market a generic form of Prozac several years before the expiration of the company's patents. The ANDA asserts that Lilly's U.S. patents covering Prozac are invalid and unenforceable. Lilly has filed suit in federal court in Indianapolis seeking a ruling that Barr's challenge to Lilly's patents is without merit. While the company believes Barr's claims are without merit, there can be no assurance that the company will prevail. An unfavorable outcome of this claim could have a material adverse effect on the company's consolidated financial position, liquidity or results of operations.

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

Responsibility for Financial Statements
Eli Lilly and Company and Subsidiaries

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

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

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

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

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

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

Charles E. Golden
Executive Vice President and Chief
Financial Officer

January 31, 1997

Report of Independent Auditors

Board of Directors and Shareholders
Eli Lilly and Company

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eli Lilly and Company and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Indianapolis, Indiana
January 31, 1997

Appendix to Exhibit 13

Graphs in Annual Report to Shareholders
for the Year Ended December 31, 1996

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

Graph #1--Net Sales

($ millions)

Year	Amount
1987	$2,671.0
1988	2,943.7
1989	3,391.0
1990	4,178.3
1991	4,533.4
1992	4,963.1
1993	5,198.5
1994	5,711.6
1995	6,763.8
1996	7,346.6

Strong worldwide volume growth of 11 percent in 1996 was partially offset by price reductions and exchange rates, resulting in a 9 percent increase in net sales.

Graph #2--Sales by Therapeutic Class

($ millions; percentages represent change from 1995)

Class	Amount	Percent Change from 1995
Central Nervous System	$2,659.4	17%
Anti-Infectives	1,451.4	(13)%
Endocrine	1,302.2	10%
Animal Health	547.3	7%
Gastrointestinal	531.4	(3)%
Cardiovascular	326.5	67%
Oncology	100.2	126%

In 1996, the company's newer products, including ReoPro, Zyprexa, Gemzar, and Humalog, contributed to the increases in four of the therapeutic classes. Sales of anti-infective products declined primarily due to intensified competition.

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

($ millions)

Year	Amount
1987	$1,005.9
1988	1,143.3
1989	1,335.7
1990	1,636.9
1991	1,807.0
1992	1,996.2
1993	2,097.5
1994	2,430.2
1995	2,950.9
1996	3,081.0

Sales outside the U.S. continued to grow in 1996. Volume growth of 10 percent was offset by the impact of exchange rates and intense price competition in certain markets.

Graph #4--Research and Development Expenses

($ millions)

Year	Amount
1992	$ 731.0
1993	755.0
1994	838.7
1995	1,042.3
1996	1,189.5

Worldwide research and development expenditures increased 14 percent, a faster rate than sales, in support of the company's strong product pipeline which includes 15 compounds in Phase II or Phase III clinical trials.

Graph #5--Income from Continuing Operations

($ millions)

Year	Amount
1992	$ 842.5
1993	464.8
1994	1,185.1
1995	1,306.6
1996	1,523.5

Income from continuing operations increased 17 percent to approximately $1.5 billion. The years 1992 and 1993 include restructuring and special charges. See Note 3 to the consolidated financial statements.

Graph #6--Capital Expenditures

($ millions)

Year	Amount
1992	$912.9
1993	633.5
1994	576.5
1995	551.3
1996	443.9

Capital expenditures declined 19 percent from the 1995 level to their lowest level in eight years.

Graph #7--Dividends Paid per Share

(dollars)

Year	Amount
1992	$1.10
1993	1.21
1994	1.25
1995	1.31
1996	1.37

Dividends paid during 1996 increased 5 percent over 1995. Nineteen ninety-six was the 29th consecutive year in which dividends were increased. These increases reflect the company's continued commitment to its shareholders.

EXHIBIT 21 - LIST OF SUBSIDIARIES AND AFFILIATES

The following are the subsidiaries and affiliated corporations of the Company at December 31, 1996. Certain subsidiaries have been omitted since they are not significant in the aggregate.

	State or Jurisdiction of Incorporation or Organization	% Owned
ELI LILLY AND COMPANY	Indiana	
Eli Lilly International Corporation	Indiana	100
Eli Lilly Int'l. Corp. - Branch:	England	100
Eli Lilly Iran, S.A.	Iran	100
ELCO Insurance Company, Ltd.	Bermuda	100
Eli Lilly Interamerica, Inc.	Indiana	100
Eli Lilly Interamerica, Inc.-Branch:	Argentina	100
Eli Lilly Interamerica, Inc.-Branch:	Colombia	100
Eli Lilly Interamerica, Inc.-Branch:	Peru	100
Eli Lilly Interamerica, Inc.-Branch:	Dominican Rep.	100
Eli Lilly do Brasil Limitada	Brazil	100
Elanco Quimica Limitada	Brazil	100
Darilor Sociedad Anonima	Uruguay	100
Beimirco Sociedad Anonima	Uruguay	100
Eli Lilly Interamerica Inc., y Compania Limitada	Chile	100
STC Pharmaceuticals, Inc.	Indiana	100
Lilly Ranbaxy Pharmaceuticals L.L.C.	Indiana	50
Dista, Inc.	Indiana	100
Dista, Inc. - Branch:	Colombia	100
Eli Lilly de Centro America, S.A.	Guatemala	100
Eli Lilly de Centro America, S.A.-Branch:	Panama	100
Eli Lilly de Centro America, Sociedad Anonima	Costa Rica	100
Eli Lilly de Centro America, S.A.-Branch:	Costa Rica	100
Eli Lilly y Compania de Mexico,S.A. de C.V.	Mexico	100
Dista Mexicana, S.A. de C.V.	Mexico	100
EPCO, Inc.	Indiana	100
DowElanco	Indiana	40
Eli Lilly Industries, Inc.	Delaware	100
Eli Lilly and Company (Taiwan), Inc.	Taiwan	100
CBI Uniforms, Inc.	Delaware	50
Control Diabetes Services, Inc.	Indiana	100
PCS Holding Corporation (formerly McKesson Delaware)	Delaware	100
Clinical Pharmaceuticals, Inc.	Delaware	100
Convenience Office Prescriptions	California	100
Integrated Medical Systems, Inc.	Colorado	100
IMS-NET of Arizona, Inc.	Arizona	100
IMS-NET of Arizona Joint Venture, Ltd.	Arizona	50
IMS-NET of Illinois, Inc.	Illinois	100
Illinois Medical Information Network, Inc.	Illinois	68
IMS-NET of Northern California, Inc.	California	100
IMS-NET of Sacramento, Inc.	California	100
IMS-NET of Arkansas, Inc.	Arkansas	51
IMS-NET of Central Florida, Inc.	Colorado	51
IMS-NET of Colorado, Inc.	Colorado	100
IMS-NET of Kansas City, Inc.	Colorado	100
Indiana Medical Communication Network L.L.C.	Colorado	51
Medical Communication Networks, Inc.	California	100
Minnesota Medical Communication Network L.L.C.	Colorado	90
LP Holding Corporation (formerly McKesson Maryland)	Maryland	100
PCS Health Systems, Inc.	Delaware	100
PCS of New York, Inc.	New York	100

PCS Services, Inc.	Delaware	100
PCS Mail Services, Inc.	Delaware	100
Saudi Arabian Branch	Saudi Arabia	100
ELCO Management Corporation	Delaware	100
Eli Lilly Australia Pty. Limited	Australia	100
Eli Lilly Australia Custodian Pty. Limited	Bermuda	100
AZA Research Pty. Ltd.	Australia	49
Eli Lilly and Company (N.Z.) Limited	New Zealand	100
Eli Lilly (NZ)Staff Benefits Custodian Limited	New Zealand	100
Integrated Disease Management (NZ) Limited	New Zealand	100
Eli Lilly Canada Inc.	Canada	100
RxPlus	Canada	100
ELCO Dominicana, S.A.	Dominican Rep.	100
ELCO International Sales Corporation	Virgin Is.-US	100
Eli Lilly Group Limited	England	100
Lilly Industries Limited	England	100
Dista Products Limited	England	100
Eli Lilly and Company Limited	England	100
Lilly Research Centre Limited	England	100
Elanco Products Limited	England	100
Creative Packaging Limited	England	100
Greenfield Pharmaceuticals Limited	England	100
Lilly Medical Instruments Limited	England	100
Eli Lilly (Basingstoke) Limited	England	100
Eli Lilly UK Limited	England	100
Eli Lilly Group Pension Trustees Limited	England	100
Lilly Deutschland GmbH	Germany	100
Eli Lilly (Suisse) S.A. & Co. Beteiligungs-KG	Germany	100
Beiersdorf-Lilly GmbH	Germany	74.8
LIGEMA Lilly Gesundheitsmanagement GmbH	Germany	100
Eli Lilly & Co. (Ireland) Limited	Ireland	100
Eli Lilly Asia, Inc.	Delaware	100
Eli Lilly Asia, Inc. - Branch	Hong Kong	100
Eli Lilly Asia, Inc. - Branch	Korea	100
Eli Lilly Asia, Inc. - Branch	Thailand	100
Indian Branch	India	100
China Branch	China	100
Vietnam Branch	Vietnam	100
Eli Lilly S.A.	Switzerland	100
Branch	Ireland	100
Eli Lilly Export S.A.	Switzerland	100
Puerto Rico - Branch	Puerto Rico	100
Egyptian Branch	Egypt	100
Egyptian Branch	Egypt	100
Russian Branch	Russia	100
GEMS Services, S.A.	Belgium	100
GEMS Services, S.A. - CC Branch	Belgium	100
T. P. Eli Lilly and Elanco D.O.O.	Yugoslavia	100
Elanco Trustees Limited	Ireland	100
Kinsale Financial Services, Ltd.	Ireland	100
DowElanco, B.V.	Netherlands	40
Eli Lilly (Suisse) S.A.	Switzerland	100
Iranian Branch	Iran	100
Bulgarian Branch	Bulgaria	100
Croatian Branch	Croatia	100
Czech Republic Branch	Czech Repub.	100
Estonian Branch	Estonia	100
Hungarian Branch	Hungary	100
Ivory Coast Branch	Ivory Coast	100
Kazakhstan Branch	Kazakhstan	100
Kenyan Branch	Kenya	100
Latvian Branch	Latvia	100
Lebanon Branch	Lebanon	100
Lithuanian Branch	Lithuania	100
Pakistani Branch	Pakistan	100
Polish Branch	Poland	100
Romanian Branch	Romania	100

Slovakian Branch	Slovakia	100
Slovenian Branch	Slovenia	100
Tunisian Branch	Tunisia	100
Ukraine Branch	Ukraine	100
United Arab Emirates Branch	U.A.E.	100
Usbekistan Branch	Usbekistan	100
Eli Lilly MHC S.A.R.L.	Switzerland	100
Eli Lilly Mauritius	Mauritius	100
Ranbaxy Lilly Company	India	50
Oldfields Financial Management S.A.	Switzerland	100
Eli Lilly Suzhou Pharmaceutical Company Limited	China	90
Eli Lilly Nederland B.V.	Netherlands	100
Eli Lilly Ges.m.b.H.	Austria	100
Lilly Development Centre S.A.	Belgium	100
Lilly Services S.A.	Belgium	100
Lilly Clinical Operations S.A.	Belgium	100
Eli Lilly Benelux, S.A.	Belgium	100
Eli Lilly CR s.r.o.	Czech Repub.	100
Eli Lilly Denmark A/S	Denmark	100
Eli Lilly Egypt	Egypt	75
Alkan Pharma S.A.E.	Egypt	25
OY Eli Lilly Finland Ab	Finland	100
Lilly France S.A.	France	100
Elsa France, S.A.	France	100
Pharmaserve - Lilly S.A.C.I.	Greece	50.9
Pharmabrand, S.A.C.I.	Greece	50.9
PRAXICO Ltd.	Hungary	50
Lilly Hungaria KFT	Hungary	100
Eli Lilly Ranbaxy Limited	India	50<51
Dista Italia S.r.l.	Italy	100
Eli Lilly Italia S.p.A.	Italy	100
Eli Lilly Japan K.K.	Japan	100
Eli Lilly Kazakstan	Kazakstan	100
Daewoong Lilly Pharmaceutical Co. Ltd.	Korea	50<51
Elanco Animal Health, Korea	Korea	100
Eli Lilly Malaysia Sdn Bhd.	Malaysia	100
Damsen Trading Limited	Malta	51
Damsen Trading Limited - Branch	Switzerland	51
Eli Lilly Maroc S.a.r.l.	Morocco	100
ELCO Production Services B.V.	Netherlands	100
Eurobase B.V.	Netherlands	55
Eli Lilly Norge A.S.	Norway	100
Eli Lilly-Gohar (Private) Limited	Pakistan	30
Eli Lilly Pakistan (Pvt.) Ltd.	Pakistan	100
Eli Lilly (Philippines), Incorporated	Philippines	100
Eli Lilly Polska Sp. z.o.o.(Ltd.)	Poland	100
Lilly Grodzisk Sp. z.o.o.	Poland	99.8
Vitalia Pharma Sp. Z.o.o.	Poland	51
Dista-Produtos Quimicos & Farmaceuticos,LDA	Portugal	100
Lilly-Farma, Produtos Farmaceuticos, Lda.	Portugal	100
ELVA Joint Laboratory	Russia	50
Eli Lilly Asia Pacific Pte. Ltd.	Singapore	100
Lilly-NUS Centre for Clinical Pharmacology Pte. Ltd.	Singapore	60
Eli Lilly (S.A.)(Proprietary) Ltd.	South Africa	100
Glaxo/Eli Lilly Partnership	South Africa	50
The Medikredit Joint Venture Partnership	South Africa	75.1
Medikredit Pty. Ltd.	South Africa	80
Elanco-Valquimica, S.A.	Spain	100
Derly, S.A.	Spain	100
Dista, S.A.	Spain	100
Lilly, S.A.	Spain	100
Geserco, S.A.	Spain	100
Eli Lilly Sweden AB	Sweden	100
Lilly Ilac Ticaret A.S.	Turkey	100
Eli Lilly y Compania de Venezuela, S.A.	Venezuela	100
Dista Products & Compania Venezuela S.A.	Venezuela	100

Exhibit 23 - Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Eli Lilly and Company of our report dated January 31, 1997, included in the 1996 Annual Report to Shareholders of Eli Lilly and Company.

We also consent to the incorporation by reference in Registration Statement Number 33-29482 on Form S-8 dated June 23, 1989, in Registration Statement 33-37341 on Form S-8 dated October 17, 1990, in Registration Statement Number 33-58466 on Form S-3 dated February 17, 1993, in Registration Statement Number 33-50783 on Form S-8 dated October 27, 1993, in Registration Statement Number 33-56141 on Form S-8 dated October 24, 1994 and in Registration Statement Number 333-02021 on Form S-8 dated March 28, 1996 of our report dated January 31, 1997 with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the consolidated financial statements incorporated by reference in the Annual Report (Form 10-K) of Eli Lilly and Company.

Ernst & Young LLP

s/Ernst & Young LLP

Indianapolis, Indiana
March 18, 1997

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YEAR	
	DEC-31-1996
	DEC-31-1996
	813,678
	141,407
	1,556,990
	82,351
	881,397
	3,891,285
	7,096,400
	2,789,429
	14,307,170
	4,222,193
	2,516,484
	0
	0
	355,564
	5,744,576
	14,307,170
	6,974,347
	7,346,594
	1,848,282
	2,118,413
	3,181,397
	0
	288,835
	2,031,290
	507,821
	1,523,470
	0
	0
	0
	1,523,470
	2.71
	2.70

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

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

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

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

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

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

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

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

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

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

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

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

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

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