2020 Eli Lilly and Company Annual Report

2020 ANNUAL REPORT ON FORM 10-K
NOTICE OF 2021 ANNUAL MEETING
PROXY STATEMENT

2020 Financial Highlights

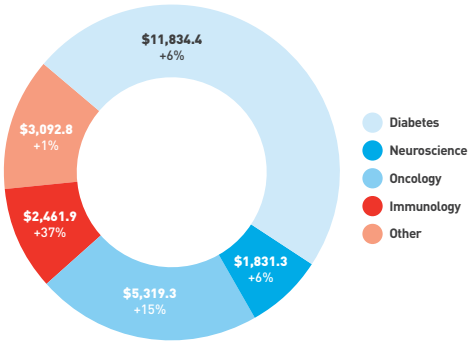
ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, except per-share data)	2020 Year ended December 31	2019	CHANGE %
REVENUE	**$ 24,539.8**	$ 22,319.5	10%
RESEARCH AND DEVELOPMENT	**6,085.7**	5,595.0	9%
RESEARCH AND DEVELOPMENT AS A PERCENT OF REVENUE	**24.8%**	25.1%	
NET INCOME	**$ 6,193.7**	$ 8,318.4	(26%)
EARNINGS PER SHARE—DILUTED	**6.79**	8.89	(24%)
RECONCILING ITEMS:			
Acquired in-process research and development[1]	**0.64**	0.21	
Amoritization of intangible assets	**0.36**	0.18	
Asset impairment, restructuring, and other special charges[1]	**0.14**	0.58	
Discontinued Operations from disposition of Elanco[1]	**--**	(3.93)	
Gain on sale of China antibiotics business[1]	**--**	(0.26)	
Charge related to repurchase of debt[1]	**--**	0.22	
Charges related to withdrawal of Lartruvo	**--**	0.14	
Impact of reduced shares outstanding for non-GAAP reporting[2]	**--**	0.07	
Income taxes[3]	**--**	(0.05)	
NON-GAAP EARNINGS PER SHARE—DILUTED[4]	**7.93**	6.04	31%
DIVIDENDS PAID PER SHARE	**2.96**	2.58	15%
CAPITAL EXPENDITURES	**1,387.9**	1,033.9	34%
TOTAL EMPLOYEES AS OF DECEMBER 31	**34,960**	33,755	4%

1 For more information on these reconciling items, see the Executive Overview in Management's Discussion and Analysis in the 2020 Annual Report on Form 10-K. 2 Non-GAAP earnings per share assume that the disposition of Elanco occurred at the beginning of 2019 and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer. 3 For 2019, amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock. 4 Numbers may not add due to rounding.

REVENUE GROWTH ACROSS THERAPEUTIC AREAS

($ millions, percent growth)

Revenue in Diabetes increased 6 percent primarily driven by growth of Trulicity and Jardiance. Oncology revenue increased 15 percent driven by Verzenio, Alimta, Tyvyt, and Cyramza. Taltz and Olumiant drove the 37 percent revenue increase in Immunology. Neuroscience experienced a 6 percent increase driven by Emgality and Cymbalta, offset in part by the decrease in Strattera due to previous patent losses. Other Pharmaceutical revenue increased 1 percent driven by revenue from bamlanivimab*, offset by lower volumes for Cialis and Forteo, due to patent losses.



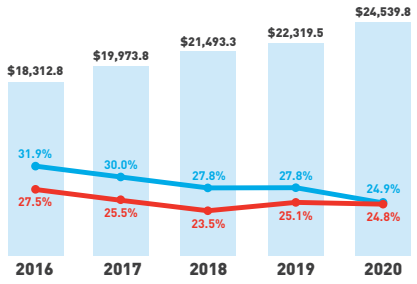
*Bamlanivimab sales are pursuant to Emergency Use Authorization.

OPERATING EXPENSES

($ millions, percent of revenue)

Revenue R&D Marketing, Selling & Administrative

Over the past five years, Lilly continued to invest in research and development while reducing marketing, selling, and administrative expenses, which resulted in continued improvement in operating expenses as a percent of revenue.

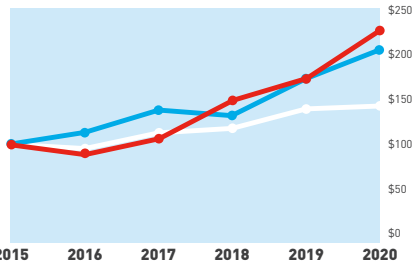


TOTAL SHAREHOLDER RETURN

Value of $100 invested in Lilly, S&P 500 and Peer Group*

Lilly S&P 500 Peer Group

Over the past five years, Lilly's annualized total shareholder return has averaged 17.7 percent, compared to 15.2 percent for the S&P benchmark, and 7.2 percent compared to Peer Group, due to the increase in the stock price and increasing dividend stream.



*The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are immediately reinvested in that company's stock. See Item 5 of the 2020 Annual Report on Form 10-K for those companies included in our peer group.

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YEAR IN REVIEW

2020 ANNUAL REPORT ON FORM 10-K

NOTICE OF 2021 ANNUAL MEETING AND PROXY STATEMENT

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2020

Commission file number 001-06351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

Indiana	35-0470950
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Lilly Corporate Center, Indianapolis, Indiana 46285
(Address and zip code of principal executive offices)

Registrant's telephone number, including area code (317) 276-2000

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

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

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes ☐ No ☒
Aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter: approximately $138,907,000,000.

Number of shares of common stock outstanding as of February 12, 2021: 958,425,693

Portions of the Registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders have been incorporated by reference into Part III of this report.

Eli Lilly and Company

Form 10-K
For the Year Ended December 31, 2020

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Forward-Looking Statements

This Annual Report on Form 10-K and our other publicly available documents include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act), and are subject to the safe harbor created thereby under the Private Securities Litigation Reform Act of 1995. In particular, information appearing under “Business,” “Risk Factors,” and “Management's Discussion and Analysis of Results of Operations and Financial Condition” includes forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and generally can be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue,” or similar expressions or future or conditional verbs.

Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those expressed in forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. Investors therefore should not place undue reliance on forward-looking statements. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the impact of the evolving COVID-19 pandemic and the global response thereto;
- uncertainties related to our efforts to develop potential treatments for COVID-19;
- the significant costs and uncertainties in the pharmaceutical research and development process, including with respect to the timing and process of obtaining regulatory approvals;
- the impact of acquisitions and business development transactions and related integration costs;
- the expiration of intellectual property protection for certain of our products and competition from generic and/or biosimilar products;
- our ability to protect and enforce patents and other intellectual property;
- changes in patent law or regulations related to data package exclusivity;
- competitive developments affecting current products and our pipeline;
- market uptake of recently launched products;
- information technology system inadequacies, breaches, or operating failures;
- unauthorized access, disclosure, misappropriation, or compromise of confidential information or other data stored in our IT systems, networks, and facilities, or those of third parties with whom we share our data;
- unexpected safety or efficacy concerns associated with our products;
- litigation, investigations, or other similar proceedings involving past, current, or future products or commercial activities as we are largely self-insured;
- issues with product supply stemming from manufacturing difficulties or disruptions;
- reliance on third-party relationships and outsourcing arrangements;
- regulatory changes or other developments;
- regulatory actions regarding currently marketed products;
- continued pricing pressures and the impact of actions of governmental and private payers affecting pricing of, reimbursement for, and access to pharmaceuticals;
- devaluations in foreign currency exchange rates or changes in interest rates, and inflation;
- changes in tax law, tax rates, or events that differ from our assumptions related to tax positions;
- asset impairments and restructuring charges;
- the impact of global macroeconomic conditions and trade disruptions or disputes;
- changes in accounting and reporting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC); and
- regulatory compliance problems or government investigations.

Investors should also carefully read the factors described under Item 1A, “Risk Factors” in this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from those expressed in forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider the risks described above and under Item 1A, “Risk Factors” to be a complete statement of all potential risks and uncertainties.

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

Part I

Item 1. Business

Eli Lilly and Company (referred to as the company, Lilly, we, or us) was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and market products in a single business segment—human pharmaceutical products. In March 2019, we completed the disposition of our ownership in Elanco Animal Health Incorporated (Elanco), an animal health business.

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

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

Products

Our products include:

Diabetes products, including:

- *Baqsimi*®, a nasal powder formulation for the treatment of severe hypoglycemia in patients with diabetes
- *Basaglar*®, a long-acting human insulin analog for the treatment of diabetes
- *Humalog*®, *Humalog Mix 75/25, Humalog U-100, Humalog U-200, Humalog Mix 50/50*, *insulin lispro, insulin lispro protamine*, and *insulin lispro mix 75/25,* human insulin analogs for the treatment of diabetes
- *Humulin*®, *Humulin 70/30, Humulin N, Humulin R,* and *Humulin U-500*, human insulins of recombinant DNA origin for the treatment of diabetes
- *Jardiance*®, for the treatment of type 2 diabetes and to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease
- *Lyumjev*®, a rapid-acting human insulin analog for the treatment of diabetes
- *Trajenta*®, for the treatment of type 2 diabetes
- *Trulicity*®, for the treatment of type 2 diabetes and to reduce the risk of major adverse cardiovascular events in adult patients with type 2 diabetes and established cardiovascular disease or multiple cardiovascular risk factors

Oncology products, including:

- *Alimta*®, for the first-line treatment, in combination with two other agents, of advanced non-small cell lung cancer (NSCLC) for patients with non-squamous cell histology and no EGFR or ALK genomic tumor aberrations; for the first-line treatment, in combination with another agent, of advanced non-squamous NSCLC; for the second-line treatment of advanced non-squamous NSCLC; as monotherapy for the maintenance treatment of advanced non-squamous NSCLC in patients whose disease has not progressed immediately following chemotherapy treatment; and in combination with another agent for the treatment of malignant pleural mesothelioma
- *Cyramza*®, for use as monotherapy or in combination with another agent as a second-line treatment of advanced or metastatic gastric cancer or gastro-esophageal junction adenocarcinoma; in combination with another agent as a second-line treatment of metastatic NSCLC; in combination with another agent as a second-line treatment of metastatic colorectal cancer; as a monotherapy as a second-line treatment of hepatocellular carcinoma; and in combination with another agent as a first-line treatment of adult patients with metastatic NSCLC with activating epidermal growth factor receptor mutations
- *Erbitux*®, indicated both as monotherapy and in combination with another agent for the treatment of certain types of colorectal cancers; and as monotherapy, in combination with chemotherapy, or in combination with radiation therapy for the treatment of certain types of head and neck cancers

- *Retevmo*®, for the treatment of metastatic NSCLC in adult patients; for the treatment of advanced metastatic medullary thyroid cancer who require systemic therapy in adult and pediatric patients; and for the treatment of advanced metastatic thyroid cancer in adult and pediatric patients who require systemic therapy and are radioactive iodin-refractory
- *Tyvyt*®, for the treatment of relapsed or refractory classic Hodgkin's lymphoma and for the first-line treatment of non-squamous NSCLC in combination with Alimta and another agent in China
- *Verzenio*®, for use as monotherapy or in combination with endocrine therapy for the treatment of HR+, HER2- metastatic breast cancer

Immunology products, including:

- *Olumiant*®, for the treatment of adults with moderately-to-severely active rheumatoid arthritis
    - *Baricitinib* was granted Emergency Use Authorization (EUA) in 2020 for the treatment of suspected or laboratory confirmed COVID-19, in combination with remdesivir, in hospitalized adults and pediatric patients
- *Taltz*®, for the treatment of adults and pediatric patients aged 6 years or older with moderate-to-severe plaque psoriasis, adults with active psoriatic arthritis, adults with ankylosing spondylitis, and adults with active non-radiographic axial spondyloarthritis

Neuroscience products, including:

- *Cymbalta*®, for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, fibromyalgia, and chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis
- *Emgality*®, for migraine prevention and the treatment of episodic cluster headache in adults
- *Reyvow*®, for the acute treatment of migraine, with or without aura, in adults
- *Zyprexa*®, for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance

Other therapies, including:

- *Bamlanivimab*, for the treatment of mild-to-moderate COVID-19 in adults and pediatric patients with positive results of direct SARS-CoV-2 viral testing (EUA granted in 2020)
- *Bamlanivimab* and *etesevimab*, administered together, for the treatment of mild-to-moderate COVID-19 in adults and pediatric patients with positive results of direct SARS-CoV-2 viral testing (EUA granted in 2021)
- *Cialis*®, for the treatment of erectile dysfunction and benign prostatic hyperplasia
- *Forteo*®, for the treatment of osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women

Marketing and Distribution

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

U.S.

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

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

In the U.S., most of our products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. In 2020, 2019, and 2018, three wholesale distributors in the U.S. —McKesson Corporation, AmerisourceBergen Corporation, and Cardinal Health, Inc.—each accounted for between 15 percent and 20 percent of our consolidated revenue. No other customer accounted for more than 10 percent of our consolidated revenue in any of these years.

Outside the U.S.

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

Marketing Collaborations

Certain of our products are marketed in arrangements with other pharmaceutical companies. For example, we and Boehringer Ingelheim have a global agreement to develop and commercialize a portfolio of diabetes products, including Trajenta, Jentadueto®, Jardiance, Glyxambi®, Synjardy®, Trijardy® XR, and Basaglar.

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

Competition

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

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

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

Generic Pharmaceuticals

One of the biggest competitive challenges we face is from generic pharmaceuticals. In the U.S. and Europe, the regulatory approval process for pharmaceuticals (other than biological products (biologics)) exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy of the innovator product. As a result, generic manufacturers generally invest far fewer resources than we do in research and development and can price their products significantly lower than our branded products. Accordingly, when a branded non-biologic pharmaceutical loses its market exclusivity, it normally faces intense price competition from generic forms of the product, which can cause us to lose a significant portion of the product’s revenue in a very short period of time.

Further, public and private payers typically encourage the use of generics as alternatives to brand-name drugs in their healthcare programs. Laws in the U.S. generally allow, and in many cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be essentially equivalent to a brand-name drug. Where substitution is mandatory, it must be made unless the prescribing physician expressly forbids it. In many countries outside the U.S., intellectual property protection is weak, and we must compete with generic or counterfeit versions of our products.

Biosimilars

Several of our products and approximately half of the potential new medicines in our clinical-stage pipeline are biologics. In the U.S., the U.S. Food and Drug Administration (FDA) regulates biologics under the Federal Food, Drug and Cosmetic Act, the Public Health Service Act, and implementing regulations. Competition for Lilly's biologics may be affected by the approval of follow-on biologics, also known as biosimilars. A biosimilar is a subsequent version of an approved innovator biologic that, due to its analytical and clinical similarity to the innovator biologic, may be approved based on an abbreviated data package that relies in part on the full testing required of the innovator biologic. Approval by the FDA ultimately depends on many factors, including a showing that the biosimilar is "highly similar" to the original product and has no clinically meaningful differences from the original product in terms of safety, purity, and potency.

Globally, most governments have developed abbreviated regulatory pathways to approve biosimilars as follow-ons to innovator-developed biologics, including the Biologics Price Competition and Innovation Act of 2009 (the BPCIA) in the U.S., and a number of biosimilars have been licensed under the BPCIA and in Europe. The patent and regulatory exclusivity for the existing innovator biologic generally must expire in a given market before biosimilars may enter that market. However, in the U.S., the product exclusivity period under the BPCIA could be affected by recent government proposals and litigation. See "- Patents, Trademarks, and Other Intellectual Property Rights." In addition, the extent to which a biosimilar, once approved, will be substituted for the innovator biologic in a way that is similar to traditional generic substitution for non-biologic products is not yet entirely clear, and will depend on a number of regulatory and marketplace factors that are still developing. In the U.S., currently only a biosimilar product that is determined to be "interchangeable" will be considered substitutable for the original biologic product without the intervention of the health care provider who prescribed the original biologic product. To prove that a biosimilar product is interchangeable, the applicant must demonstrate that the product can be expected to produce the same clinical results as the original biologic product in any given patient, and if the product is administered more than once in a patient, that safety risks and potential for diminished efficacy of alternating or switching between the use of the interchangeable biosimilar biologic product and the original biologic product is no greater than the risk of using the original biologic product without switching.

Biosimilars may present both competitive challenges and opportunities. For example, a competitor company has developed a version of insulin lispro that competes with our product Humalog. On the other hand, in collaboration with Boehringer Ingelheim, we developed Basaglar, a new insulin glargine product, which has the same amino acid sequence as a product currently marketed by a competitor and has launched as a follow-on biologic in the U.S., and as a biosimilar in Europe and Japan. However, in March 2020, the FDA began regulating all of our insulin products as "biologics" rather than "drugs." Based on FDA draft guidance, this change may lower the requirements for competitor biosimilar products to enter the market, some of which could be designated as interchangeable and therefore substituted for our insulin products at U.S. pharmacies. As such, in June 2020, Mylan N.V. announced that the FDA approved its New Drug Application (NDA) for Semglee, a new insulin glargine product, which it launched as a follow-on biologic in the U.S. that competes with Basaglar. The laws regulating biosimilars continue to be interpreted and implemented by the FDA and remain subject to substantial uncertainty, including with respect to their impact on our business.

U.S. Private Sector Dynamics

In the U.S. private sector, consolidation and integration among healthcare providers significantly affects the competitive marketplace for pharmaceuticals. Health plans, pharmacy benefit managers, wholesalers, and other supply chain stakeholders have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance. Private third-party insurers, as well as governments, typically maintain formularies that specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer) to control costs by negotiating discounted prices in exchange for formulary inclusion.

Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations that result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels, and higher deductibles. Consequently, pharmaceutical companies compete for formulary placement not only on the basis of product attributes such as efficacy, safety profile, or patient ease of use, but also by providing rebates. Value-based agreements, where pricing is based on achievement (or not) of specified outcomes, are another tool that may be utilized between payers and pharmaceutical companies as formulary placement and pricing are negotiated. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. We expect these downward pricing pressures will continue to negatively affect our consolidated results of operations. In addition to formulary placement, changes in insurance designs continue to drive greater consumer cost-sharing through high deductible plans and higher co-insurance or co-pays. For additional information on pricing and reimbursement for our pharmaceutical products, see "- Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access - U.S."

Patents, Trademarks, and Other Intellectual Property Rights

Overview

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

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

- Patent term adjustment is a statutory right available to all U.S. patent applicants to provide relief in the event that a patent grant is delayed during examination by the United States Patent and Trademark Office (USPTO).
- Patent term restoration is a statutory right provided to U.S. patent holders that claim inventions subject to review by the FDA. To make up for a portion of the time invested in clinical trials and the FDA review process, a single patent for a pharmaceutical product may be eligible for patent term restoration. Patent term restoration is limited by a formula and cannot be calculated until product approval due to uncertainty about the duration of clinical trials and the time it takes the FDA to review an application. There is a five-year cap on any restoration, and no patent's expiration date may be extended beyond 14 years from FDA approval. Some countries outside the U.S. also offer forms of patent term restoration. For example, Supplementary Protection Certificates are available to extend the life of a European patent up to an additional five years (subject to a 15-year cap from European Medicines Agency (EMA) approval). Similarly, in Japan, South Korea, and Australia, patent terms can be extended up to five years, depending on the length of regulatory review and other factors.

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

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

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

Our Intellectual Property Portfolio

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

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

- Alimta is protected by a vitamin regimen patent (2021) plus pediatric exclusivity (May 2022). See Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," for information regarding our settlement agreement with Eagle Pharmaceuticals, Inc. (Eagle) and its impact on our exclusivity for Alimta.
- Baqsimi is protected by data protection (July 2022).
- Cyramza is protected by a compound patent and biologics data protection (2026).
- Emgality is protected by a compound patent (2033) and biologics data protection (2030).
- Jardiance, and the related combination product Glyxambi, is protected by a compound patent (2028).

- Olumiant is protected by a compound patent (2032).
- Retevmo is protected by a compound patent (2037) and by data protection (2025).
- Reyvow is protected by a compound patent (2025, not including possible patent extension).
- Taltz is protected by a compound patent (2030) and by biologics data protection (2028).
- Trulicity is protected by a compound patent (2027) and by biologics data protection (2026).
- Verzenio is protected by a compound patent (2031) and by data protection (2022).

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

- Alimta is protected by patents covering its use to treat cancer in major European countries and in Japan (June 2021).
- Baqsimi is protected by data protection in Japan (2026).
- Cyramza is protected by a compound patent (2028) and by data protection (2024) in major European countries. Additionally, Cyramza is protected by a compound patent (2026) and by data protection (2023) in Japan.
- Emgality is protected by a compound patent (2033) and by data protection (2028) in major European countries, and by a compound patent (2031, not including possible patent extension) and by data protection (2029) in Japan.
- Jardiance is protected by a compound patent in major European countries (2029) and Japan (2030).
- Olumiant is protected by a compound patent (2032) and by data protection (2027) in major European countries, and by a compound patent (2033) and by data protection (2025) in Japan.
- Reyvow is protected by a compound patent (2023, not including possible patent extension) in major European countries. Reyvow is also protected by a compound patent (2023, not including possible patent extension) in Japan.
- Retsevmo® is protected by a compound patent (2037) and by data protection (2031) in major European countries. Retevmo is protected by a compound patent in Japan (2037, not including possible patent extension).
- Taltz is protected by a compound patent (2031) and data protection (2027) in major European countries and a compound patent (2030) and data protection (2024) in Japan.
- Trulicity is protected by a compound patent (2029) and by data protection (2024) in major European countries and by a compound patent (2029) and by data protection (2023) in Japan.
- Verzenio is protected by a compound patent (2033) and data protection (2028) in major European countries and by a compound patent (2034) and data protection (2026) in Japan.

Reyvow has been submitted for regulatory review in certain major European countries for the acute treatment of migraine, where it is expected to be protected by data protection upon approval (10 years). Additionally, Reyvow has been submitted for regulatory review in Japan for the acute treatment of migraine, where it is expected to be protected by data protection upon approval (8 years).

Retevmo has been submitted for regulatory review in Japan for the treatment of lung cancer, where it is expected to be protected by data protection upon approval (8 years).

Tanezumab is protected by a compound patent (2023, not including possible patent extension) in the U.S. Additionally, tanezumab has been submitted for regulatory review in the U.S. for the treatment of osteoarthritis pain, where it is expected to be protected by data protection upon approval (12 years).

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

Patent Licenses and Collaborations

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

Patent Challenges

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

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

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

Under the BPCIA, the FDA cannot approve an application for a biosimilar product until data protection expires, 12 years after initial marketing approval of the innovator biologic, and an application may not be submitted until four years following the date the innovator biologic was first approved. However, the BPCIA does provide a mechanism for a competitor to challenge the validity of an innovator’s patents as early as four years after initial marketing approval of the innovator biologic.

The patent litigation scheme under the BPCIA, and the BPCIA itself, is complex and continues to be interpreted and implemented by the FDA as well as courts. Courts have held that biosimilar applicants are not required to engage in the BPCIA patent litigation scheme and patent holders retain the right to bring suit under normal patent law procedures if a biosimilar applicant attempts to commercialize a product prior to patent expiration. Further, in the U.S., the increased likelihood of generic and biosimilar challenges to innovators’ intellectual property has increased the risk of loss of innovators’ market exclusivity. See also “- Competition - Biosimilars.”

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

Outside the U.S., the legal doctrines and processes by which pharmaceutical patents can be challenged vary widely. In recent years, we have experienced an increase in patent challenges from generic manufacturers in many countries outside the U.S.

For more information on administrative challenges and litigation involving our intellectual property rights, see Item 8, “Financial Statements and Supplementary Data - Note 16, Contingencies.”

Government Regulation of Our Operations

Our operations are regulated extensively by numerous national, state, and local agencies.

Regulation of Products

The lengthy process of laboratory and clinical testing, data analysis, manufacturing development, and regulatory review necessary for governmental approvals of our products is extremely costly and can significantly delay product introductions and revenue generation. In addition, our operations are subject to complex federal, state, local, and foreign laws and regulations concerning relationships with healthcare providers and suppliers, the environment, occupational health and safety, and data privacy. Compliance with the laws and regulations affecting the manufacture and sale of current products and the discovery, development, and introduction of new products will continue to require substantial effort, expense, and capital investment.

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

Following approval, our products remain subject to regulation by various agencies in connection with labeling, import, export, storage, recordkeeping, advertising, promotion, and safety reporting. We conduct extensive post-marketing surveillance of the safety of the products we sell. The FDA may withdraw approval if compliance with regulatory requirements and standards is not maintained or if problems occur after a product reaches the market. The FDA strictly regulates marketing, labeling, advertising, and promotion of products that are placed on the market. Pharmaceutical products may be promoted only for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses.

The FDA extensively regulates all aspects of manufacturing quality for pharmaceuticals under its current Good Manufacturing Practices (cGMP) regulations. Outside the U.S., our products and operations are subject to similar regulatory requirements, notably by the EMA in Europe and the Ministry of Health, Labor and Welfare in Japan. Specific regulatory requirements vary from country to country. Regulatory requirements and approval processes outside the U.S. may differ from those in the U.S. and may involve additional costs and uncertainties.

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems and controls in our manufacturing, product development, and process development operations in an effort to ensure sustained compliance with cGMP and similar regulations. However, in the event we fail to adhere to these requirements, we become subject to potential government investigations, interruptions in production, fines and penalties, delays in new product approvals, and reputational harm. Certain of our products are manufactured by third parties, and their failure to comply with these regulations could adversely affect us through failure to supply product to us or delays in new product approvals. Any determination by the FDA or other regulatory authorities of manufacturing or other deficiencies could adversely affect our business.

We are also subject to a variety of federal, state, and local environmental, health and safety, and other laws and regulations that may affect our research, development or production efforts.

Emergency Use Authorizations

The Secretary of Health and Human Services may authorize unapproved medical products to be manufactured, marketed, and sold in the context of an actual or potential emergency that has been designated by the government. After an emergency has been announced, the Secretary of Health and Human Services may authorize EUAs for the use of specific products based on criteria established by statute, including that the product at issue may be effective in diagnosing, treating, or preventing serious or life-threatening diseases when there are no adequate, approved, and available alternatives. An EUA is subject to additional conditions and restrictions, such as the obligation to provide facts sheets for healthcare providers administering the product and those to whom it is administered, adverse event monitoring and reporting, and recordkeeping and reporting requirements by product manufacturers. The FDA may also establish additional discretionary conditions of authorization that the FDA deems necessary or appropriate to protect the public health, including conditions related to product distribution, product administration and data collection and analysis concerning the safety and effectiveness of the product. In issuing an EUA, the FDA considers the totality of available scientific evidence regarding quality, safety and efficacy, including the known and potential risks of such products and the adequacy and availability of approved alternatives, among other factors. An EUA is not a substitute for obtaining FDA approval, licensure, or clearance for use of a product. An EUA terminates when the emergency determination underlying the EUA terminates, and EUAs can be revoked under other circumstances, the timing of which may occur unexpectedly or be difficult to predict.

Outside the U.S., the emergency use of medical products is subject to regulatory processes and requirements that differ from those in the U.S.

The COVID-19 pandemic has been designated as a national emergency in the U.S. On the basis of such determination, the Secretary of Health and Human Services declared that circumstances exist justifying the authorization of emergency use of drugs and biologics during the COVID-19 pandemic. The FDA has granted EUAs for bamlanivimab, bamlanivimab and etesevimab administered together, and baricitinib in combination with remdesivir, and similar actions have been taken by other regulators in certain jurisdictions outside the U.S. We intend to submit bamlanivimab and etesevimab administered together to the FDA for approval in the second half of 2021.

Other Laws and Regulations

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

In December 2020, the Office of Inspector General of the U.S. Department of Health and Human Services and the Centers for Medicare & Medicaid Services issued final rules expanding and modifying existing, and adding new, regulatory “safe harbors” and exceptions, respectively, under the anti-kickback statute and the Ethics in Patient Referrals Act. We are currently evaluating the impact, if any, these regulatory amendments will have upon becoming effective on our consolidated results of operations, liquidity, and financial position, which is uncertain at this time.

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

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

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

We are also subject to a variety of federal, state, and local environmental, health and safety, and other laws and regulations that may affect our research, development or production efforts.

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

U.S.

There continues to be considerable public and government scrutiny of pharmaceutical pricing, and measures to address the perceived high cost of pharmaceuticals are being considered at various levels of state and federal government. In addition, U.S. government action to reduce federal spending on entitlement programs, including Medicare and Medicaid, may affect payment for our products or services associated with the provision of our products. Additionally, there has been heightened governmental scrutiny recently over the manner in which drug manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs and reform government program reimbursement methodologies for drug products. The regulatory priorities of the current U.S. presidential administration could further intensify these efforts, which could have a material adverse impact on our business.

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

Rebates are also negotiated in the private sector. We pay rebates to private payers who provide prescription drug benefits to seniors covered by Medicare and to private payers who provide prescription drug benefits to their customers. These rebates are affected by the introduction of competitive products and generics in the same class. Our approach to the rebates we offer to private payers who provide prescription drug benefits to seniors covered by Medicare may be impacted by recent regulatory amendments included in the anti-kickback statute final rule that will become effective on January 1, 2023.

Outside the U.S.

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

In most international markets, we operate in an environment of government-mandated cost-containment programs, which may include price controls, international reference pricing (to other countries' prices), discounts and rebates, therapeutic reference pricing (to other, often generic, pharmaceutical choices), restrictions on physician prescription levels, and mandatory generic substitution. We may experience additional pricing pressures resulting from the financial strain of the COVID-19 pandemic on government-funded healthcare systems around the world.

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

See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access" for additional information regarding recent legislative, administrative, and other pricing initiatives and their impact on our results.

Research and Development

Our commitment to research and development dates back more than 140 years. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2020, we employed approximately 7,600 people in pharmaceutical research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel.

Our internal pharmaceutical research focuses primarily on the areas of diabetes, oncology, immunology, neurodegeneration, and pain. During 2020, we also focused on researching and developing potential treatments for COVID-19. In addition to discovering and developing new medicines, we seek to expand the value of existing products through new uses, formulations, and therapeutic approaches that provide additional value to patients.

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

Pharmaceutical development is time-consuming, expensive, and risky. Very few of the candidates discovered by researchers ultimately become approved medicines. The process from discovery to regulatory approval can take over a decade. Candidates can fail at any stage of the process, and even late-stage candidates sometimes fail to receive regulatory approval or achieve commercial success. The following describes in more detail the research and development process for pharmaceutical products:

Phases of New Drug Development

- **Discovery Phase**

  In the discovery phase, scientists identify, design, and synthesize promising candidates by analyzing their effect on biological targets thought to play a role in disease. Targets are often unproven and only candidates that have the desired effect on the target and meet other design criteria move to the next phase of development, which includes the initiation of studies in animals to support regulatory and safety requirements for clinical research in humans. The discovery phase can take years and the probability of any one candidate becoming a medicine is extremely low.

- **Early Development Phase**

  Early development includes initial testing for safety and efficacy and early analyses of manufacturing requirements. Safety testing is initially performed in laboratory tests and animals, as necessary. In general, the first human tests (often referred to as Phase I) are conducted in small groups of subjects to assess safety and evaluate the potential dosing range. Subsequently, larger populations of patients are studied (Phase II) to identify initial signs of efficacy while continuing to assess safety. In parallel, scientists work to identify safe, effective, and economical manufacturing processes. Long-term animal studies continue to test for potential safety issues. Of the candidates that enter the early development phase, approximately 10 percent move to the late development phase. The early development phase varies but can take several years to complete.

- **Late Development Phase**

  Late phase development projects (typically Phase III) have met initial safety requirements and shown initial evidence of efficacy in earlier studies. As a result, these candidates generally have a higher likelihood of success and trials include larger patient populations to demonstrate safety and efficacy in the disease. These studies are designed to demonstrate the benefit and risk of the potential new medicine and may be compared to competitive therapies, placebo, or both. Phase III studies are generally conducted globally and are designed to support regulatory filings for marketing approval. The duration of Phase III testing varies by disease and may take two to four years.

- **Submission Phase**

  Once a potential new medicine is submitted to regulatory agencies, the time to final marketing approval can vary from several months to several years, depending on the disease state, the strength and complexity of available data, the degree of unmet need, and the time required for the regulatory agency(ies) to evaluate the submission, which can depend on prioritization by regulators and other factors. There is no guarantee that a potential medicine will receive marketing approval, or that decisions on marketing approvals or indications will be consistent across geographic areas.

We believe our investments in research, both internally and in collaboration with others, have resulted in a robust pipeline of potential new medicines and new treatment indications in all stages of development. We currently have approximately 45 candidates in clinical development or under regulatory review, and a larger number of projects in the discovery phase. See Item 7, “Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline,” for more information on certain of our product candidates.

Raw Materials and Product Supply

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

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

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

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

In addition, COVID-19 could also have an adverse impact on our manufacturing operations, global supply chain, and distribution systems, which could impact our ability to produce and distribute our products and affect the ability of third parties on which we rely to fulfill their obligations to us, and could increase our expenses. For more information, see Item 1A, "Risk Factors - Risks Related to Our Business - The COVID-19 pandemic and efforts to reduce its spread have impacted, and may in future periods negatively impact, our business and operations." and Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - COVID-19 Pandemic."

Quality Assurance

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

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

Executive Officers of the Company

The following table sets forth certain information regarding our current executive officers.

The term of office for each executive officer expires on the date of the annual meeting of the board of directors, to be held on May 3, 2021 in connection with the company's annual meeting of shareholders, or on the date his or her successor is chosen and qualified. No director or executive officer has a “family relationship” with any other director or executive officer of the company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer or director and any other person pursuant to which the executive officer was selected.

Name	Age	Titles and Business Experience
David A. Ricks	53	Chairman, President, and Chief Executive Officer (CEO) (since 2017). Previously, Mr. Ricks held various leadership roles with Lilly, including senior vice president and president, Lilly Bio-Medicines. Mr. Ricks has 24 years of service with Lilly.
Anat Ashkenazi	48	Senior Vice President and Chief Financial Officer (since 2021). Previously, Ms. Ashkenazi held various leadership roles with Lilly, including senior vice president, controller and chief financial officer, Lilly Research Laboratories, and vice president, finance and chief financial officer, Lilly Diabetes and Lilly global manufacturing and quality. Ms. Ashkenazi has 19 years of service with Lilly.
Melissa S. Barnes	52	Senior Vice President, Enterprise Risk Management, and Chief Ethics and Compliance Officer (since 2013). Previously, Ms. Barnes held various leadership roles with Lilly, including vice president, deputy general counsel. Ms. Barnes has 26 years of service with Lilly.
Stephen F. Fry	55	Senior Vice President, Human Resources and Diversity (since 2011). Previously, Mr. Fry held various leadership roles with Lilly, including vice president, human resources. Mr. Fry has 33 years of service with Lilly.
Anat Hakim	51	Senior Vice President, General Counsel and Secretary (since 2020). Prior to joining Lilly, Ms. Hakim was senior vice president, general counsel and secretary of WellCare Health Plans, Inc. (WellCare) from 2016 to 2018, and executive vice president, general counsel and secretary of WellCare from 2018 to 2020. Prior to joining WellCare, she served as divisional vice president and associate general counsel of intellectual property litigation at Abbott Laboratories from 2010 to 2013 and divisional vice president and associate general counsel of litigation from 2013 to 2016. Ms. Hakim has one year of service with Lilly.
Patrik Jonsson	54	Senior Vice President, President, Lilly USA, and Chief Customer Officer (since 2020). Previously, Mr. Jonsson held various leadership roles with Lilly, including senior vice president and president, Lilly Bio-Medicines and president and general manager, Lilly Japan. Mr. Jonsson has 30 years of service with Lilly.
Michael B. Mason	54	Senior Vice President and President, Lilly Diabetes (since 2020). Previously, Mr. Mason held various leadership roles with Lilly, including senior vice president, connected care and insulins and vice president of U.S. Diabetes. Mr. Mason has 31 years of service with Lilly.
Johna L. Norton	54	Senior Vice President, Global Quality (since 2017). Previously, Ms. Norton held various leadership roles with Lilly, including vice president, global quality assurance API manufacturing and product research and development. Ms. Norton has 30 years of service with Lilly.
Myles O'Neill	62	Senior Vice President and President, Manufacturing Operations (since 2018). Previously, Mr. O’Neill held various leadership roles with Lilly, including senior vice president of global parenteral drug product, delivery devices, and regional manufacturing. Mr. O’Neill has 18 years of service with Lilly.
Leigh Ann Pusey	58	Senior Vice President, Corporate Affairs and Communications (since 2017). Prior to joining Lilly, Ms. Pusey was president and chief executive officer of the American Insurance Association from 2009 to 2017. Ms. Pusey has three years of service with Lilly.
Aarti Shah, Ph.D.	56	Senior Vice President and Chief Information and Digital Officer (since 2018). Previously, Dr. Shah held various leadership roles with Lilly, including senior vice president information technology and chief information officer and global brand development leader. Dr. Shah has 27 years of service with Lilly.
Daniel M. Skovronsky, M.D., Ph.D.	47	Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories (since 2018). Previously, Dr. Skovronsky held various leadership roles with Lilly, including senior vice president, clinical and product development. Dr. Skovronsky has 10 years of service with Lilly.
Anne E. White	52	Senior Vice President and President, Lilly Oncology (since 2018). Previously, Ms. White held various leadership roles with Lilly, including vice president of Portfolio Management, Chorus and Next Generation Research and Development. Ms. White has 25 years of service with Lilly.
Ilya Yuffa	46	Senior Vice President and President, Lilly Bio-Medicines (since 2020). Previously, Mr. Yuffa held various leadership roles with Lilly, including vice president of U.S. Diabetes general manager of Italy Hub, and vice president, global ethics and compliance officer since 2014. Mr. Yuffa has 24 years of service with Lilly.
Alfonso Zulueta	58	Senior Vice President and President, Lilly International (since 2014). Previously, Mr. Zulueta held various leadership roles with Lilly, including president of emerging markets and of Lilly Japan. Mr. Zulueta has 32 years of service with Lilly.

Human Capital Management

Our core values—integrity, excellence, and respect for people—shape our approach to attracting, retaining, engaging, and developing a highly skilled and ethical workforce, which is critical to executing our strategy. We believe the strength of our workforce significantly contributes to our financial performance and enables us to make life better for people around the world. For instance, most of the products we sell today were discovered or developed by our own scientists, and our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines. We believe that fostering a positive culture that values the contributions of our talented colleagues helps drive our success.

We are committed to creating a safe, supportive, ethical, and rewarding work environment through strategic focus on our human capital management process, fairness and nondiscrimination in our employment practices, robust training and development opportunities, and competitive pay and benefits. We believe our dedication to promoting diversity and inclusion (D&I) within our company reflects our values and is a key driver of business success and growth.

We regularly conduct anonymous employee surveys to seek feedback from our workforce on a variety of topics. These results are reviewed and analyzed by our leaders in order to implement changes to our policies and benefits designed to improve our employees' well-being. As a result of our efforts, we believe that we have a highly performing, cohesive workforce and that our employee relations are good.

At the end of 2020, we employed approximately 35,000 people, including approximately 19,500 employees outside the U.S. Our employees include approximately 7,600 people engaged in research and development activities.

Strategy and Oversight

In order to build diverse and inclusive teams, our CEO and executive committee set expectations for inclusive leadership and hold leaders accountable for achieving results. Because dedication to human capital management is also a core component of our corporate governance, our board of directors regularly engages with management and facilitates a system of reporting designed to monitor human capital management initiatives and progress as part of the overarching framework that guides how we attract, retain, engage, and develop a workforce that aligns with our values and mission.

Diversity and Inclusion

We are committed to fairness and nondiscrimination in our employment practices, and we deeply value diverse backgrounds, skills, and global perspectives. To fulfill our purpose, we believe we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us.

We believe that fostering D&I begins with understanding. For example, our *Employee Journeys* research has yielded important insights about the experiences of women, Black/African American, Latinx, Asian, and lesbian, gay, bisexual, transgender, or queer (LGBTQ) employees at Lilly. The results of this research are reviewed by our senior leadership, and we deploy actions and activities in response to these insights to improve our workplace and corporate culture.

Since 2017, we have committed to increasing the number of women, Black/African American, Latinx, and Asian populations in leadership roles, and we actively monitor our progress. From the end of 2017 through the end of 2020, we increased the number of women in management globally from 41 percent to 46 percent. For minority group members (MGM) in the U.S. over the same period, we increased management representation from 16 percent to 22 percent. Across all levels of our workforce, from the end of 2017 through the end of 2020, we have seen increased representation for MGMs in the U.S. and women globally. Our focus on D&I is also evident at our executive committee and board of directors. Seven of 15 members (approximately 47 percent) of our executive committee (which includes our CEO) are women and two are MGM, including one MGM woman. In addition, the company’s 15-member board of directors includes six women and seven members of underrepresented groups (including MGM as well as LGBTQ individuals).

Our efforts in D&I and workplace benefits have garnered numerous recognitions, including, in 2020 and early 2021, Top 50 Companies for Diversity by DiversityInc., America's Best Employers for Diversity by Forbes, America's Most JUST Companies and Forbes JUST 100 by Forbes and JUST Capital, Perfect Score on the Human Rights Campaign Foundation Corporate Equality Index (2020 and 2021), World's Most Ethical Companies by Ethisphere, Leading Disability Employer by the National Organization on Disability, Top Employers by Science Magazine, America's Most Responsible Companies by Newsweek, and 100 Best Companies, Top 75 Companies for Executive Women, Best Companies for Dads, and Best Companies for Multicultural Women by Working Mother Magazine.

Employee Development

We believe talent begins with the hiring process. We therefore require hiring managers to consider a diverse pool of candidates and we strive to provide a diverse panel of interviewers for open positions. We believe that hiring in this way helps ensure that people from all backgrounds have equal opportunity to advance their careers.

We offer training to enable our employees to perform their duties in our highly regulated industry. We also strive to cultivate a culture that promotes ongoing learning by encouraging employees to seek further education and growth experiences, helping them build rewarding careers. We have introduced online programming to facilitate access to our learning and development offerings. Many training courses are designed to improve accessibility for people with disabilities and other unique needs. Across Lilly, we are working to design learning experiences to be more inclusive and effective.

To further improve our talent programs and processes, in 2019, we introduced *Explore Your Career*, a global framework of tools and resources for our employees. We believe *Explore Your Career* provides broader access and transparency about career development and advancement at Lilly. In 2018, we introduced *Emerge*, a three-day program led by our CEO that is designed to develop MGM talent at Lilly, and three cohorts comprising Black/African American women, Latinx and Asian women, and MGM men have participated in this enterprise-level program since its inception. Lilly also offers established leadership development programs for women and earlier career multi-cultural talent, as well as leaders at all levels.

Employee resource groups (ERGs) are another important component of developing talent at Lilly. We currently have 10 ERGs representing groups including women, MGMs, LGBTQ individuals, and people with disabilities. ERGs offer our diverse workforce opportunities to build relationships, engage with senior leaders, advance our caring community, and offer unique insights and perspectives to improve our business. Membership in our ERGs continues to grow, with an estimated 11,430 people participating worldwide at the end of 2020.

In furtherance of our efforts to create an inclusive workplace, in 2020 we expanded *Make it Safe to Thrive*, an education and awareness program to help employees and leaders understand how individual psychological safety can be created and enhanced, with the goal of ensuring that all employees feel safe to speak up and to share their ideas at work. The program includes live and online training and a monthly video series.

Employee Health and Safety

While we have consistently focused on protecting the health and safety of our employees, the COVID-19 pandemic has emphasized the importance of this critical priority. In response to the pandemic, we have taken measures to protect our workforce, maximize social distancing, and inform employees about our policies. For example, we instituted travel restrictions and remote working arrangements for employees whose roles do not require on-site presence. To support employee well-being in the U.S., we enhanced local benefits related to health care, childcare, and time off, and expanded reimbursement for home office ergonomic support expenditures. In the U.S., we provide full coverage for COVID-19 diagnostic testing and treatment, and at our corporate headquarters in Indianapolis, we provide free on-site testing for employees and members of their household. In addition, as part of our *Make it Safe to Thrive* program, we partnered with our ERGs to offer a series of programs highlighting and addressing challenges faced by ERG members during the COVID-19 pandemic, aiming to build understanding of different experiences and to offer ways to be inclusive.

Information Available on Our Website

Our company website is **www.lilly.com**. None of the information accessible on or through our website is incorporated into this Annual Report on Form 10-K. We make available through the website, free of charge, our company filings with the SEC as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. These include our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. The link to our SEC filings is **investor.lilly.com/financial-information/sec-filings**.

In addition, the Governance portion of our website includes our corporate governance guidelines, board of directors and committee information (including committee charters), and our articles of incorporation and bylaws. The link to our corporate governance information is **lilly.com/leadership/governance**.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating our company. It is possible that our business, financial condition, liquidity, cash flows, or results of operations could be materially adversely affected by any of these risks. Certain of these risks could also adversely affect the company's reputation. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could also adversely affect our business and reputation.

Risks Related to Our Business

- **The COVID-19 pandemic and efforts to reduce its spread have impacted, and may in future periods negatively impact, our business and operations.**

  The COVID-19 pandemic has substantially burdened healthcare systems worldwide. The focus of resources on COVID-19 and widespread protective measures implemented to control the spread of the pandemic have impacted discovery, research, development, manufacturing, and sales of our medicines as well as those of the broader pharmaceutical industry. Significant delays or unexpected issues, such as higher discontinuation rates or delays accumulating data, affecting the timing, conduct, or regulatory review of our clinical trials, could adversely affect our ability to commercialize some assets in our product pipeline.

  Lack of normal access and fewer in-person interactions by patients and our employees with the healthcare system, along with concern about the continued supply of medications, has resulted, and may continue to result, in changes in buying patterns throughout the supply chain, impacting demand for our products and negatively impacting the consolidated operating results of our underlying business. In certain locations in the U.S and around the world with COVID-19 outbreaks, we temporarily halted in-person interactions by our employees with healthcare providers and increased virtual interactions. While in-person interactions have resumed in many locations, we may decide to halt such activity in the future and, in those cases, expect to resume such interactions as it is safe to do so and in compliance with applicable guidance and requirements. The COVID-19 pandemic could also have an adverse impact on our manufacturing operations, global supply chain, and distribution systems, which could impact our ability to produce and distribute our products and affect the ability of third parties on which we rely to fulfill their obligations to us, and could increase our expenses.

  We also face unique risks and uncertainties related to our development, manufacture, and uptake of potential treatments for COVID-19, including vulnerability to supply chain disruptions, higher manufacturing costs, difficulties in manufacturing sufficient quantities of our therapies, restrictions on administration that limit widespread and timely access to our therapies, and risks related to handling, return, and/or refund of product after delivery by us. Expedited authorization processes, including our EUAs for bamlanivimab and bamlanivimab and etesevimab administered together, have allowed restricted distribution of products with less than typical safety and efficacy data, and additional data that become available may call into question the safety or effectiveness of our COVID-19 therapies. Additionally, the availability of superior or competitive therapies, or preventative measures such as vaccines, coupled with the transient nature of pandemics, could negatively impact or eliminate demand for our COVID-19 therapies. In addition, we may be required to accept returns of certain product previously shipped pursuant to EUAs if the relevant EUA is revoked or terminated. Mutations or the spread of other variants of the coronavirus could also render our therapies ineffective. Any of these risks could prevent us from recouping our substantial investments in the research, development, and manufacture of our COVID-19 therapies.

  In addition, the conditions created by the COVID-19 pandemic intensify other risks inherent in our business, including, among other things, risks related to drug pricing and access, the conduct of clinical trials, workplace safety and productivity, intellectual property protection, product liability and other litigation, and the impact of adverse global and local economic conditions.

We have experienced negative impacts to our underlying business, including demand for our products, due to the COVID-19 pandemic but the pandemic has not negatively impacted our liquidity position. Given the evolving nature of the virus, the financial impact of the COVID-19 pandemic on our results of operations, financial condition, liquidity, and cash flows in future periods could change, perhaps materially. The degree to which the COVID-19 pandemic affects us will depend on developments that are highly uncertain and beyond our knowledge or control, including, but not limited to, the duration and severity of the pandemic, the actions taken to reduce its transmission, including widespread availability of vaccines, and the speed with which, and extent to which, more stable economic and operating conditions resume. Should the COVID-19 pandemic and any associated recession or depression continue for a prolonged period, our results of operations, financial condition, liquidity, and cash flows could be materially impacted by lower revenues and profitability and a lower likelihood of effectively and efficiently developing and launching new medicines.

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

  There are many difficulties and uncertainties inherent in pharmaceutical research and development, the introduction of new products, and business development activities to expand our product pipeline.

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

  We cannot state with certainty when or whether our products now under development will be approved or launched; whether, if initially granted, such approval will be maintained; whether we will be able to develop, license, or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful.

  We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products, both through our internal efforts and our business development activities, sufficient both to cover our substantial research and development costs and to replace revenues that are lost as profitable products lose intellectual property exclusivity or are displaced by competing products or therapies. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, and financial position. Our business development activities to enhance our product pipeline may include acquisitions, strategic alliances, collaborations, investments, and licensing arrangements. There are substantial risks associated with identifying business development targets and consummating related transactions, which may not be completed in a timely manner, if at all, may not result in successful commercialization of any product, and may give rise to legal proceedings or regulatory scrutiny.

  See Item 7, “Management’s Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline,” for more details about our current product pipeline.

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

  A number of our top-selling products, including Alimta and Forteo, have recently lost, or will lose in the next few years, significant patent protection and/or data protection in the U.S. as well as key countries outside the U.S. We have faced and remain exposed to generic competition following the loss of such intellectual property protection. In particular, we expect that the entry of generic competition for Alimta in the U.S. following the loss of patent exclusivity will cause a rapid and severe decline in revenue for the product and have a material adverse effect on our consolidated results of operations and cash flows.

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

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

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

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

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

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

  We compete with a large number of multinational pharmaceutical companies, biotechnology companies, and generic pharmaceutical companies. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet important medical needs. Our product revenues can be adversely affected by the introduction by competitors of branded products that are perceived as superior by the marketplace, by generic or biosimilar versions of our branded products, and by generic or biosimilar versions of other products in the same therapeutic class as our branded products. Our revenues can also be adversely affected by treatment innovations that eliminate or minimize the need for treatment with our drugs.

  Regulation of generic and biosimilar products varies around the world and such regulation is complex and subject to ongoing interpretation and implementation by regulatory agencies and courts. Particularly for biosimilars, recent government proposals could make it easier, less expensive, and less time consuming for competitor products to enter the market, some of which could be substituted for our products by pharmacies. Given the importance of biologic products to our clinical-stage pipeline, such regulation could have a material adverse effect on our business. See Item 1, “Business - Competition” and "Business - Research and Development," for more details.

- **Failure, inadequacy, or breach of our IT systems or our business processes regarding confidential information and other data, unauthorized access to our confidential information or violations of data protection laws could result in material harm to our business and reputation.**

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

  IT systems are vulnerable to system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources. Cyber-attacks are growing in their frequency, sophistication, and intensity, and are becoming increasingly difficult to detect, mitigate, or prevent. Cyber-attacks come in many forms, including the deployment of harmful malware, exploitation of vulnerabilities (including those third-party software or systems), denial-of-service attacks, the use of social engineering, and other means to compromise the confidentiality, integrity and availability of our IT systems, confidential information, and other data. Breaches resulting in the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our products and services, can occur in a variety of ways, including but not limited to, negligent or wrongful conduct by employees or others with permitted access to our systems and information, or wrongful conduct by hackers, competitors, certain governments or nation-states, or other current or former company personnel. Our third-party partners, including third-party providers of data hosting or cloud services, as well as suppliers, distributors, alliances, and other third-party service providers, face similar risks, which could affect us directly or indirectly. The healthcare industry has been and continues to be a target for cyber-attacks, and the number of threats has only increased during the COVID-19 pandemic. Numerous federal agencies that monitor and regulate internet and cyber-crime have issued guidance, alerts and directives warning of software vulnerabilities that require immediate patching, malicious actors targeting healthcare related systems and nation-state sponsored hacking designed to steal valuable information, including related to potential COVID-19 treatments.

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

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

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

  While pharmaceuticals have not generally been sensitive to overall economic cycles, prolonged economic slowdowns, including as a result of COVID-19, could lead to decreased utilization of our products, affecting our sales volume. Declining tax revenues attributable to economic downturns increase the pressure on governments to reduce health care spending, leading to increasing government efforts to control drug prices and utilization. Additionally, some customers, including governments or other entities reliant upon government funding, may be unable to pay for our products in a timely manner. Also, if our customers, suppliers, or collaboration partners experience financial difficulties, we could experience slower customer collections, greater bad debt expense, and performance defaults by suppliers or collaboration partners. Similarly, in the event of a significant economic downturn, we could have difficulty accessing credit markets.

  Significant portions of our business are conducted in Europe, including the United Kingdom, Asia, and other international geographies. Trade disputes and interruptions in international relationships, including pandemic diseases, such as COVID-19, could result in changes to regulations governing our products and our intellectual property, or otherwise affect our ability to do business. While we do not expect either circumstance to materially affect our business in a direct manner, these and similar events could adversely affect us, or our business partners or customers.

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

  Pharmaceutical products receive regulatory approval based on data obtained in controlled clinical trials of limited duration. After approval, the products are used for longer periods of time by much larger numbers of patients. Accordingly, we and others (including regulatory agencies and private payers) collect extensive information on the efficacy and safety of our marketed products by continuously monitoring the use of our products in the marketplace. In addition, we or others may conduct post-marketing clinical studies on efficacy and safety of our marketed products. New safety or efficacy data from both market surveillance and post-marketing clinical studies may result in product label changes or other measures that could reduce the product's market acceptance and result in declining sales. Serious safety or efficacy issues that arise after product approval could result in voluntary or mandatory product recalls or withdrawals from the market. Safety issues could also result in costly product liability claims. See also “ - The COVID-19 pandemic and efforts to reduce its spread have impacted, and may in future periods negatively impact, our business and operations.”

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

  We are subject to a substantial number of product liability claims involving various products, as well as litigation and investigations related to the pricing of our products. See Item 8, “Financial Statements and Supplementary Data - Note 16, Contingencies” for more information on our current product liability litigation, as well as pricing litigation, investigations, and inquiries. Because of the nature of pharmaceutical products, we are and could in the future become subject to large numbers of product liability claims for these or other products, or to further litigation or investigations, including related to pricing or other commercial practices. Such matters could affect our results of operations or require us to recognize substantial charges to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for liability insurance, we are self-insured for product liability losses for all our currently marketed products, as well as for litigation or investigations related to our pricing practices or other similar matters.

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

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

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

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

Risks Related to Government Regulation

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

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

We expect governments and private payers worldwide to intensify their scrutiny of, and actions intended to address, pricing, reimbursement, and access to pharmaceutical products. Additional regulations, legislation, or enforcement, including as a result of the current U.S. presidential administration, could adversely impact our revenue. However, we cannot predict the likelihood, nature, or extent of current and future health care reform efforts. We also may experience potential additional pricing pressures resulting from the financial strain of the COVID-19 pandemic on government-funded healthcare systems around the world.

For more details, see Item 1, “Business - Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access,” and Item 7, “Management’s Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access.”

- **Changes in foreign currency rates or interest rate risks could materially affect our revenue, cost of sales, and operating expenses.**

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

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

  We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and in the course of our business, we make judgments about the expected tax treatment of various transactions and events. Changes in relevant tax laws, regulations, administrative practices, principles, and interpretations, as well as events that differ from our expectations, could adversely affect our future effective tax rates. In addition, global tax authorities routinely examine our tax returns and are expected to become more aggressive in their examinations of profit allocations among jurisdictions which could affect our anticipated tax liabilities. In December 2017, the U.S. enacted tax reform legislation significantly revising U.S. tax laws, and a number of other countries are also actively considering or enacting tax changes. Significant uncertainty currently exists regarding proposed tax policies of the current U.S. presidential administration including repeal of certain aspects of the 2017 tax law. Modifications to key elements of the U.S. or international tax framework could have a material adverse effect on our consolidated operating results and cash flows. See Item 7, “Management’s Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Tax Matters” and Item 8, "Financial Statements and Supplementary Data - Note 14, Income Taxes," for more details.

  We have taken the position, based on an opinion of tax counsel, that our divestiture of Elanco common stock in connection with the 2019 separation of Elanco qualifies as a transaction that is tax-free for U.S. federal income tax purposes. If any facts, assumptions, representations, and undertakings from Lilly and Elanco regarding the past and future conduct of their respective businesses and other matters are incorrect or not otherwise satisfied, the divestiture may not qualify for tax-free treatment, which could result in significant U.S. federal income tax liabilities for us and our shareholders who exchanged their stock for Elanco stock.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2020, we owned 9 production and distribution sites in the U.S., including Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 8.2 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis, Indiana; Carolina, Puerto Rico; and Branchburg, New Jersey.

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

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

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

Item 3. Legal Proceedings

We are a party to various currently pending legal actions, government investigations, and environmental proceedings. Information pertaining to legal proceedings is described in Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," and incorporated by reference herein.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Information relating to the principal market for our common stock and related stockholder matters is described in Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters." This information is incorporated herein by reference.

As of February 12, 2021, there were approximately 21,650 holders of record of our common stock based on information provided by our transfer agent. Our common stock is listed under the ticker symbol LLY on the New York Stock Exchange (NYSE).

The following table summarizes the activity related to repurchases of our equity securities during the fourth quarter ended December 31, 2020:

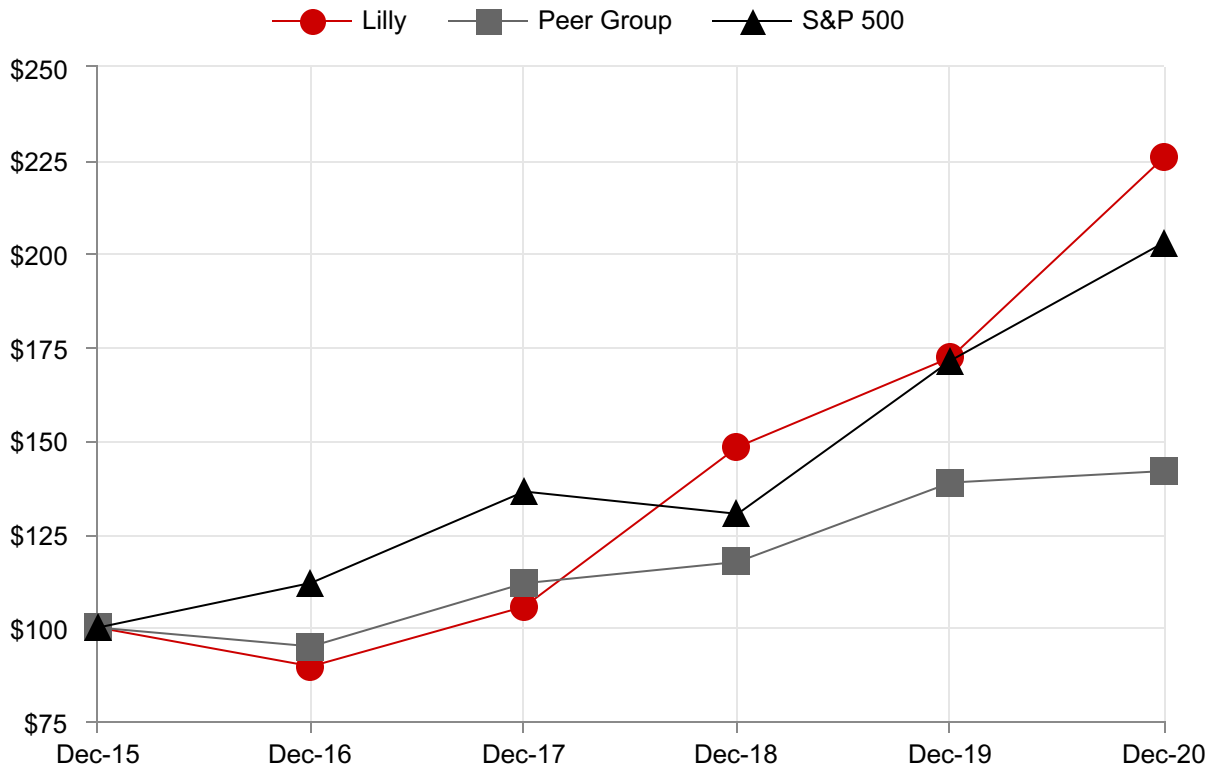
Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (dollars in millions)
October 2020	—	$ —	—	$ 1,000.0
November 2020	—	—	—	1,000.0
December 2020	—	—	—	1,000.0
Total	—	—	—	

During the three months ended December 31, 2020, we did not repurchase any shares under the $8.00 billion share repurchase program authorized in June 2018.

PERFORMANCE GRAPH

The following graph compares the return on Lilly stock with that of the Standard & Poor's (S&P) 500 Stock Index and our peer group for the years 2016 through 2020. The graph assumes that, on December 31, 2015, a person invested $100 each in Lilly stock, the S&P 500 Stock Index, and the peer group's collective common stock. The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are immediately reinvested in that company's stock.

Value of $100 Invested on Last Business Day of 2015 Comparison of Five-Year Cumulative Total Shareholder Return Among Lilly, S&P 500 Stock Index, and Peer Group[(1)]



	Lilly	Peer Group	S&P 500
Dec-15	$ 100.00	$ 100.00	$ 100.00
Dec-16	$ 89.63	$ 94.96	$ 111.96
Dec-17	$ 105.61	$ 111.86	$ 136.40
Dec-18	$ 148.33	$ 117.57	$ 130.42
Dec-19	$ 172.29	$ 138.80	$ 171.49
Dec-20	$ 225.80	$ 141.88	$ 203.04

(1) We constructed the peer group as the industry index for this graph. It is comprised of the following companies in the pharmaceutical and biotechnology industries: AbbVie Inc.; Allergan plc; Amgen Inc.; AstraZeneca PLC; Biogen Inc.; Bristol-Myers Squibb Company; Gilead Sciences Inc.; GlaxoSmithKline plc; Johnson & Johnson; Merck & Co., Inc.; Novartis AG.; Novo Nordisk A/S; Pfizer Inc.; Roche Holding AG; Sanofi S.A.; and Takeda Pharmaceutical Company Limited. The peer group used for performance benchmarking aligns with the peer group used for executive compensation purposes for 2020 other than our peer group for performance benchmarking excludes Celgene Corporation and Shire plc as they were acquired in 2019.

Item 6. [Reserved]

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

RESULTS OF OPERATIONS

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

General

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

Executive Overview

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

COVID-19 Pandemic

In response to the COVID-19 pandemic, we have been focused on maintaining a reliable supply of our medicines; reducing the strain on the medical system; developing treatments for COVID-19; protecting the health, safety, and well-being of our employees; supporting our communities; and ensuring affordability of and access to our medicines, particularly insulin.

We have experienced negative impacts to our underlying business due to the COVID-19 pandemic, including decreases in new prescriptions as a result of fewer patient visits to physician's offices to begin or change treatment, changes in payer segment mix, and the use of patient affordability programs in the United States (U.S.) due to rising unemployment. Additionally, we have experienced, and may continue to experience, decreased demand as a result of lack of normal access and fewer in-person interactions by patients and our employees with the healthcare system. In certain locations in the U.S. and around the world with COVID-19 outbreaks, we temporarily halted in-person interactions by our employees with healthcare providers and increased virtual interactions. While in-person interactions have resumed in many locations, we may decide to halt such activity in the future and, in those cases, expect to resume such interactions as it is safe to do so and in compliance with applicable guidance and requirements. We may experience additional pricing pressures resulting from the financial strain of the COVID-19 pandemic on government-funded healthcare systems around the world.

We remain committed to discovering and developing new treatments for the patients we serve. At the beginning of the COVID-19 pandemic, we paused new clinical trial starts and enrollment in new trials in order to reduce the strain on the medical system, and we have resumed this activity in our clinical trials. However, significant delays or unexpected issues, such as higher discontinuation rates or delays accumulating data, affecting the timing, conduct, or regulatory review of our clinical trials, could adversely affect our ability to commercialize some assets in our product pipeline if the COVID-19 pandemic continues for a protracted period.

In regards to COVID-19 therapies, the U.S. Food and Drug Administration (FDA) granted Emergency Use Authorizations (EUA) for bamlanivimab and bamlanivimab and etesevimab administered together for higher-risk patients who have been recently diagnosed with mild-to-moderate COVID-19 and for baricitinib in combination with remdesivir in hospitalized COVID-19 patients. We are actively working with a variety of organizations, including governmental agencies, to facilitate access to our COVID-19 treatments in various countries. However, we face unique risks and uncertainties in our development, manufacture, and uptake of potential treatments for COVID-19, including vulnerability to supply chain disruptions, higher manufacturing costs, difficulties in manufacturing sufficient quantities of our therapies, restrictions on administration that limit widespread and timely access to our therapies, and risks related to handling, return, and/or refund of product after delivery by us. Expedited authorization processes, including our EUAs for bamlanivimab and bamlanivimab and etesevimab administered together, have allowed restricted distribution of products with less than typical safety and efficacy data, and additional data that become available may call into question the safety or effectiveness of our COVID-19 therapies. Additionally, the availability of superior or competitive therapies, or preventative measures, such as vaccines, coupled with the transient nature of pandemics, could negatively impact or eliminate demand for our COVID-19 therapies. In addition, we may be required to accept returns of certain product previously shipped pursuant to EUAs if the relevant EUA is revoked or terminated. Mutations or the spread of other variants of the coronavirus could also render our therapies ineffective. Any of these risks could prevent us from recouping our substantial investments in the research, development, and manufacture of our COVID-19 therapies.

Our ability to continue to operate without significant negative impacts will in part depend on our ability to protect our employees and our supply chain. We have taken steps to protect our employees worldwide, with particular measures in place for those working in our manufacturing sites and distribution facilities. For 2020, we were able to largely maintain our normal operations. However, uncertainty resulting from the COVID-19 pandemic could have an adverse impact on our manufacturing operations, global supply chain, and distribution systems, which could impact our ability to produce and distribute our products and the ability of third parties on which we rely to fulfill their obligations to us, and could increase our expenses.

Although the COVID-19 pandemic has affected our operations and demand for our products, it has not negatively impacted our liquidity position. We expect to continue to generate cash flows to meet our short-term liquidity needs and to have access to liquidity via the short-term and long-term debt markets. We also have not observed any material impairments of our assets or significant changes in the fair value of assets due to the COVID-19 pandemic.

The degree to which the COVID-19 pandemic will continue to impact our business operations, financial results, and liquidity will depend on future developments, is highly uncertain, and cannot be predicted due to, among other things, the duration and severity of the pandemic, the actions taken to reduce its transmission, including widespread availability of vaccines, and the speed with which, and extent to which, more stable economic and operating conditions resume. Should the COVID-19 pandemic and any associated recession or depression continue for a prolonged period, our results of operations, financial condition, liquidity, and cash flows could be materially impacted by lower revenues and profitability and a lower likelihood of effectively and efficiently developing and launching new medicines. See “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K for additional information on risk factors that could impact our results.

Elanco Animal Health (Elanco) Disposition

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

Financial Results

The following table summarizes our key operating results:

	Year Ended December 31		Percent Change
	2020	2019	
Revenue	**$ 24,539.8**	$ 22,319.5	10
Gross margin	**19,056.5**	17,598.3	8
Gross margin as a percent of revenue	**77.7 %**	78.8 %	
Operating expense	**$ 12,206.9**	$ 11,808.8	3
Acquired in-process research and development	**660.4**	239.6	NM
Asset impairment, restructuring, and other special charges	**131.2**	575.6	(77)
Income before income taxes	**7,229.9**	5,265.9	37
Income taxes	**1,036.2**	628.0	65
Net income from continuing operations	**6,193.7**	4,637.9	34
Net income	**6,193.7**	8,318.4	(26)
EPS from continuing operations	**6.79**	4.96	37
EPS	**6.79**	8.89	(24)

NM - not meaningful

Revenue increased in 2020 driven by increased volume, partially offset by lower realized prices. Operating expenses, defined as the sum of research and development and marketing, selling, and administrative expenses, increased in 2020, driven primarily by approximately $450 million of development expenses for COVID-19 therapies. The decreases in net income and EPS in 2020 were driven primarily by the approximately $3.7 billion gain recognized on the disposition of Elanco in 2019, partially offset by higher gross margin and higher other income in 2020.

The following highlighted items affect comparisons of our 2020 and 2019 financial results:

2020

Acquired in-process research and development (IPR&D) (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $660.4 million resulting from the acquisitions of Disarm Therapeutics, Inc. (Disarm) and a pre-clinical stage company as well as collaborations with Innovent Biologics, Inc. (Innovent), Sitryx Therapeutics Limited (Sitryx), Fochon Pharmaceuticals, Ltd. (Fochon), AbCellera Biologics Inc. (AbCellera), Evox Therapeutics Ltd (Evox), and Shanghai Junshi Biosciences Co., Ltd. (Junshi Biosciences).

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

- We recognized charges of $131.2 million primarily related to severance costs incurred as a result of actions taken worldwide to reduce our cost structure, as well as acquisition and integration costs incurred as part of the acquisition of Dermira, Inc. (Dermira).

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

- We recognized $1.44 billion of net investment gains on equity securities.

2019

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

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

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

- We recognized charges of $575.6 million primarily associated with the accelerated vesting of Loxo Oncology, Inc. (Loxo) employee equity awards as part of the acquisition of Loxo.

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

- We recognized $401.2 million of net investment gains on equity securities.
- We recognized a gain of $309.8 million on the sale of our antibiotics business in China.
- We recognized a debt extinguishment loss of $252.5 million related to the repurchase of debt.

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

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

Late-Stage Pipeline

Our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines. We currently have approximately 45 candidates in clinical development or under regulatory review, and a larger number of projects in the discovery phase.

The following new molecular entities (NMEs) and diagnostic agent are currently in Phase III clinical trials or have been submitted for regulatory review or have received first regulatory approval in the U.S., Europe, or Japan in 2020. In addition, the following table includes certain NMEs currently in Phase II clinical trials. The following table reflects the status of these NMEs and diagnostic agent, including certain other developments since January 1, 2020.

Compound	Indication	Status	Developments
COVID-19 Therapies			
Bamlanivimab	COVID-19	Emergency Use Authorization	The FDA granted EUA for higher-risk patients recently diagnosed with mild-to-moderate COVID-19 in the fourth quarter of 2020. Announced in January 2021 that a Phase III trial met the primary and all key secondary endpoints. Additional Phase III trials are ongoing.
Bamlanivimab and etesevimab administered together	COVID-19	Emergency Use Authorization	Announced in January 2021 that a Phase III trial met the primary and all key secondary endpoints. The FDA granted EUA for higher-risk patients recently diagnosed with mild-to-moderate COVID-19 in January 2021. Additional Phase III trials are ongoing. We intend to submit to the FDA for approval in the second half of 2021.
Endocrinology			
Ultra-rapid Lispro (Lyumjev®)	Type 1 and 2 diabetes	Launched	Launched in Japan in the second quarter of 2020 and in the U.S. and Europe in the third quarter of 2020.
Tirzepatide	Type 2 diabetes	Phase III	Announced in the fourth quarter of 2020 and in February 2021 that Phase III trials met the primary and all key secondary endpoints. Additional Phase III trials are ongoing.
	Obesity		Phase III trials are ongoing.
	Nonalcoholic steatohepatitis	Phase II	Phase II trial is ongoing.
Basal Insulin-Fc	Type 1 and 2 diabetes	Phase II	Phase II trials are ongoing.

Compound	Indication	Status	Developments
Immunology			
Lebrikizumab[1]	Atopic dermatitis	Phase III	Acquired in Dermira acquisition in February 2020. The FDA granted Fast Track designation[2]. Phase III trials are ongoing.
Mirikizumab	Crohn's Disease	Phase III	Phase III trials are ongoing.
	Psoriasis		Announced in the third quarter of 2020 that Phase III trials met the primary and all key secondary endpoints. Additional Phase III trials are ongoing.
	Ulcerative colitis		Phase III trials are ongoing.
CXCR1/2 Ligands Monoclonal Antibody	Hidradenitis Suppurativa	Phase II	Phase II trial initiated in the third quarter of 2020.
IL-2 Conjugate	Systemic Lupus Erythematosus	Phase II	Phase II trial is ongoing.
Neuroscience			
Lasmiditan (Reyvow®)	Acute treatment of migraine	Launched	Received Schedule V classification from the Drug Enforcement Agency and launched in the U.S. in the first quarter of 2020. Submitted in Europe and Japan in the fourth quarter of 2020.
Flortaucipir (Tauvid™)	Alzheimer's disease diagnostic	Launched	Launched in the U.S. in the fourth quarter of 2020.
Tanezumab[3]	Osteoarthritis pain	Submitted	Submitted to the FDA in 2019. The FDA intends to hold an Advisory Committee meeting, expected to occur in March 2021, to discuss the submission.
	Cancer pain	Phase III	Phase III trial is ongoing.
Solanezumab	Preclinical Alzheimer's disease	Phase III	Announced in the first quarter of 2020 that a Phase III trial for people with dominantly inherited Alzheimer's disease (DIAD) did not meet the primary endpoint. We do not plan to pursue submission for DIAD. Phase III trial is ongoing for Anti-Amyloid Treatment in Asymptomatic Alzheimer's.
Donanemab	Alzheimer’s disease	Phase II	Announced in January 2021 that a Phase II trial met the primary endpoint. Additional Phase II trials are ongoing.
Epiregulin/TGFa mAb	Chronic pain	Phase II	Phase II trials initiated in the third quarter of 2020.
PACAP38 Antibody	Chronic pain	Phase II	Phase II trial initiated in the fourth quarter of 2020.
SSTR4 Agonist	Chronic pain	Phase II	Phase II trials initiated in the fourth quarter of 2020.
Zagotenemab	Alzheimer’s disease	Phase II	Phase II trial is ongoing.
Oncology			
Selpercatinib (Retevmo®)	Thyroid cancer	Launched	Granted accelerated approval[4] by the FDA based on Phase II data and launched in the U.S. in the second quarter of 2020. Submitted in Japan in the fourth quarter of 2020. Granted conditional marketing authorisation[4] in Europe in February 2021. Phase III trials are ongoing.
	Lung cancer		
LOXO-305	Hematological cancers	Phase II	Phase II trial initiated in the second quarter of 2020. Presented positive data at the American Society of Hematology Annual Meeting in the fourth quarter of 2020.

[1] In collaboration with Almirall, S.A. (Almirall) in Europe.
[2] Fast Track designation is designated to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.
[3] In collaboration with Pfizer, Inc.
[4] Continued approval may be contingent on verification and description of clinical benefit in confirmatory Phase III trials.

As part of our collaboration with Innovent, we plan to pursue registration of sintilimab injection (Tyvyt®) in the U.S. and other markets.

Our pipeline also contains several new indication line extension (NILEX) products. The following certain NILEX products are currently in Phase II or Phase III clinical testing, have been submitted for regulatory review, or have received first regulatory approval in the U.S., Europe, or Japan for use in the indication described in 2020. The following table reflects the status of certain NILEX products, including certain other developments since January 1, 2020:

Compound	Indication	Status	Developments
Endocrinology			
Empagliflozin (Jardiance®)[1]	Heart failure with reduced ejection fraction	Submitted	Submitted in the U.S., Europe and Japan in the fourth quarter of 2020.
	Chronic kidney disease	Phase III	Granted FDA Fast Track designation[2]. Phase III trials are ongoing.
	Heart failure with preserved ejection fraction		
Immunology			
Baricitinib (Olumiant®)	Atopic dermatitis	Approved	Announced in the first quarter of 2020 that a Phase III trial met the primary and all key secondary endpoints. Submitted in the U.S. in the second quarter of 2020. Approved in Europe in the third quarter of 2020 and in Japan in the fourth quarter of 2020.
	COVID-19	Emergency Use Authorization	The FDA granted EUA in combination with remdesivir in hospitalized COVID-19 patients in the fourth quarter of 2020.
	Alopecia areata	Phase III	The FDA granted Breakthrough Therapy designation[3]. Phase III trials are ongoing.
	Systemic lupus erythematosus		Phase III trials are ongoing.
Oncology			
Abemaciclib (Verzenio®)	Adjuvant breast cancer	Submitted	Announced in the second quarter of 2020 that a Phase III trial met the primary endpoint. Submitted in the U.S. and Europe in the fourth quarter of 2020.
	Prostate cancer	Phase II	Phase II trials are ongoing.

[1] In collaboration with Boehringer Ingelheim.
[2] Fast Track designation is designated to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.
[3] Breakthrough Therapy designation is designed to expedite the development and review of potential medicines that are intended to treat a serious condition where preliminary clinical evidence indicates that the treatment may demonstrate substantial improvement over available therapy on a clinically significant endpoint.

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

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

Other Matters

Patent Matters

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

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

The Alimta® vitamin regimen patents, which we expect to provide us with patent protection for Alimta through June 2021 in Japan and major European countries, and through May 2022 in the U.S., have been challenged in each of these jurisdictions. In the U.S., most challenges have been finally resolved in our favor, and one remains in active litigation. We and Eagle Pharmaceuticals, Inc. (Eagle) reached an agreement in December 2019 to settle all pending litigation, allowing Eagle a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022. We expect that the entry of generic competition in the U.S. either from an unfavorable outcome to the patent challenge or following the loss of patent exclusivity, will cause a rapid and severe decline in revenue and have a material adverse effect on our consolidated results of operations and cash flows.

We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets and that generic competitors may choose to attempt a launch at risk. Following a final decision in the Supreme Court of Germany in July 2020 overturning the lower court and upholding the validity of our Alimta patent, several generics that were on the market at risk in Germany left. We have removed the remaining generics from the market in Germany by obtaining preliminary injunctions in our favor. In September 2020, the Paris Court of First Instance in France issued a final decision upholding the validity of our Alimta patent and found infringement by Fresenius Kabi France and Fresenius Kabi Groupe France's (collectively, Kabi) pemetrexed product. The court issued an injunction against Kabi and provisionally awarded us damages. In January 2021, that same court issued a preliminary injunction against Zentiva France S.A.S. (Zentiva), the last remaining company with a generic pemetrexed product on the French market, and provisionally awarded us damages. In October 2020, the Court of Appeal of the Netherlands overturned a lower court decision and ruled that our Alimta patent is valid and infringed and reinstated an injunction against Kabi, thereby removing Kabi's pemetrexed product from the Netherlands market. Kabi has appealed this decision to the Netherlands Supreme Court. Kabi's generic pemetrexed product was the only at risk generic on the market in the Netherlands. Our vitamin regimen patents have also been challenged in other smaller European jurisdictions.

We expect that further entry of generic competition for Alimta in major European markets following either the loss of effective patent protection or of patent exclusivity will cause a rapid and severe decline in revenue. See Note 16 to the consolidated financial statements for a more detailed account of the legal proceedings currently pending in the U.S., Europe, and Japan regarding, among others, our Alimta patents.

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

Our compound patent protection for Cymbalta® expired in Japan in January 2020. We expect generics to enter the market in mid-2021. We expect that the entry of generic competition will cause a rapid and severe decline in revenue and will have a material adverse effect on our consolidated results of operations and cash flows.

Foreign Currency Exchange Rates

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

Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

U.S.

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

- the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent stimulus bills that focus on ensuring availability and access to lifesaving drugs during a public health crisis,
- foreign reference pricing in Medicare and private insurance,
- modifications to Medicare Parts B and D,
- provisions that would allow the Department of Health and Human Services (HHS) to negotiate prices for biologics and drugs in Medicare,
- a reduction in biologic data exclusivity,

- proposals related to Medicaid prescription drug coverage and manufacturer drug rebates,
- proposals that would require biopharmaceutical manufacturers to disclose proprietary drug pricing information, and
- state-level proposals related to prescription drug prices and reducing the cost of pharmaceuticals purchased by government health care programs.

On July 24, 2020 and September 13, 2020, former U.S. President Donald Trump signed Executive Orders related to the 340B Prescription Drug Program, rebate reform in Medicare Part D, drug importation including insulin, and foreign reference pricing in Medicare Part B and Part D. Although their current status is unclear given the change in presidential administration, these Executive Orders, if implemented, could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. On September 1, 2020, Lilly announced it would distribute all 340B ceiling priced products directly to covered entities and their child sites only. Lilly provides 340B discounts to a contract pharmacy only if it is a wholly owned subsidiary of a covered entity, if a covered entity does not have an in-house pharmacy or, in the case of insulin, if the subject covered entity and its contract pharmacies agree to pass along the discount to patients without any markup for dispensing fees and without billing insurance or collecting duplicate discounts. Lilly has been transparent with regulators on its distribution activity and continues to comply with all 340B program requirements. Certain covered entities and their trade associations have threatened litigation, questioning whether Lilly's program, and similar actions by other manufacturers, violate 340B program requirements. On October 9, 2020, three covered entities sued HHS and the Health Resources and Services Administration (HRSA) in the U.S. District Court for the District of Columbia seeking to compel the agencies to take enforcement action against Lilly and three other companies, among other requested relief. On October 21, 2020, a trade association representing certain covered entities sued HHS in the same court seeking to compel the agency to promulgate administrative dispute resolution regulations. On December 11, 2020, a number of associations and entities filed suit against HHS in the U.S. District Court for the Northern District of California requesting immediate enforcement of the contract pharmacy guidance. On December 31, 2020, the General Counsel of HHS issued an advisory opinion alleging that honoring contract pharmacy agreements is mandatory. In January 2021, Lilly filed suit against HHS, the Secretary of HHS, the HRSA, and the Administrator of the HRSA in the U.S. District Court for the Southern District of Indiana seeking a declaratory judgment that HHS's attempt to require manufacturers to permit contract pharmacy distribution is unlawful and a preliminary injunction enjoining implementation of the alternative dispute resolution process created by defendants and, with it, their application of the advisory opinion, and other related relief. The cases are pending and the impact of these cases and any subsequent litigation is uncertain. See Note 16 to the consolidated financial statements for additional information.

California and several other states have enacted legislation related to prescription drug pricing transparency and it is unclear the effect this legislation will have on our business. Several states have also passed importation legislation, including Colorado, Florida, Maine, New Hampshire, New Mexico, and Vermont. As of late 2020 several of these states were actively working with the former presidential administration to implement an importation program from Canada. On November 22, 2020, Florida announced it submitted a proposed importation plan to the U.S. In 2020, HHS and the FDA also took several actions to advance state importation initiatives, including issuing requests for proposals for personal importation and reimportation of insulin and a final rule on the Importation of Prescription Drugs. Additionally, on November 27, 2020, the Canadian Minister of Health issued an interim order to ensure that participation in bulk importation frameworks, such as the one recently established by the U.S., does not cause or exacerbate a drug shortage in Canada. We continue to review these state proposals and legislation, as well as federal rules and guidance published by HHS and the FDA, the impact of which is uncertain at this time. Currently, it is unclear if the current presidential administration will adopt any of the importation initiatives put forth by the former presidential administration. We will continue to monitor and assess these developments.

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

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

International

International operations also are generally subject to extensive price and market regulations. Cost-containment measures exist in a number of countries, including additional price controls and mechanisms to limit reimbursement for our products. Such policies are expected to increase in impact and reach, given the pressures on national and regional health care budgets that come from a growing, aging population and ongoing economic challenges. As additional reforms are finalized, we will assess their impact on future revenues. In addition, governments in many emerging markets are becoming increasingly active in expanding health care system offerings. Given the budget challenges of increasing health care coverage for citizens, policies may be proposed that promote generics and biosimilars only and reduce current and future access to branded pharmaceutical products. The COVID-19 pandemic is also creating additional pressure on health systems worldwide. As a result, cost containment and other measures may intensify as governments manage and emerge from the pandemic.

Tax Matters

We are subject to income taxes and various other taxes in the U.S. and in many foreign jurisdictions; therefore, changes in both domestic and international tax laws or regulations could affect our effective tax rate, results of operations, and cash flows. Countries around the world, including the U.S., are actively considering and enacting tax law changes. The current presidential administration's tax proposal contains significant changes, including the rate at which income of U.S. companies would be taxed. Further, actions taken with respect to tax-related matters by associations such as the Organisation for Economic Co-operation and Development and the European Commission could influence tax policy in countries in which we operate. In addition, global tax authorities routinely examine our tax returns and are expected to become more aggressive in their examinations of profit allocations among jurisdictions, which could affect our anticipated tax liabilities.

Acquisitions

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

In 2019, we acquired all shares of Loxo for a purchase price of $6.92 billion, net of cash acquired. Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib, an oral RET inhibitor, and LOXO-305, an oral BTK inhibitor. In the second quarter of 2020, the FDA approved selpercatinib (Retevmo) under its Accelerated Approval regulations and continued approval may be contingent upon verification and description of clinical benefit in confirmatory trials.

In 2020, we acquired all shares of Dermira for a purchase price of $849.3 million, net of cash acquired. Under terms of the agreement, we acquired lebrikizumab, a novel, investigational, monoclonal antibody being evaluated for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the FDA. We also acquired Qbrexza® cloth, a medicated cloth for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating).

In January 2021, we acquired all shares of Prevail Therapeutics Inc. (Prevail) for a purchase price of approximately $880 million in cash plus one non-tradable contingent value right (CVR). The CVR entitles Prevail stockholders to up to an additional approximately $160 million payable, subject to certain terms and conditions, upon the first regulatory approval of a Prevail product in one of the following countries: U.S., Japan, United Kingdom, Germany, France, Italy, or Spain. Under the terms of the agreement, we acquired a biotechnology company developing potentially disease-modifying AAV9-based gene therapies for patients with neurodegenerative diseases.

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

Operating Results—2020

Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		Percent Change
	2020	2019	
U.S.	**$ 14,229.3**	$ 12,722.6	12
Outside U.S.	**10,310.5**	9,596.8	7
Revenue	**$ 24,539.8**	$ 22,319.5	10

Numbers may not add due to rounding.

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

	2020 vs. 2019		
	U.S.	Outside U.S.	Consolidated
Volume	17 %	13 %	15 %
Price	(5)%	(6)%	(5)%
Foreign exchange rates	— %	— %	— %
Percent change	12 %	7 %	10 %

Numbers may not add due to rounding.

In the U.S., the revenue increase in 2020 was driven by increased volume primarily for Trulicity®, bamlanivimab, and Taltz®. Excluding bamlanivimab revenue, U.S. revenue grew 5 percent. The increase in revenue due to volume was partially offset by a decrease in realized prices. The decrease in realized prices in the U.S. was primarily driven by increased rebates to gain and maintain broad commercial access across the portfolio and, to a lesser extent, unfavorable segment mix and changes to estimates for rebates and discounts, most notably impacting Humalog. The decrease in realized prices in the U.S. was partially offset by modest list price increases and lower utilization in the 340B segment.

Outside the U.S., the revenue increase in 2020 was driven by increased volume primarily for Tyvyt, Trulicity, Alimta, and Olumiant. The increase in revenue due to volume was partially offset by lower realized prices primarily for Tyvyt and Alimta. The increase in volume and decrease in realized prices for Tyvyt and Alimta was driven primarily by their inclusion in government reimbursement programs in China.

The following table summarizes our revenue activity in 2020 compared with 2019:

Product	Year Ended December 31, 2020 U.S.	2020 Outside U.S.	2020 Total	2019 Total	Percent Change
Trulicity	**$ 3,835.9**	**$ 1,232.2**	**$ 5,068.1**	$ 4,127.8	23
Humalog[1]	**1,485.6**	**1,140.3**	**2,625.9**	2,820.7	(7)
Alimta	**1,265.3**	**1,064.7**	**2,329.9**	2,115.8	10
Taltz	**1,288.5**	**500.0**	**1,788.5**	1,366.4	31
Humulin®	**866.4**	**393.2**	**1,259.6**	1,290.1	(2)
Jardiance[2]	**620.8**	**533.0**	**1,153.8**	944.2	22
Basaglar®	**842.3**	**282.1**	**1,124.4**	1,112.6	1
Forteo	**510.3**	**536.0**	**1,046.3**	1,404.7	(26)
Cyramza®	**381.9**	**650.8**	**1,032.6**	925.1	12
Verzenio	**618.2**	**294.4**	**912.7**	579.7	57
Bamlanivimab[3]	**850.0**	**21.2**	**871.2**	—	NM
Cymbalta	**42.1**	**725.6**	**767.7**	725.4	6
Olumiant	**63.8**	**575.0**	**638.9**	426.9	50
Cialis®	**61.8**	**545.4**	**607.1**	890.5	(32)
Erbitux®	**480.1**	**56.3**	**536.4**	543.4	(1)
Zyprexa®	**46.1**	**360.5**	**406.5**	418.7	(3)
Emgality®	**325.9**	**37.0**	**362.9**	162.5	NM
Trajenta®[4]	**95.6**	**263.0**	**358.5**	590.6	(39)
Other products	**548.7**	**1,099.8**	**1,648.8**	1,874.4	(12)
Revenue	**$ 14,229.3**	**$ 10,310.5**	**$ 24,539.8**	$ 22,319.5	10

Numbers may not add due to rounding.
NM - Not meaningful
[1] Humalog revenue includes insulin lispro.
[2] Jardiance revenue includes Glyxambi®, Synjardy®, and Trijardy® XR.
[3] Bamlanivimab sales are pursuant to EUA.
[4] Trajenta revenue includes Jentadueto®.

Revenue of Trulicity, a treatment for type 2 diabetes and to reduce the risk of major adverse cardiovascular events in adult patients with type 2 diabetes and established cardiovascular disease or multiple cardiovascular risk factors, increased 22 percent in the U.S., driven by increased volume, partially offset by lower realized prices primarily due to higher contracted rebates. Revenue outside the U.S. increased 27 percent, primarily driven by increased volume.

Revenue of Humalog, an injectable human insulin analog for the treatment of diabetes, decreased 11 percent in the U.S., driven by lower realized prices, partially offset by higher demand. Revenue outside the U.S. decreased 1 percent, primarily driven by the unfavorable impact of foreign exchange rates. Included in the revenue of Humalog in the U.S. are our own insulin lispro authorized generics, which began launching in the second quarter of 2019 in order to lower out-of-pocket costs for patients. While it is difficult to estimate the severity of the impact of similar insulin lispro products entering the market, we do not expect and have not experienced a rapid severe decline in revenue. However, due to the impact of competition and due to pricing pressure in the U.S. and some international markets, we expect some price decline and loss of market share to continue over time.

Revenue of Alimta, a treatment for various cancers, increased 4 percent in the U.S., primarily driven by higher realized prices. Revenue outside the U.S. increased 19 percent, primarily driven by increased volume in China and Germany, partially offset by lower realized prices. We will lose our patent protection for Alimta in Japan and major European countries in June 2021. We expect the limited entry of generic competition in the U.S. starting February 2022 and subsequent unlimited entry starting April 2022. We expect that the entry of generic competition following the loss of exclusivity will cause a rapid and severe decline in revenue. See "Results of Operations - Executive Overview - Other Matters" for more information.

Revenue of Taltz, a treatment for moderate-to-severe plaque psoriasis, active psoriatic arthritis, ankylosing spondylitis, and active non-radiographic axial spondyloarthritis, increased 27 percent in the U.S., primarily driven by increased demand. Revenue outside the U.S. increased 43 percent, primarily driven by increased volume.

Revenue of Humulin, an injectable human insulin for the treatment of diabetes, decreased 2 percent in the U.S., driven by lower realized prices, partially offset by higher volume. Revenue outside the U.S. decreased 4 percent, driven by decreased volume and the unfavorable impact of foreign exchange rates, partially offset by higher realized prices.

Revenue of Jardiance, a treatment for type 2 diabetes and to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease, increased 10 percent in the U.S., driven by increased volume. Revenue outside the U.S. increased 41 percent, driven primarily by increased volume. See Note 4 to the consolidated financial statements for information regarding our collaboration with Boehringer Ingelheim involving Jardiance.

Revenue of Basaglar, a long-acting human insulin analog for the treatment of diabetes, decreased 4 percent in the U.S., driven by lower realized prices. Revenue outside the U.S. increased 19 percent, driven primarily by increased volume. See Note 4 to the consolidated financial statements for information regarding our collaboration with Boehringer Ingelheim involving Basaglar. A competitor launched a similar version of glargine in the U.S. in 2020. Due to the impact of competitive pressures, we expect some price decline and loss of market share over time.

Revenue of Forteo, an injectable treatment for osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women, decreased 21 percent in the U.S., primarily driven by decreased demand. Revenue outside the U.S. decreased 29 percent, driven by decreased volume and, to a lesser extent, lower realized prices. We expect further volume declines as a result of the anticipated entry of generic and biosimilar competition due to the loss of patent exclusivity in the U.S., Japan, and major European markets. See "Executive Overview - Other Matters - Patent Matters" for more information.

Revenue of Cyramza, a treatment for various cancers, increased 14 percent in the U.S., driven primarily by increased demand and, to a lesser extent, higher realized prices. Revenue outside the U.S. increased 10 percent, driven primarily by increased volume.

Revenue of Verzenio, a treatment for HR+, HER2- metastatic breast cancer, increased 36 percent in the U.S., driven by increased demand and, to a lesser extent, higher realized prices. Revenue outside the U.S. increased $169.5 million driven by higher volume.

Gross Margin, Costs, and Expenses

Gross margin as a percent of revenue was 77.7 percent in 2020, a decrease of 1.1 percentage points compared with 2019, primarily due to the impact of lower realized prices on revenue, the unfavorable effect of foreign exchange rates on international inventories sold, and higher intangibles amortization expense related to Retevmo, partially offset by charges in 2019 resulting from the withdrawal of Lartruvo® and greater manufacturing efficiencies. Gross margin percent for 2020 was also negatively impacted as a result of bamlanivimab sales in the fourth quarter of 2020.

Research and development expenses increased 9 percent to $6.09 billion in 2020, driven primarily by approximately $450 million of development expenses for COVID-19 therapies. Excluding these expenses related to COVID-19 therapies, research and development expenses were relatively flat.

Marketing, selling, and administrative expenses decreased 1 percent to $6.12 billion in 2020 primarily due to lower marketing activity.

We recognized acquired IPR&D charges of $660.4 million in 2020 resulting from the acquisitions of Disarm and a pre-clinical stage company as well as collaborations with Innovent, Sitryx, Fochon, AbCellera, Evox, and Junshi Biosciences. In 2019, we recognized acquired IPR&D charges of $239.6 million resulting from collaborations with AC Immune, Centrexion, ImmuNext, and Avidity.

We recognized asset impairment, restructuring, and other special charges of $131.2 million in 2020. The charges were primarily related to severance costs incurred as a result of actions taken worldwide to reduce our cost structure, as well as acquisition and integration costs incurred as part of the acquisition of Dermira. In 2019, we recognized $575.6 million of asset impairment, restructuring, and other special charges primarily associated with the accelerated vesting of Loxo employee equity awards as part of the acquisition of Loxo.

Other—net, (income) expense was income of $1.17 billion in 2020 compared to income of $291.6 million in 2019 primarily driven by higher net gains on investment securities.

Our effective tax rate was 14.3 percent in 2020, compared with an effective tax rate of 11.9 percent in 2019 driven by net discrete tax benefits in 2019.

Operating Results—2019

For a discussion of our results of operations pertaining to 2019 and 2018 see Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our Annual Report on Form 10-K for the year ended December 31, 2019.

FINANCIAL CONDITION AND LIQUIDITY

We believe our available cash and cash equivalents, together with our ability to generate operating cash flow and our access to short-term and long-term borrowings, are sufficient to fund our existing and planned capital requirements, which include:

- working capital requirements, including related to employee payroll, clinical trials, manufacturing materials, and taxes;
- capital expenditures;
- share repurchases and dividends;
- repayment of outstanding short-term and long-term borrowings;
- contributions to our defined benefit pension and retiree health benefit plans;
- milestone and royalty payments; and
- potential business development activities, including acquisitions, strategic alliances, collaborations, investments, and licensing arrangements.

Our management continuously evaluates our liquidity and capital resources, including our access to external capital, to ensure we can adequately and efficiently finance our capital requirements. As of December 31, 2020, our material cash requirements primarily related to purchases of goods and services to produce our products and conduct our operations, capital equipment expenditures, dividends, repayment of outstanding borrowings, the remaining obligations for the one-time repatriation transition tax (also known as the 'Toll Tax') from the Tax Cuts and Jobs Act (2017 Tax Act), leases, unfunded commitments to invest in venture capital funds, and retirement benefits (see Notes 11, 14, 10, 7, and 15 to the consolidated financial statements). We anticipate our cash requirements related to ordinary course purchases of goods and services and capital equipment expenditures will be consistent with our past levels relative to revenues.

Cash and cash equivalents increased to $3.66 billion as of December 31, 2020, compared with $2.34 billion at December 31, 2019. Net cash provided by operating activities was $6.50 billion in 2020, compared with $4.84 billion in 2019. Net cash provided by operating activities in 2019 included approximately $360 million of cash paid to settle the accelerated vesting of Loxo employee equity awards (see Note 5 to the consolidated financial statements). Refer to the consolidated statements of cash flows for additional details on the significant sources and uses of cash for the years ended December 31, 2020 and 2019.

In addition to our cash and cash equivalents, we held total investments of $2.99 billion and $2.06 billion as of December 31, 2020 and 2019, respectively. See Note 7 to the consolidated financial statements for additional details.

In February 2020, we completed our acquisition of Dermira for $18.75 per share, or approximately $1.1 billion, which was funded through cash on hand and the issuance of commercial paper. In February 2019, we completed our acquisition of Loxo for $235 per share or approximately $6.9 billion, which was funded through a mixture of cash and debt. See Note 3 to the consolidated financial statements for additional information.

As of December 31, 2020, total debt was $16.60 billion, an increase of $1.28 billion compared with $15.32 billion at December 31, 2019. The increase primarily related to the net proceeds from the issuance of $1.00 billion of 2.25 percent fixed-rate notes in May 2020, as well as the net proceeds from the issuance of an additional $250.0 million of 2.25 percent fixed-rate notes and the issuance of $850.0 million of 2.50 percent fixed-rate notes in August 2020. We used the net proceeds from the sale of these notes for general corporate purposes, which included the repayment of outstanding commercial paper used to fund a portion of the purchase price for our acquisition of Dermira. See Note 11 to the consolidated financial statements for additional information.

As of December 31, 2020, we had a total of $5.24 billion of unused committed bank credit facilities, $5.00 billion of which is available to support our commercial paper program. See Note 11 to the consolidated financial statements for additional details. We believe that amounts accessible through existing commercial paper markets should be adequate to fund any short-term borrowing needs.

For the 135th consecutive year, we distributed dividends to our shareholders. Dividends of $2.96 per share and $2.58 per share were paid in 2020 and 2019, respectively. In the fourth quarter of 2020, effective for the dividend to be paid in the first quarter of 2021, the quarterly dividend was increased to $0.85 per share, resulting in an indicated annual rate for 2021 of $3.40 per share.

Capital expenditures of $1.39 billion during 2020, compared to $1.03 billion in 2019.

In 2020, we repurchased $500.0 million of shares under our $8.00 billion share repurchase program authorized in June 2018. As of December 31, 2020, we had $1.00 billion remaining under this program. See Note 13 to the consolidated financial statements for additional details.

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

In January 2021, we completed our acquisition of Prevail for $22.50 per share, or approximately $880 million in cash, plus one non-tradable CVR that entitles Prevail stockholders to up to an additional $4.00 per share in cash (or an aggregate of approximately $160 million) payable, subject to certain terms and conditions. This acquisition was funded primarily through cash on hand and the issuance of commercial paper. See Note 3 to the consolidated financial statements for additional information.

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

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

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

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate derivatives to help maintain that balance. Based on our overall interest rate exposure at December 31, 2020 and 2019, including derivatives and other interest rate risk-sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2020 and 2019, respectively, would not have a material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

Our foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the euro and Japanese yen. We face foreign currency exchange exposures when we enter into transactions arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. We also face currency exposure that arises from translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We may enter into foreign currency forward or option derivative contracts to reduce the effect of fluctuating currency exchange rates (principally the euro and the Japanese yen). Our corporate risk-management policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative contracts offset, in part, the impact of currency fluctuations on the existing assets and liabilities. We periodically analyze the fair values of the outstanding foreign currency derivative contracts to determine their sensitivity to changes in foreign exchange rates. A hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) applied to the fair values of our outstanding foreign currency derivative contracts as of December 31, 2020 and 2019, would not have a material impact on earnings, cash flows, or financial position over a one-year period. This sensitivity analysis does not consider the impact that hypothetical changes in exchange rates would have on the underlying foreign currency denominated transactions.

Our fair value risk exposure relates primarily to our public equity investments and to equity investments that do not have readily determinable fair values. As of December 31, 2020 and 2019, our carrying values of these investments were $2.04 billion and $1.12 billion, respectively. A hypothetical 20 percent change in fair value of the equity instruments would have impacted other-net, (income) expense by $407.6 million and $224.7 million as of December 31, 2020 and 2019, respectively.

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. We acquire and collaborate on potential products still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval for marketing by the appropriate regulatory agency or upon the achievement of certain sales levels). If required by the arrangement, we may make royalty payments based upon a percentage of the sales of the product in the event that regulatory approval for marketing is obtained.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

Revenue Recognition and Sales Return, Rebate, and Discount Accruals

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

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

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

Financial Statement Impact

We believe that our accruals for sales returns, rebates, and discounts are reasonable and appropriate based on current facts and circumstances. Our global rebate and discount liabilities are included in sales rebates and discounts on our consolidated balance sheet. Our global sales return liability is included in other current liabilities and other noncurrent liabilities on our consolidated balance sheet. As of December 31, 2020, a 5 percent change in our global sales return, rebate, and discount liability would have led to an approximate $313 million effect on our income before income taxes.

The portion of our global sales return, rebate, and discount liability resulting from sales of our products in the U.S. was approximately 90 percent as of December 31, 2020 and 2019.

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

(Dollars in millions)	2020	2019
Sales return, rebate, and discount liabilities, beginning of year	**$ 4,635.5**	$ 4,670.9
Reduction of net sales[(1)]	**18,668.4**	15,490.2
Cash payments	**(17,903.9)**	(15,525.6)
Sales return, rebate, and discount liabilities, end of year	**$ 5,400.0**	$ 4,635.5

(1) Adjustments of the estimates for these returns, rebates, and discounts to actual results were less than 2 percent of consolidated net sales for each of the years presented.

Product Litigation Liabilities and Other Contingencies

Background and Uncertainties

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

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

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

Acquisitions

Background and Uncertainties

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

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

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

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

Impairment of Indefinite-Lived and Long-Lived Assets

Background and Uncertainties

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

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

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

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

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

Retirement Benefits Assumptions

Background and Uncertainties

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

Annually, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. We use an actuarially determined, plan-specific yield curve of high quality, fixed income debt instruments to determine the discount rates. In evaluating the expected return on plan assets, we consider many factors, with a primary analysis of current and projected market conditions, asset returns and asset allocations (approximately 65 percent of which are growth investments); and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the discount rates and expected return on plan assets of other companies, where applicable. In evaluating our expected retirement age assumption, we consider the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages.

Annually, we determine the fair value of the plan assets in our defined benefit pension and retiree health benefit plans. Approximately 35 percent of our plan assets are in hedge funds and private equity-like investment funds (collectively, alternative assets). We value these alternative investments using significant unobservable inputs or using the net asset value reported by the counterparty, adjusted as necessary. Inputs include underlying net asset values, discounted cash flows valuations, comparable market valuations, and adjustments for currency, credit, liquidity and other risks.

Financial Statement Impact

If the 2020 discount rate for the U.S. defined benefit pension and retiree health benefit plans (U.S. plans) were to change by a quarter percentage point, income before income taxes would change by $21.6 million. If the 2020 expected return on plan assets for U.S. plans were to change by a quarter percentage point, income before income taxes would change by $28.8 million. If our assumption regarding the 2020 expected age of future retirees for U.S. plans were adjusted by one year, our income before income taxes would be affected by $52.0 million. The U.S. plans, including Puerto Rico, represent approximately 75 percent and 80 percent of the total projected benefit obligation and total plan assets, respectively, at December 31, 2020.

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

Income Taxes

Background and Uncertainties

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

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

Financial Statement Impact

As of December 31, 2020, a 5 percent change in the amount of uncertain tax positions and the valuation allowance would result in a change in net income of $83.4 million and $40.8 million, respectively.

LEGAL AND REGULATORY MATTERS

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

FINANCIAL EXPECTATIONS FOR 2021

For the full year of 2021, we expect EPS to be in the range of $7.10 to $7.75, which excludes estimated acquisition and integration costs related to the acquisition of Prevail. We anticipate total revenue between $26.5 billion and $28.0 billion, including an estimated $1 billion to $2 billion of revenue from COVID-19 therapies. Revenue growth is expected to be driven by volume from Trulicity, Taltz, Verzenio, Jardiance, Olumiant, Cyramza, Emgality, Tyvyt, and Retevmo, as well as by COVID-19 therapies. Revenue growth is expected to be partially offset by lower revenue for products that have lost patent exclusivity. We expect mid-single digit net price declines globally in 2021. In the U.S., we expect low-to-mid-single digit net price declines, driven primarily by increased rebates to maintain broad commercial access and segment mix, partially offset by lower utilization in the 340B segment. Outside the U.S., we expect net price declines in China, Japan, and Europe.

We anticipate that gross margin as a percent of revenue will be approximately 77 percent in 2021. Research and development expenses are expected to be in the range of $6.5 billion to $6.7 billion, including approximately $300 million to $400 million of continued investment in COVID-19 therapies. Marketing, selling, and administrative expenses are expected to be in the range of $6.2 billion to $6.4 billion. Other—net, (income) expense is expected to be expense in the range of $200 million to $300 million. The 2021 effective tax rate is expected to be approximately 15 percent.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Item 8. Financial Statements and Supplementary Data

Consolidated Statements of Operations

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions and shares in thousands, except per-share data) Year Ended December 31	2020	2019	2018
Revenue	**$ 24,539.8**	$ 22,319.5	$ 21,493.3
Costs, expenses, and other:			
Cost of sales	**5,483.3**	4,721.2	4,681.7
Research and development	**6,085.7**	5,595.0	5,051.2
Marketing, selling, and administrative	**6,121.2**	6,213.8	5,975.1
Acquired in-process research and development (Note 3)	**660.4**	239.6	1,983.9
Asset impairment, restructuring, and other special charges (Note 5)	**131.2**	575.6	266.9
Other—net, (income) expense (Note 18)	**(1,171.9)**	(291.6)	(145.6)
	17,309.9	17,053.6	17,813.2
Income before income taxes	**7,229.9**	5,265.9	3,680.1
Income taxes (Note 14)	**1,036.2**	628.0	529.5
Net income from continuing operations	**6,193.7**	4,637.9	3,150.6
Net income from discontinued operations (Note 19)	**—**	3,680.5	81.4
Net income	**$ 6,193.7**	$ 8,318.4	$ 3,232.0
Earnings per share:			
Earnings from continuing operations - basic	**$ 6.82**	$ 4.98	$ 3.07
Earnings from discontinued operations - basic	**—**	3.95	0.07
Earnings per share - basic	**$ 6.82**	$ 8.93	$ 3.14
Earnings from continuing operations - diluted	**$ 6.79**	$ 4.96	$ 3.05
Earnings from discontinued operations - diluted	**—**	3.93	0.08
Earnings per share - diluted	**$ 6.79**	$ 8.89	$ 3.13
Shares used in calculation of earnings per share:			
Basic	**907,634**	931,059	1,027,721
Diluted	**912,505**	935,684	1,033,667

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2020	2019	2018
Net income	**$ 6,193.7**	$ 8,318.4	$ 3,232.0
Other comprehensive income (loss) from continuing operations:			
Change in foreign currency translation gains (losses)	**122.1**	(89.9)	(429.6)
Change in net unrealized gains (losses) on securities	**14.2**	34.4	(8.8)
Change in defined benefit pension and retiree health benefit plans (Note 15)	**(157.1)**	(970.0)	544.0
Change in effective portion of cash flow hedges	**(152.9)**	34.3	(6.0)
Other comprehensive income (loss) from continuing operations before income taxes	**(173.7)**	(991.2)	99.6
Benefit (provision) for income taxes related to other comprehensive income (loss) from continuing operations	**200.9**	151.0	(30.3)
Other comprehensive income (loss) from continuing operations, net of tax (Note 17)	**27.2**	(840.2)	69.3
Other comprehensive income from discontinued operations, net of tax (Note 17)	**—**	56.8	14.3
Other comprehensive income (loss), net of tax (Note 17)	**27.2**	(783.4)	83.6
Comprehensive income	**$ 6,220.9**	$ 7,535.0	$ 3,315.6

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands) December 31	2020	2019
Assets		
Current Assets		
Cash and cash equivalents (Note 7)	**$ 3,657.1**	$ 2,337.5
Short-term investments (Note 7)	**24.2**	101.0
Accounts receivable, net of allowances of **$25.9 (2020)** and $22.4 (2019)	**5,875.3**	4,547.3
Other receivables	**1,053.7**	994.2
Inventories (Note 6)	**3,980.3**	3,190.7
Prepaid expenses and other	**2,871.5**	2,538.9
Total current assets	**17,462.1**	13,709.6
Investments (Note 7)	**2,966.8**	1,962.4
Goodwill (Note 8)	**3,766.5**	3,679.4
Other intangibles, net (Note 8)	**7,450.0**	6,618.0
Deferred tax assets (Note 14)	**2,830.4**	2,572.6
Property and equipment, net (Note 9)	**8,681.9**	7,872.9
Other noncurrent assets	**3,475.4**	2,871.2
Total assets	**$ 46,633.1**	$ 39,286.1
Liabilities and Equity		
Current Liabilities		
Short-term borrowings and current maturities of long-term debt (Note 11)	**$ 8.7**	$ 1,499.3
Accounts payable	**1,606.7**	1,405.3
Employee compensation	**997.2**	915.5
Sales rebates and discounts	**5,853.0**	4,933.6
Dividends payable	**770.6**	671.5
Income taxes payable (Note 14)	**495.1**	160.6
Other current liabilities	**2,750.3**	2,189.4
Total current liabilities	**12,481.6**	11,775.2
Other Liabilities		
Long-term debt (Note 11)	**16,586.6**	13,817.9
Accrued retirement benefits (Note 15)	**4,094.5**	3,698.2
Long-term income taxes payable (Note 14)	**3,837.8**	3,607.2
Other noncurrent liabilities	**1,707.5**	1,501.0
Deferred tax liabilities (Note 14)	**2,099.9**	2,187.5
Total other liabilities	**28,326.3**	24,811.8
Commitments and Contingencies (Note 16)		
Eli Lilly and Company Shareholders' Equity (Notes 12 and 13)		
Common stock—no par value Authorized shares: 3,200,000 Issued shares: **957,077 (2020)** and 958,056 (2019)	**598.2**	598.8
Additional paid-in capital	**6,778.5**	6,685.3
Retained earnings	**7,830.2**	4,920.4
Employee benefit trust	**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 17)	**(6,496.4)**	(6,523.6)
Cost of common stock in treasury	**(55.7)**	(60.8)
Total Eli Lilly and Company shareholders' equity	**5,641.6**	2,606.9
Noncontrolling interests	**183.6**	92.2
Total equity	**5,825.2**	2,699.1
Total liabilities and equity	**$ 46,633.1**	$ 39,286.1

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	Equity of Eli Lilly and Company Shareholders								
	Common Stock		Additional Paid-in Capital	Retained Earnings	Employee Benefit Trust	Accumulated Other Comprehensive Loss	Common Stock in Treasury		Noncontrolling Interest
	Shares	Amount					Shares	Amount	
Balance at January 1, 2018	1,100,672	$ 687.9	$ 5,817.8	$13,894.1	$(3,013.2)	$ (5,718.6)	664	$ (75.8)	$ 75.7
Net income				3,232.0					3.7
Other comprehensive income (loss), net of tax						85.6			(2.0)
Cash dividends declared per share: $2.33				(2,372.0)					
Retirement of treasury shares	(45,882)	(28.7)		(4,122.0)			(45,882)	4,150.7	
Purchase of treasury shares							45,882	(4,150.7)	
Issuance of stock under employee stock plans, net	2,849	1.8	(139.0)				(60)	6.4	
Stock-based compensation			279.5						
Adoption of new accounting standards (Note 1)				763.8		(105.2)			
Sale of Elanco Stock (Note 19)			629.2			9.0			1,017.2
Other			(3.9)						(14.2)
Balance at December 31, 2018	1,057,639	661.0	6,583.6	11,395.9	(3,013.2)	(5,729.2)	604	(69.4)	1,080.4
Net income				8,318.4					37.7
Other comprehensive income (loss), net of tax						(794.4)			11.0
Cash dividends declared per share: $2.68				(2,430.5)					
Retirement of treasury shares	(102,640)	(64.1)		(12,363.4)			(102,640)	12,427.5	
Purchase of treasury shares							37,639	(4,400.0)	
Issuance of stock under employee stock plans, net	3,057	1.9	(210.7)				(74)	8.6	
Stock-based compensation			312.4						
Acquisition of common stock in exchange offer							65,001	(8,027.5)	
Deconsolidation of Elanco									(1,028.9)
Other									(8.0)
Balance at December 31, 2019	958,056	598.8	6,685.3	4,920.4	(3,013.2)	(6,523.6)	530	(60.8)	92.2
Net income				**6,193.7**					**126.6**
Other comprehensive income, net of tax						**27.2**			
Cash dividends declared per share: $3.07				**(2,786.2)**					
Retirement of treasury shares	**(3,627)**	**(2.3)**		**(497.7)**			**(3,627)**	**500.0**	
Purchase of treasury shares							**3,627**	**(500.0)**	
Issuance of stock under employee stock plans, net	**2,648**	**1.7**	**(212.7)**				**(43)**	**5.1**	
Stock-based compensation			**308.1**						
Other			**(2.2)**						**(35.2)**
Balance at December 31, 2020	**957,077**	**$ 598.2**	**$ 6,778.5**	**$ 7,830.2**	**$(3,013.2)**	**$ (6,496.4)**	**487**	**$ (55.7)**	**$ 183.6**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2020	2019	2018
Cash Flows from Operating Activities			
Net income	**$ 6,193.7**	$ 8,318.4	$ 3,232.0
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:			
Gain related to disposition of Elanco (Note 19)	**—**	(3,680.5)	—
Gain on sale of antibiotic business in China (Note 3)	**—**	(309.8)	—
Depreciation and amortization	**1,323.9**	1,232.6	1,609.0
Change in deferred income taxes	**(134.5)**	62.4	326.8
Stock-based compensation expense	**308.1**	312.4	279.5
Net investment gains	**(1,438.5)**	(403.1)	(27.0)
Acquired in-process research and development (Note 3)	**660.4**	239.6	1,983.9
Other non-cash operating activities, net	**333.9**	751.8	499.0
Other changes in operating assets and liabilities, net of acquisitions and divestitures:			
Receivables—(increase) decrease	**(1,350.2)**	(127.2)	(996.7)
Inventories—(increase) decrease	**(533.4)**	(258.7)	7.8
Other assets—(increase) decrease	**(457.1)**	(602.3)	(980.0)
Income taxes payable—increase (decrease)	**322.0**	(221.3)	(125.3)
Accounts payable and other liabilities—increase (decrease)	**1,271.3**	(477.7)	(284.5)
Net Cash Provided by Operating Activities	**6,499.6**	4,836.6	5,524.5
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,387.9)**	(1,033.9)	(1,210.6)
Proceeds from sales and maturities of short-term investments	**129.7**	136.6	2,552.5
Purchases of short-term investments	**(11.4)**	(42.7)	(112.2)
Proceeds from sales of noncurrent investments	**757.1**	609.8	3,509.5
Purchases of noncurrent investments	**(358.7)**	(247.5)	(837.9)
Purchases of in-process research and development	**(641.2)**	(319.6)	(1,807.6)
Cash paid for acquisitions, net of cash acquired (Note 3)	**(849.3)**	(6,917.7)	—
Cash distributed to Elanco upon disposition	**—**	(374.0)	—
Cash received for sale of antibiotic business in China	**—**	354.8	—
Other investing activities, net	**102.8**	(248.7)	(187.7)
Net Cash Provided by (Used for) Investing Activities	**(2,258.9)**	(8,082.9)	1,906.0
Cash Flows from Financing Activities			
Dividends paid	**(2,687.1)**	(2,409.8)	(2,311.8)
Net change in short-term borrowings	**(1,494.2)**	995.4	(2,197.9)
Proceeds from issuance of long-term debt	**2,062.3**	6,556.4	2,477.7
Repayments of long-term debt	**(276.5)**	(2,866.4)	(1,009.1)
Purchases of common stock	**(500.0)**	(4,400.0)	(4,150.7)
Net proceeds from Elanco initial public offering (Note 19)	**—**	—	1,659.7
Other financing activities, net	**(241.6)**	(200.1)	(372.8)
Net Cash Used for Financing Activities	**(3,137.1)**	(2,324.5)	(5,904.9)
Effect of exchange rate changes on cash and cash equivalents	**216.0**	(89.9)	(63.6)
Net increase (decrease) in cash and cash equivalents	**1,319.6**	(5,660.7)	1,462.0
Cash and cash equivalents at beginning of year (includes $677.5 (2019) and $324.4 (2018) of discontinued operations)	**2,337.5**	7,998.2	6,536.2
Cash and Cash Equivalents at End of Year (includes $677.5 (2018) of discontinued operations)	**$ 3,657.1**	$ 2,337.5	$ 7,998.2

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Tables present dollars in millions, except per-share data)

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

Basis of Presentation

The accompanying consolidated financial statements include Eli Lilly and Company and all subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). We consider majority voting interests, as well as effective economic or other control over an entity when deciding whether or not to consolidate an entity. We generally do not have control by means other than voting interests. Where our ownership of consolidated subsidiaries is less than 100 percent, the noncontrolling shareholders' interests are reflected as a separate component of equity. All intercompany balances and transactions have been eliminated.

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

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

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

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

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

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

Research and development expenses include the following:

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

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

Earnings Per Share (EPS)

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

Foreign Currency Translation

Operations in our subsidiaries outside the United States (U.S.) are recorded in the functional currency of each subsidiary which is determined by a review of the environment where each subsidiary primarily generates and expends cash. The results of operations for our subsidiaries outside the U.S. are translated from functional currencies into U.S. dollars using the weighted average currency rate for the period. Assets and liabilities are translated using the period end exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries are recorded in other comprehensive income (loss).

Advertising Expenses

Costs associated with advertising are expensed as incurred and are included in marketing, selling, and administrative expenses. Advertising expenses, comprised primarily of television, radio, print media, and Internet advertising, totaled approximately $1.1 billion, $1.1 billion, and $900 million in 2020, 2019, and 2018, respectively, which was less than 5 percent of revenue each year.

Other Significant Accounting Policies

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

Implementation of New Financial Accounting Standards

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

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

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

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

Change in Accounting Principle for Retirement Benefit Plan Assets

Effective during the third quarter of 2020, we adopted a voluntary change in our method of applying an accounting principle for certain of our retirement benefit plans. Refer to Note 15 for additional information.

Note 2: Revenue

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

	2020	2019	2018
Net product revenue	**$ 22,694.8**	$ 20,377.3	$ 19,866.4
Collaboration and other revenue[(1)]	**1,845.0**	1,942.2	1,626.9
Revenue	**$ 24,539.8**	$ 22,319.5	$ 21,493.3

(1) Collaboration and other revenue associated with prior period transfers of intellectual property was $135.6 million, $301.5 million, and $303.2 million during the years ended December 31, 2020, 2019, and 2018, respectively.

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

Net Product Revenue

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

Most of our products are sold to wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. For the years ended December 31, 2020, 2019, and 2018, our three largest wholesalers each accounted for between 15 percent and 20 percent of consolidated revenue. Further, they each accounted for between 19 percent and 27 percent of accounts receivable as of December 31, 2020 and 2019.

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

Sales Rebates and Discounts - Background and Uncertainties

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

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

Sales Returns - Background and Uncertainties

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

- Actual U.S. product returns have been less than 2 percent of our U.S. revenue over each of the past three years and have not fluctuated significantly as a percentage of revenue, although fluctuations are more likely in periods following loss of patent exclusivity for major products in the U.S. market.

Adjustments to Revenue

Adjustments to increase revenue recognized as a result of changes in estimates for the judgments described above for our most significant U.S. sales returns, rebates, and discounts liability balances for products shipped in previous periods were approximately 1 percent, 2 percent and 1 percent of U.S revenue during 2020, 2019, and 2018, respectively.

Collaboration and Other Arrangements

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

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

Contract Liabilities

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

The following table summarizes contract liability balances:

	2020	2019
Contract liabilities	**$ 276.8**	$ 264.6

The contract liabilities balances disclosed above as of December 31, 2020 and 2019 were primarily related to the remaining license period of symbolic intellectual property and obligations to perform research and development activities or supply product for a defined period of time.

During the years ended December 31, 2020, 2019, and 2018, revenue recognized from contract liabilities as of the beginning of the respective year was not material. Revenue expected to be recognized in the future from contract liabilities as the related performance obligations are satisfied is not expected to be material in any one year.

Disaggregation of Revenue

The following table summarizes revenue by product:

	U.S.			Outside U.S.		
	2020	2019	2018	2020	2019	2018
Revenue—to unaffiliated customers:						
Diabetes:						
Trulicity®	**$ 3,835.9**	$ 3,155.2	$ 2,515.8	**$ 1,232.2**	$ 972.7	$ 683.3
Humalog® (1)	**1,485.6**	1,669.7	1,787.8	**1,140.3**	1,151.0	1,208.7
Humulin®	**866.4**	879.7	910.2	**393.2**	410.4	421.2
Jardiance (2)	**620.8**	565.9	400.2	**533.0**	378.3	258.1
Basaglar®	**842.3**	876.2	622.8	**282.1**	236.3	178.5
Trajenta (3)	**95.6**	224.8	224.2	**263.0**	365.8	350.5
Other Diabetes	**162.5**	158.0	146.0	**81.5**	88.1	112.2
Total Diabetes	**7,909.1**	7,529.5	6,607.0	**3,925.3**	3,602.6	3,212.5
Oncology:						
Alimta®	**1,265.3**	1,219.5	1,131.0	**1,064.7**	896.4	1,001.9
Cyramza®	**381.9**	335.3	291.5	**650.8**	589.9	529.9
Verzenio®	**618.2**	454.8	248.5	**294.4**	124.9	6.6
Erbitux®	**480.1**	487.9	531.6	**56.3**	55.4	103.8
Other Oncology	**46.6**	111.0	200.6	**461.0**	339.3	215.1
Total Oncology	**2,792.1**	2,608.5	2,403.2	**2,527.2**	2,005.9	1,857.3
Immunology:						
Taltz®	**1,288.5**	1,016.8	738.7	**500.0**	349.6	198.7
Olumiant®	**63.8**	42.2	6.7	**575.0**	384.7	195.9
Other Immunology	**20.0**	—	—	**14.6**	—	—
Total Immunology	**1,372.3**	1,059.0	745.4	**1,089.6**	734.3	394.6
Neuroscience:						
Cymbalta®	**42.1**	49.6	54.3	**725.6**	675.8	653.7
Zyprexa®	**46.1**	41.0	36.2	**360.5**	377.6	435.1
Emgality®	**325.9**	154.9	4.9	**37.0**	7.7	—
Other Neuroscience	**73.2**	111.0	182.0	**220.9**	305.3	454.5
Total Neuroscience	**487.3**	356.5	277.4	**1,344.0**	1,366.4	1,543.3
Other:						
Forteo®	**510.3**	645.5	757.9	**536.0**	759.1	817.7
Bamlanivimab (4)	**850.0**	—	—	**21.2**	—	—
Cialis®	**61.8**	231.7	1,129.2	**545.4**	658.8	722.7
Other	**246.4**	291.9	471.8	**321.8**	469.7	553.3
Total Other	**1,668.4**	1,169.1	2,358.8	**1,424.4**	1,887.7	2,093.7
Revenue	**$14,229.3**	$12,722.6	$12,391.9	**$10,310.5**	$ 9,596.8	$ 9,101.4

Numbers may not add due to rounding.
(1) Humalog revenue includes insulin lispro.
(2) Jardiance revenue includes Glyxambi® and Synjardy®, and Trijardy® XR.
(3) Trajenta revenue includes Jentadueto®.
(4) Bamlanivimab sales are pursuant to EUA.

The following table summarizes revenue by geographical area:

	2020	2019	2018
Revenue—to unaffiliated customers[1]:			
U.S.	**$ 14,229.3**	$ 12,722.6	$ 12,391.9
Europe	**4,187.7**	3,765.0	3,663.1
Japan	**2,583.1**	2,547.6	2,407.4
China	**1,116.9**	939.4	750.8
Other foreign countries	**2,422.7**	2,344.9	2,280.1
Revenue	**$ 24,539.8**	$ 22,319.5	$ 21,493.3

Numbers may not add due to rounding.

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

Note 3: Acquisitions and Divestiture

In February 2020 and 2019, we completed the acquisitions of Dermira, Inc. (Dermira) and Loxo Oncology, Inc. (Loxo), respectively. These transactions, as further discussed in this note below in Acquisitions of Businesses, were accounted for as business combinations under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of these acquisitions have been included in our consolidated financial statements from the date of acquisition.

We also acquired assets in development in 2020, 2019, and 2018, which are further discussed in this note below in Asset Acquisitions. Upon each acquisition, the cost allocated to acquired IPR&D was immediately expensed because the compound acquired had no alternative future use. For the years ended December 31, 2020, 2019, and 2018, we recorded acquired IPR&D charges of $660.4 million, $239.6 million, and $1.98 billion, respectively.

Acquisitions of Businesses

Dermira Acquisition

Overview of Transaction

In February 2020, we acquired all shares of Dermira for a purchase price of approximately $849.3 million, net of cash acquired. Under terms of the agreement, we acquired lebrikizumab, a novel, investigational, monoclonal antibody being evaluated for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the U.S. Food and Drug Administration (FDA). We also acquired Qbrexza® (glycopyrronium) cloth, a medicated cloth approved by the FDA for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating).

Assets Acquired and Liabilities Assumed

The fair values recognized related to the assets acquired and liabilities assumed in this acquisition included goodwill of $86.8 million, other intangibles of $1.20 billion primarily related to lebrikizumab, deferred income tax liabilities of $49.5 million, and long-term debt of $375.5 million. After the acquisition, we repaid $276.2 million of long-term debt assumed as part of our acquisition of Dermira.

Revenue attributable to assets acquired in the Dermira acquisition did not have a material impact on our consolidated statement of operations for the year ended December 31, 2020. We are unable to provide the results of operations for the year ended December 31, 2020 attributable to Dermira as those operations were substantially integrated into our legacy business.

Pro forma information has not been included because this acquisition did not have a material impact on our results of operations for the years ended December 31, 2020 and 2019.

Loxo Acquisition

Overview of Transaction

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

Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib (LOXO-292), an oral RET inhibitor, and LOXO-305, an oral BTK inhibitor. In the second quarter of 2020, the FDA approved selpercatinib (Retevmo®) under its Accelerated Approval regulations and continued approval may be contingent upon verification and description of clinical benefit in confirmatory trials. At the time of approval, we reclassified our $4.60 billion intangible asset for selpercatinib (Retevmo) from indefinite-lived intangible assets to finite-lived intangible assets and began amortizing straight line over its estimated useful life.

Assets Acquired and Liabilities Assumed

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

Estimated Fair Value at February 15, 2019		
Acquired IPR&D[1]	$	4,670.0
Finite-lived intangibles[2]		980.0
Deferred income taxes		(1,032.8)
Other assets and liabilities - net		(26.4)
Total identifiable net assets		4,590.8
Goodwill[3]		2,326.9
Total consideration transferred - net of cash acquired	$	6,917.7

[1] $4.60 billion of the acquired IPR&D relates to selpercatinib (LOXO-292).

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

[3] The goodwill recognized from this acquisition is attributable primarily to future unidentified projects and products and the assembled workforce for Loxo and is not deductible for tax purposes.

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

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

Asset Acquisitions

The following table and narrative summarize our asset acquisitions during 2020, 2019, and 2018.

Counterparty	Compound(s),Therapy, or Asset	Acquisition Month	Phase of Development[1]	Acquired IPR&D Expense
Sitryx Therapeutics Limited	Pre-clinical targets that could lead to potential new medicines for autoimmune diseases	March 2020	Pre-clinical	$ 52.3
AbCellera Biologics Inc. (AbCellera)[2]	Neutralizing antibodies for the treatement and prevention of COVID-19	March 2020	Pre-clinical	25.0
Shanghai Junshi Biosciences Co., Ltd. (Junshi Biosciences)	Neutralizing antibodies for the treatment and prevention of COVID-19	May 2020	Pre-clinical	20.0

Undisclosed	Pre-clinical target that could lead to potential new medicine	May 2020	Pre-clinical	174.8
Evox Therapeutics Ltd	Pre-clinical research collaboration for the potential treatment of neurological disorders	June 2020	Pre-clinical	22.0
Innovent Biologics, Inc. (Innovent)	Sintilimab injection, an anti-PD-1 monoclonal antibody immuno-oncology medicine, for geographies outside of China	October 2020	Phase III	200.0
Disarm Therapeutics, Inc. (Disarm)	Disease-modifying therapeutics program for patients with axonal degeneration	October 2020	Pre-clinical	126.3
Fochon Pharmaceuticals, Ltd.	Pre-clinical molecule targeting hematological malignancies	November 2020	Pre-clinical	40.0
AC Immune SA	Tau aggregation inhibitor small molecules for the potential treatment of Alzheimer's disease and other neurodegenerative diseases	January 2019 & September 2019[3]	Pre-clinical	127.1
ImmuNext, Inc.	Novel immunometabolism target	March 2019	Pre-clinical	40.0
Avidity Biosciences, Inc.	Potential new medicines in immunology and other select indications	April 2019	Pre-clinical	25.0
Centrexion Therapeutics Corporation	CNTX-0290, a novel, small molecule somatostatin receptor type 4 agonist	July 2019	Phase I	47.5
Sigilon Therapeutics, Inc.	Encapsulated cell therapies for the potential treatment of type 1 diabetes	April 2018	Pre-clinical	66.9
AurKa Pharma Inc.	AK-01, an Aurora kinase A inhibitor	June 2018	Phase I	81.8
ARMO BioSciences, Inc. (ARMO)	Cancer therapy - pegilodecakin	June 2018	Phase III	1,475.8
Anima Biotech Inc.	Translation inhibitors for selected neuroscience targets	July 2018	Pre-clinical	30.0
SIGA Technologies, Inc.	Priority Review Voucher	October 2018	Not applicable	80.0
Chugai Pharmaceutical Co., Ltd.	OWL833, an oral non-peptidic GLP-1 receptor agonist	October 2018	Pre-clinical	50.0
NextCure, Inc.	Immuno-oncology cancer therapies	November 2018	Pre-clinical[4]	28.1
Dicerna Pharmaceuticals Inc.	Cardio-metabolic disease, neurodegeneration, and pain	December 2018	Pre-clinical	148.7
Hydra Biosciences	TRPA1 antagonists program for the potential treatment of chronic pain syndromes	December 2018	Pre-clinical	22.6

[1] The phase of development presented is as of the date of the arrangement and represents the phase of development of the most advanced asset acquired, where applicable.

[2] We recognized the acquired IPR&D expense of $25.0 million in May 2020 upon closing of the transaction.

[3] We recognized acquired IPR&D expenses of $96.9 million in January 2019 upon entering into a license agreement and $30.2 million in September 2019 upon entering into an amendment to the license agreement.

[4] This research and development collaboration agreement terminated effective March 2020.

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

Divestiture

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

Subsequent Events

Precision BioSciences, Inc. (Precision)

In January 2021, we entered into a research collaboration and exclusive license agreement with Precision to utilize Precision's proprietary ARCUS genome editing platform for the research and development of potential in vivo therapies for genetic disorders. Under terms of the agreement, we paid an upfront cash payment of $100.0 million and invested $35.0 million in Precision's common stock at a premium. As a result of the transaction, we will record an acquired IPR&D charge of $107.8 million in the first quarter of 2021.

Merus N.V. (Merus)

In January 2021, we entered into a research collaboration and exclusive license agreement with Merus to research and develop up to three CD3-engaging T-cell re-directing bispecific antibody therapies. Under the terms of the agreement, we paid Merus an upfront cash payment of $40.0 million and invested $20.0 million in Merus common shares at a premium. As a result of the transaction, we will record an acquired IPR&D charge of $46.5 million in the first quarter of 2021.

Prevail Therapeutics Inc. (Prevail)

In January 2021, we completed our acquisition of Prevail. Prevail is a biotechnology company developing potentially disease-modifying AAV9-based gene therapies for patients with neurodegenerative diseases. The acquisition establishes a new modality for drug discovery and development, extending our research efforts through the creation of a gene therapy program that will be anchored by Prevail’s portfolio of clinical-stage and preclinical neuroscience assets.

We acquired all shares of Prevail for $22.50 per share (approximately $880 million) in cash plus one non-tradable contingent value right (CVR). The CVR entitles Prevail stockholders to up to an additional $4.00 per share in cash (or an aggregate of approximately $160 million) payable, subject to terms and conditions, upon the first regulatory approval of a Prevail product in one of the following countries: U.S., Japan, United Kingdom (U.K.), Germany, France, Italy or Spain. To achieve the full value of the CVR, such regulatory approval must occur by December 31, 2024. If such regulatory approval occurs after December 31, 2024, the value of the CVR will be reduced by approximately 8.3 cents per month until December 1, 2028, at which point the CVR will expire.

The accounting impact of this acquisition and the results of the operations for Prevail will be included in our consolidated financial statements beginning in the first quarter of 2021.The initial accounting for this acquisition is incomplete. Significant, relevant information needed to complete the initial accounting is not available because the valuation of assets acquired and liabilities assumed is not complete. As a result, determining these values is not practicable, and we are unable to disclose these values or provide other related disclosures at this time.

Asahi Kasei Pharma Corporation (Asahi)

In January 2021, we entered into a license agreement with Asahi to acquire the exclusive rights for AK1780, an orally bioavailable P2X7 receptor antagonist that recently completed Phase 1 single and multiple ascending dose and clinical pharmacology studies for the potential treatment of chronic pain conditions. As a result of the transaction, we will pay Asahi an upfront cash payment and record an acquired IPR&D charge of $20.0 million in the first quarter of 2021.

Note 4: Collaborations and Other Arrangements

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

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

Boehringer Ingelheim Diabetes Collaboration

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

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

Product Family	Milestones (Deferred) Capitalized[1]
Trajenta[2]	$ 446.4
Jardiance[3]	289.0
Basaglar	(250.0)

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

[2] The collaboration agreement with Boehringer Ingelheim for Trajenta ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

[3] The collaboration agreement with Boehringer Ingelheim for Jardiance ends upon expiration of the compound patent and any supplementary protection certificates or extensions thereto.

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

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

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

	2020	2019	2018
Basaglar	**$ 1,124.4**	$ 1,112.6	$ 801.2
Jardiance	**1,153.8**	944.2	658.3
Trajenta	**358.5**	590.6	574.7

Olumiant

We have a worldwide license and collaboration agreement with Incyte Corporation (Incyte), which provides us the development and commercialization rights to its Janus tyrosine kinase (JAK) inhibitor compound, now known as Olumiant (baricitinib), and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double digit royalty payments on global net sales with rates ranging up to 20 percent. The agreement calls for payments by us to Incyte associated with certain development, success-based regulatory, and sales-based milestones. In the first half of 2020, the agreement was amended to include the treatment of COVID-19, with Incyte obtaining the right to receive an additional royalty ranging up to the low teens on global net sales for the treatment of COVID-19 that exceed a specified aggregate global net sales threshold.

In connection with the regulatory approvals of Olumiant in the U.S., Europe, and Japan, milestone payments of $210.0 million and $180.0 million were capitalized as intangible assets as of December 31, 2020 and 2019, respectively, and are being amortized to cost of sales through the term of the collaboration. This represents the cumulative amounts that have been capitalized from the start of this collaboration through the end of each reporting period.

As of December 31, 2020, Incyte is eligible to receive up to $100.0 million of additional payments from us contingent upon certain success-based regulatory milestones. Incyte is also eligible to receive up to $150.0 million of potential sales-based milestones.

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

	2020	2019	2018
Olumiant	**$ 638.9**	$ 426.9	$ 202.5

COVID-19 antibody therapies

In 2020, we entered into a worldwide license and collaboration agreement with AbCellera to co-develop therapeutic antibodies for the potential prevention and treatment of COVID-19, including bamlanivimab, for which we hold development and commercialization rights. In connection with this transaction, we recognized an acquired IPR&D expense of $25.0 million in 2020. AbCellera has the right to receive tiered royalty payments on global net sales of bamlanivimab with percentages ranging in the mid-teens to mid-twenties. Royalty payments made to AbCellera are recorded as cost of sales. Pursuant to an EUA, we recognized $871.2 million of net product revenue associated with our sales of bamlanivimab to third parties during the year ended December 31, 2020.

In 2020, we entered into a license and collaboration agreement with Junshi Biosciences to co-develop therapeutic antibodies for the potential prevention and treatment of COVID-19, including etesevimab, for which we hold development and commercialization rights outside of Greater China (which includes mainland China, Hong Kong and Macau Special Administrative Regions and Taiwan) and Junshi Biosciences maintains all rights in Greater China. In connection with this transaction, we recognized an acquired IPR&D expense of $20.0 million in 2020. Junshi Biosciences has the right to receive royalty payments in the mid-teens on our future net sales of etesevimab. Junshi Biosciences also has the right to receive certain development, success-based regulatory and sales-based milestones. As of December 31, 2020, Junshi Biosciences is eligible to receive up to $75.0 million of additional payments contingent upon certain success-based regulatory milestones and up to $120.0 million of potential sales-based milestones, contingent upon the commercial success of etesevimab. During the year ended December 31, 2020, we recognized $50.0 million of research and development expenses related to development milestones.

Tyvyt®

We have a collaboration agreement with Innovent to jointly develop and commercialize Tyvyt (sintilimab injection) in China. In 2019, we and Innovent began co-commercializing Tyvyt in China. We record our sales of Tyvyt to third parties as revenue, with payments made to Innovent for its portion of the gross margin reported as cost of sales. We also report as revenue our portion of the gross margin for Tyvyt sales made by Innovent to third parties. Our Tyvyt revenue in China, which is primarily recorded as net product revenue, was $308.7 million and $134.0 million in 2020 and 2019, respectively.

In October 2020, we obtained an exclusive license for Tyvyt from Innovent for geographies outside of China and plan to pursue registration of Tyvyt in the U.S. and other markets. We recorded an acquired IPR&D charge of $200.0 million in 2020 associated with the upfront payment to Innovent.

As of December 31, 2020, Innovent is eligible to receive up to $825.0 million for geographies outside of China and up to $75.0 million in China in success-based regulatory and sales-based milestones. Innovent is also eligible to receive tiered double digit royalties on net sales for geographies outside of China.

Tanezumab

We have a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the treatment of osteoarthritis pain and cancer pain. The companies equally share the ongoing development costs and, if successful, in the U.S. will co-commercialize and equally share in gross margin and certain commercialization expenses. As a result of an amendment to the agreement in the third quarter of 2020, Pfizer will be responsible for commercialization activities and costs outside the U.S., and we have the right to receive tiered royalties in percentages from the high teens to mid-twenties for net sales in Japan as well as low double digit royalties on annual net sales greater than $150.0 million in all other territories outside of the U.S. and Japan. As of December 31, 2020, Pfizer is eligible to receive up to $147.5 million in success-based regulatory milestones based on current development plans and up to $1.23 billion in a series of sales-based milestones, contingent upon the commercial success of tanezumab.

Lebrikizumab

As a result of our acquisition of Dermira, we have a worldwide licensing agreement with F. Hoffmann-La Roche Ltd and Genentech, Inc. (collectively Roche), which provides us the global development and commercialization rights to lebrikizumab. Roche has the right to receive tiered royalty payments on future global net sales ranging in percentages from high single digits to high teens if the product is successfully commercialized. As of December 31, 2020, Roche is eligible to receive up to $180.0 million of payments from us contingent upon the achievement of success-based regulatory milestones, and up to $1.03 billion in a series of sales-based milestones, contingent upon the commercial success of lebrikizumab.

As a result of our acquisition of Dermira, we have a license agreement with Almirall, S.A. (Almirall), under which Almirall licensed the rights to develop and commercialize lebrikizumab for the treatment or prevention of dermatology indications, including, but not limited to, atopic dermatitis in Europe. We have the right to receive tiered royalty payments on future net sales in Europe ranging in percentages from low double digits to low twenties if the product is successfully commercialized. As of December 31, 2020, we are eligible to receive additional payments of $85.0 million from Almirall contingent upon the achievement of success-based regulatory milestones and up to $1.25 billion in a series of sales-based milestones, contingent upon the commercial success of lebrikizumab.

As of December 31, 2020, $29.7 million was recorded as a contract liability on the consolidated balance sheet and is expected to be recognized as collaboration and other revenue over the remaining Phase III development period. During the twelve months ended December 31, 2020, milestones received and collaboration and other revenue recognized were not material.

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

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

	2020	2019	2018
Severance	**$ 151.2**	$ 77.8	$ 127.8
Asset impairment (gain) and other special charges	**(20.0)**	497.8	139.1
Total asset impairment, restructuring, and other special charges	**$ 131.2**	$ 575.6	$ 266.9

Severance costs recognized during the years ended December 31, 2020, 2019 and 2018 were incurred as a result of actions taken worldwide to reduce our cost structure. Substantially all of the severance costs incurred during the year ended December 31, 2020 are expected to be paid in the next 12 months.

Asset impairment and other special charges recognized during the year ended December 31, 2019 resulted primarily from $400.7 million of other special charges related to the acquisition of Loxo, substantially all of which is associated with the accelerated vesting of Loxo employee equity awards.

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

Note 6: Inventories

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

Inventories at December 31 consisted of the following:

	2020	2019
Finished products	**$ 758.9**	$ 647.3
Work in process	**2,535.4**	2,067.6
Raw materials and supplies	**651.2**	424.6
Total (approximates replacement cost)	**3,945.5**	3,139.5
Increase to LIFO cost	**34.8**	51.2
Inventories	**$ 3,980.3**	$ 3,190.7

Inventories valued under the LIFO method comprised $1.21 billion and $1.20 billion of total inventories at December 31, 2020 and 2019, respectively.

Note 7: Financial Instruments

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

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

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

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

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

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

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

We may enter into foreign currency forward or option contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, British pound, and the Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward and option contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other–net, (income) expense. We may enter into foreign currency forward and option contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months. At December 31, 2020, we had outstanding foreign currency forward commitments to purchase 647.9 million U.S. dollars and sell 530.7 million euro; commitments to purchase 2.97 billion euro and sell 3.62 billion U.S. dollars; commitments to purchase 180.7 million U.S. dollars and sell 18.64 billion Japanese yen, and commitments to purchase 272.2 million British pounds and sell 363.9 million U.S. dollars which all settled within 30 days.

Foreign currency exchange risk is also managed through the use of foreign currency debt and cross-currency interest rate swaps. Our foreign currency-denominated notes had carrying amounts of $6.02 billion and $5.49 billion as of December 31, 2020 and 2019, respectively, of which $4.50 billion and $4.10 billion have been designated as, and are effective as, economic hedges of net investments in certain of our euro-denominated foreign operations as of December 31, 2020 and 2019, respectively. At December 31, 2020, we had outstanding cross currency swaps with notional amounts of $3.76 billion swapping U.S. dollars to euro and $1.00 billion swapping swiss francs to U.S. dollars which have settlement dates ranging through 2028. Our cross-currency interest rate swaps, for which a majority convert a portion of our U.S. dollar-denominated fixed rate debt to foreign-denominated fixed rate debt, have also been designated as, and are effective as, economic hedges of net investments.

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

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements. Cash proceeds from or payments to counterparties resulting from the termination of interest rate swaps are classified as operating activities in our consolidated statements of cash flows. At December 31, 2020, substantially all of our total long-term debt is at a fixed rate. We have converted approximately 9 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps.

We also may enter into forward-starting interest rate swaps, which we designate as cash flow hedges, as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. The change in fair value of these instruments is recorded as part of other comprehensive income (loss), and upon completion of a debt issuance and termination of the swap, is amortized to interest expense over the life of the underlying debt. As of December 31, 2020, the total notional amounts of forward-starting interest rate contracts in designated cash flow hedging instruments were $1.75 billion, which have settlement dates ranging between 2023 and 2025.

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

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

	2020	2019	2018
Fair value hedges:			
Effect from hedged fixed-rate debt	**$ 86.9**	$ 112.1	$ (40.9)
Effect from interest rate contracts	**(86.9)**	(112.1)	40.9
Cash flow hedges:			
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**16.4**	15.9	14.8
Cross-currency interest rate swaps	**(102.4)**	(17.1)	—
Net (gains) losses on foreign currency exchange contracts not designated as hedging instruments	**(123.7)**	61.9	100.0
Total	**$ (209.7)**	$ 60.7	$ 114.8

During the years ended December 31, 2020, 2019 and 2018, the amortization of losses related to the portion of our risk management hedging instruments, fair value hedges, and cash flow hedges that was excluded from the assessment of effectiveness was not material.

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

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

	2020	2019	2018
Net investment hedges:			
Foreign currency-denominated notes	**$ (404.0)**	$ 40.1	$ 110.4
Cross-currency interest rate swaps	**(207.9)**	47.4	96.8
Foreign currency exchange contracts	**—**	—	5.7
Cash flow hedges:			
Forward-starting interest rate swaps	**(110.9)**	31.6	—
Cross-currency interest rate swaps	**(53.7)**	(8.3)	—

During the next 12 months, we expect to reclassify $16.8 million of net losses on cash flow hedges from accumulated other comprehensive loss to other–net, (income) expense. During the years ended December 31, 2020, 2019 and 2018, the amounts excluded from the assessment of hedge effectiveness recognized in other comprehensive income (loss) were not material.

Fair Value of Financial Instruments

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

Description	Carrying Amount	Cost [1]	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2020						
Cash equivalents	**$ 2,097.9**	**$ 2,097.9**	**$ 2,097.9**	**$ —**	**$ —**	**$ 2,097.9**
Short-term investments:						
U.S. government and agency securities	**$ 9.9**	**$ 9.9**	**$ 9.9**	**$ —**	**$ —**	**$ 9.9**
Corporate debt securities	**2.8**	**2.8**	**—**	**2.8**	**—**	**2.8**
Asset-backed securities	**1.2**	**1.2**	**—**	**1.2**	**—**	**1.2**
Other securities	**10.3**	**10.3**	**—**	**—**	**10.3**	**10.3**
Short-term investments	**$ 24.2**					
Noncurrent investments:						
U.S. government and agency securities	**$ 78.7**	**$ 74.3**	**$ 78.7**	**$ —**	**$ —**	**$ 78.7**
Corporate debt securities	**137.0**	**126.8**	**—**	**137.0**	**—**	**137.0**
Mortgage-backed securities	**106.4**	**101.4**	**—**	**106.4**	**—**	**106.4**
Asset-backed securities	**24.3**	**23.7**	**—**	**24.3**	**—**	**24.3**
Other securities	**110.5**	**31.8**	**—**	**—**	**110.5**	**110.5**
Marketable equity securities	**1,664.2**	**311.6**	**1,664.2**	**—**	**—**	**1,664.2**
Equity investments without readily determinable fair values[2]	**373.9**					
Equity method investments[2]	**471.8**					
Noncurrent investments	**$ 2,966.8**					
December 31, 2019						
Cash equivalents	$ 1,025.4	$ 1,025.4	$ 1,025.4	$ —	$ —	$ 1,025.4
Short-term investments:						
U.S. government and agency securities	$ 7.2	$ 7.2	$ 7.2	$ —	$ —	$ 7.2
Corporate debt securities	81.4	81.1	—	81.4	—	81.4
Asset-backed securities	2.6	2.6	—	2.6	—	2.6
Other securities	9.8	9.8	—	—	9.8	9.8
Short-term investments	$ 101.0					
Noncurrent investments:						
U.S. government and agency securities	$ 77.2	$ 76.3	$ 77.2	$ —	$ —	$ 77.2
Corporate debt securities	271.1	267.8	—	271.1	—	271.1
Mortgage-backed securities	101.1	99.6	—	101.1	—	101.1
Asset-backed securities	30.0	29.6	—	30.0	—	30.0
Other securities	60.0	27.4	—	—	60.0	60.0
Marketable equity securities	718.6	254.4	718.6	—	—	718.6
Equity investments without readily determinable fair values[2]	405.0					
Equity method investments[2]	299.4					
Noncurrent investments	$ 1,962.4					

[1] For available-for-sale debt securities, amounts disclosed represent the securities' amortized cost.

[2] Fair value disclosures are not applicable for equity method investments and investments accounted for under the measurement alternative for equity investments.

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Short-term commercial paper borrowings					
December 31, 2020	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
December 31, 2019	(1,494.2)	—	(1,491.6)	—	(1,491.6)
Long-term debt, including current portion					
December 31, 2020	**$ (16,595.3)**	**$ —**	**$ (19,038.9)**	**$ —**	**$ (19,038.9)**
December 31, 2019	(13,823.0)	—	(15,150.0)	—	(15,150.0)

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2020					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other noncurrent assets	**$ 158.9**	**$ —**	**$ 158.9**	**$ —**	**$ 158.9**
Interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**38.1**	**—**	**38.1**	**—**	**38.1**
Other noncurrent liabilities	**(97.8)**	**—**	**(97.8)**	**—**	**(97.8)**
Cross-currency interest rate contracts designated as net investment hedges:					
Other current liabilities	**(92.6)**	**—**	**(92.6)**	**—**	**(92.6)**
Other noncurrent liabilities	**(97.2)**	**—**	**(97.2)**	**—**	**(97.2)**
Cross-currency interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**34.4**	**—**	**34.4**	**—**	**34.4**
Other noncurrent liabilities	**(2.9)**	**—**	**(2.9)**	**—**	**(2.9)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**41.1**	**—**	**41.1**	**—**	**41.1**
Other current liabilities	**(15.2)**	**—**	**(15.2)**	**—**	**(15.2)**
December 31, 2019					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other noncurrent assets	72.0	—	72.0	—	72.0
Interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	43.3	—	43.3	—	43.3
Cross-currency interest rate contracts designated as net investment hedges:					
Other noncurrent assets	45.1	—	45.1	—	45.1
Other current liabilities	(21.4)	—	(21.4)	—	(21.4)
Other noncurrent liabilities	(5.7)	—	(5.7)	—	(5.7)
Cross-currency interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	3.0	—	3.0	—	3.0
Other noncurrent liabilities	(20.1)	—	(20.1)	—	(20.1)
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	18.4	—	18.4	—	18.4
Other current liabilities	(11.9)	—	(11.9)	—	(11.9)

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

We determine our Level 1 and Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. Level 3 fair value measurements for other investment securities are determined using unobservable inputs, including the investments' cost adjusted for impairments and price changes from orderly transactions. The fair values of equity method investments and investments measured under the measurement alternative for equity investments that do not have readily determinable fair values are not readily available. As of December 31, 2020, we had approximately $687 million of unfunded commitments to invest in venture capital funds, which we anticipate will be paid over a period of up to 10 years.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of December 31, 2020:

		Maturities by Period			
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 360.3	$ 13.9	$ 135.6	$ 82.7	$ 128.1

The net gains recognized in our consolidated statements of operations for equity securities were $1,442.2 million, $401.2 million and $72.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. The net gains/losses recognized for the years ended December 31, 2020, 2019 and 2018 on equity securities sold during the respective periods were not material.

We adjust our equity investments without readily determinable fair values based upon changes in the equity instruments' values resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Downward adjustments resulting from an impairment are recorded based upon impairment considerations, including the financial condition and near term prospects of the issuer, general market conditions, and industry specific factors. Adjustments recorded for the years ended December 31, 2020, 2019 and 2018 were not material.

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

	2020	2019
Unrealized gross gains	**$ 20.9**	$ 10.3
Unrealized gross losses	**0.5**	4.0
Fair value of securities in an unrealized gain position	**348.9**	429.5
Fair value of securities in an unrealized loss position	**11.4**	141.1

We periodically assess our investment in available-for-sale securities for impairment and credit losses. The amount of credit losses are determined by comparing the difference between the present value of future cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing credit losses include the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration. Impairment and credit losses related to available-for-sale securities were not material for the years ended December 31, 2020, 2019 and 2018.

As of December 31, 2020, the available-for-sale securities in an unrealized loss position include primarily fixed-rate debt securities of varying maturities, which are sensitive to changes in the yield curve and other market conditions. Approximately 86 percent of the fixed-rate debt securities in a loss position are investment-grade debt securities. As of December 31, 2020, we do not intend to sell, and it is not more likely than not that we will be required to sell, the securities in a loss position before the market values recover or the underlying cash flows have been received, and there is no indication of default on interest or principal payments for any of our debt securities.

Activity related to our available-for-sale securities was as follows:

	2020	2019	2018
Proceeds from sales	**$ 264.8**	$ 431.6	$ 5,529.0
Realized gross gains on sales	**4.5**	4.9	3.6
Realized gross losses on sales	**8.2**	3.0	49.2

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

Accounts Receivable Factoring Arrangements

We have entered into accounts receivable factoring agreements with financial institutions to sell certain of our non-U.S. accounts receivable. These transactions are accounted for as sales and result in a reduction in accounts receivable because the agreements transfer effective control over and risk related to the receivables to the buyers. Our factoring agreements do not allow for recourse in the event of uncollectibility, and we do not retain any interest in the underlying accounts receivable once sold. We derecognized $754.9 million and $678.8 million of accounts receivable as of December 31, 2020 and 2019, respectively, under these factoring arrangements. The costs of factoring such accounts receivable on our consolidated results of operations for the years ended December 31, 2020, 2019, and 2018 were not material.

Note 8: Goodwill and Other Intangibles

Goodwill

Goodwill results from excess consideration in a business combination over the fair value of identifiable net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value to its carrying value is performed to determine the amount of any impairment. The changes in goodwill during 2020 and 2019 were primarily related to our acquisitions of Dermira and Loxo, respectively. See Note 3 for further discussion.

No impairments occurred with respect to the carrying value of goodwill for the years ended December 31, 2020, 2019, and 2018.

Other Intangibles

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

	2020			2019		
Description	Carrying Amount, Gross	Accumulated Amortization	Carrying Amount, Net	Carrying Amount, Gross	Accumulated Amortization	Carrying Amount, Net
Finite-lived intangible assets:						
Marketed products	**$ 7,984.0**	**$ (1,659.5)**	**$ 6,324.5**	$ 3,150.2	$ (1,244.6)	$ 1,905.6
Other	**92.8**	**(68.3)**	**24.5**	94.2	(51.8)	42.4
Total finite-lived intangible assets	**8,076.8**	**(1,727.8)**	**6,349.0**	3,244.4	(1,296.4)	1,948.0
Indefinite-lived intangible assets:						
Acquired IPR&D	**1,101.0**	**—**	**1,101.0**	4,670.0	—	4,670.0
Other intangibles	**$ 9,177.8**	**$ (1,727.8)**	**$ 7,450.0**	$ 7,914.4	$ (1,296.4)	$ 6,618.0

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

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

Acquired IPR&D consists of the fair values of acquired IPR&D projects acquired in business combination, adjusted for subsequent impairments, if any. The costs of acquired IPR&D projects acquired directly in a transaction other than a business combination are capitalized as other intangible assets if the projects have an alternative future use; otherwise, they are expensed immediately. See Note 3 for acquired IPR&D projects that had no alternative future use.

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

The increase in marketed products and the decrease in acquired IPR&D in 2020 primarily relates to the reclassification of our $4.60 billion intangible asset for selpercatinib (Retevmo) from indefinite-lived to finite-lived as it was approved by the FDA in the second quarter of 2020. This decrease in acquired IPR&D in 2020 was partially offset by the addition of acquired IPR&D for lebrikizumab as a result of the Dermira acquisition. The increases in marketed products and acquired IPR&D intangible assets in 2019 were primarily related to our acquisition of Loxo. See Note 3 for further discussion of intangible assets acquired in recent business combinations and Note 4 for additional discussion of recent capitalized milestone payments.

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

Intangible assets with finite lives are capitalized and are amortized over their estimated useful lives, ranging from three to 20 years. As of December 31, 2020, the remaining weighted-average amortization period for finite-lived intangible assets was approximately 15 years.

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

	2020	2019	2018
Amortization expense	**$ 428.2**	$ 225.8	$ 361.3

The estimated amortization expense for each of the next five years associated with our finite-lived intangible assets as of December 31, 2020 is as follows:

	2021	2022	2023	2024	2025
Estimated amortization expense	$ 517.7	$ 513.0	$ 501.2	$ 449.1	$ 432.5

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

Note 9: Property and Equipment

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

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

	2020	2019
Land	**$ 226.8**	$ 169.5
Buildings	**7,326.1**	7,067.3
Equipment	**8,560.9**	7,913.3
Construction in progress	**2,138.8**	1,884.4
	18,252.6	17,034.5
Less accumulated depreciation	**(9,570.7)**	(9,161.6)
Property and equipment, net	**$ 8,681.9**	$ 7,872.9

Depreciation expense related to property and equipment was as follows:

	2020	2019	2018
Depreciation expense	**$ 765.2**	$ 814.7	$ 797.1

Capitalized interest costs were not material for the years ended December 31, 2020, 2019, and 2018.

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

	2020	2019
Long-lived assets[(1)]:		
U.S. and Puerto Rico	**$ 6,113.6**	$ 5,595.4
Ireland	**1,786.9**	1,454.8
Other foreign countries	**1,747.7**	1,758.3
Long-lived assets	**$ 9,648.2**	$ 8,808.5

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

Note 10: Leases

We determine if an arrangement is a lease at inception. We have leases with terms up to 12 years primarily for corporate offices, research and development facilities, vehicles, and equipment, including some of which have options to extend and/or early-terminate the leases. We determine the lease term by assuming the exercise of any renewal and/or early-termination options that are reasonably assured.

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

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

Lease expense for operating lease assets, which is recognized on a straight-line basis over the lease term, was $154.6 million and $172.8 million during the years ended December 31, 2020 and 2019, respectively. Variable lease payments, which represent non-lease components such as maintenance, insurance and taxes, and which vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the payment obligation is incurred and were not material during the years ended December 31, 2020 and 2019. Short-term lease expense was not material during the years ended December 31, 2020 and 2019.

Supplemental balance sheet information related to operating leases as of December 31, 2020 and 2019 was as follows:

	2020	2019
Weighted-average remaining lease term	**7 years**	8 years
Weighted-average discount rate	**3.3 %**	3.6 %

Supplemental cash flow information related to operating leases during the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Operating cash flows from operating leases	**$ 160.9**	$ 153.6
Right-of-use assets obtained in exchange for new operating lease liabilities	**136.7**	81.2

The annual minimum lease payments of our operating lease liabilities as of December 31, 2020 were as follows:

Year 1	$ 150.9
Year 2	120.7
Year 3	94.1
Year 4	73.3
Year 5	63.4
After Year 5	258.7
Total lease payments	761.1
Less imputed interest	97.4
Total	$ 663.7

Rental expense for all leases, including contingent rentals (not material), was $175.7 million for the year ended December 31, 2018.

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

Note 11: Borrowings

Debt at December 31 consisted of the following:

	2020	2019
Short-term commercial paper borrowings	**$ —**	$ 1,494.2
Long-term notes	**16,348.7**	13,638.5
Other long-term debt	**14.8**	12.9
Unamortized debt issuance costs	**(89.1)**	(73.6)
Fair value adjustment on hedged long-term notes	**320.9**	245.2
Total debt	**16,595.3**	15,317.2
Less current portion	**(8.7)**	(1,499.3)
Long-term debt	**$ 16,586.6**	$ 13,817.9

The following table summarizes long-term notes at December 31:

	2020	2019
2.35% notes due 2022	**$ 750.0**	$ 750.0
3.00% notes due 2022	**99.2**	—
1.00% Euro denominated notes due 2022	**737.9**	671.8
0.15% Swiss Franc denominated notes due 2024	**679.7**	618.3
7.125% notes due 2025	**229.7**	229.7
2.75% notes due 2025	**560.6**	560.6
1.625% Euro denominated notes due 2026	**922.4**	839.7
5.5% notes due 2027	**377.5**	377.5
3.1% notes due 2027	**401.5**	401.5
0.45% Swiss Franc denominated notes due 2028	**453.2**	412.2
3.375% notes due 2029	**1,150.0**	1,150.0
0.42% Japanese Yen denominated notes due 2029	**222.4**	209.9
2.125% Euro denominated notes due 2030	**922.4**	839.7
0.625% Euro denominated notes due 2031	**737.9**	671.8
0.56% Japanese Yen denominated notes due 2034	**90.0**	85.0
6.77% notes due 2036	**174.4**	174.4
5.55% notes due 2037	**476.2**	476.2
5.95% notes due 2037	**284.1**	284.1
3.875% notes due 2039	**360.7**	360.7
4.65% notes due 2044	**43.0**	43.0
3.7% notes due 2045	**412.5**	412.5
3.95% notes due 2047	**436.1**	436.1
3.95% notes due 2049	**1,500.0**	1,500.0
1.7% Euro denominated notes due 2049	**1,229.9**	1,119.6
0.97% Japanese Yen denominated notes due 2049	**74.1**	70.0
2.25% notes due 2050	**1,250.0**	—
4.15% notes due 2059	**1,000.0**	1,000.0
2.5% notes due 2060	**850.0**	—
Unamortized note discounts	**(76.7)**	(55.8)
Total long-term notes	**$ 16,348.7**	$ 13,638.5

The weighted-average effective borrowing rate on outstanding commercial paper at December 31, 2019 was 1.65 percent. The weighted-average effective borrowing rate for each issuance of the long term-notes approximates the stated interest rate.

At December 31, 2020, we had a total of $5.24 billion of unused committed bank credit facilities, which consisted primarily of a $3.00 billion credit facility that expires in December 2024 and a $2.00 billion 364-day facility that expires in December 2021, both of which are available to support our commercial paper program. We have not drawn against the $3.00 billion and $2.00 billion facilities as of December 31, 2020. Of the remaining committed bank credit facilities, the outstanding balances as of December 31, 2020 and 2019 were not material. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

In May 2020, we issued $1.00 billion of 2.25 percent fixed-rate notes due in May 2050, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $988.6 million for general corporate purposes, including the repayment of outstanding commercial paper.

In August 2020, we issued $850.0 million of 2.50 percent fixed-rate notes due in September 2060 and an additional $250.0 million of our 2.25 percent fixed-rate notes due in May 2050, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $1.07 billion for general corporate purposes, including the repayment of outstanding commercial paper.

In February 2019, we issued $1.15 billion of 3.375 percent fixed-rate notes due in March 2029, $850.0 million of 3.875 percent fixed-rate notes due in March 2039, $1.50 billion of 3.95 percent fixed-rate notes due in March 2049, and $1.00 billion of 4.15 percent fixed-rate notes due in March 2059, with interest to be paid semi-annually. We used the net cash proceeds of $4.45 billion from the offering to repay commercial paper that was issued in connection with the acquisition of Loxo and for general corporate purposes.

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

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

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

	2021	2022	2023	2024	2025
Maturities on long-term debt	$ 6.0	$1,590.2	$ 2.3	$ 681.1	$ 790.3

We have converted approximately 9 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rates based on long-term debt obligations and interest rates at December 31, 2020 and 2019, including the effects of interest rate swaps for hedged debt obligations, were 2.61 percent and 2.88 percent, respectively.

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

	2020	2019	2018
Cash payments for interest on borrowings	**$ 345.8**	$ 305.5	$ 223.8

In accordance with the requirements of derivatives and hedging guidance, the portion of our fixed-rate debt obligations that is hedged as a fair value hedge is reflected in the consolidated balance sheets as an amount equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

Note 12: Stock-Based Compensation

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

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

	2020	2019	2018
Stock-based compensation expense	**$ 308.1**	$ 306.8	$ 253.5
Tax benefit	**64.7**	64.4	53.2

At December 31, 2020, stock-based compensation awards may be granted under the 2002 Lilly Stock Plan for not more than 53.9 million additional shares.

Performance Award Program

PAs are granted to officers and management and are payable in shares of our common stock. The number of PA shares actually issued, if any, varies depending on the achievement of certain pre-established earnings-per-share targets over a two-year period. PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the measurement period. The fair values of PAs granted for the years ended December 31, 2020, 2019, and 2018 were $137.33, $112.09, and $71.63, respectively. The number of shares ultimately issued for the PA program is dependent upon the EPS achieved during the vesting period. Pursuant to this program, approximately 1.1 million shares, 1.2 million shares, and 0.9 million shares were issued during the years ended December 31, 2020, 2019, and 2018, respectively. Approximately 0.8 million shares are expected to be issued in 2021. As of December 31, 2020, the total remaining unrecognized compensation cost related to nonvested PAs was $77.3 million, which will be amortized over the weighted-average remaining requisite service period of 12 months.

Shareholder Value Award Program

SVAs are granted to officers and management and are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on our stock price at the end of the three-year vesting period compared to pre-established target stock prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the SVA units granted during the years ended December 31, 2020, 2019, and 2018 were $139.14, $95.01, and $48.51, respectively, determined using the following assumptions:

(Percents)	2020	2019	2018
Expected dividend yield	**2.50 %**	2.50 %	2.50 %
Risk-free interest rate	**1.38**	2.46	2.31
Volatility	**20.90**	21.00	22.26

Pursuant to this program, approximately 0.8 million shares, 1.0 million shares, and 0.7 million shares were issued during the years ended December 31, 2020, 2019, and 2018, respectively. Approximately 1.0 million shares are expected to be issued in 2021. As of December 31, 2020, the total remaining unrecognized compensation cost related to nonvested SVAs was $48.8 million, which will be amortized over the weighted-average remaining requisite service period of 20 months.

Relative Value Award Program

Beginning in 2020, we granted RVAs to officers and management and are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on the growth of our stock price at the end of the three-year vesting period compared to our peers. We measure the fair value of the RVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price and our peers' stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair value of the RVA units granted during the year ended December 31, 2020 was $179.90, determined using the following assumptions:

(Percents)	2020
Expected dividend yield	2.50 %
Risk-free interest rate	1.38
Volatility	19.89

As of December 31, 2020, the total remaining unrecognized compensation cost related to nonvested RVAs was $13.7 million, which will be amortized over the weighted-average remaining requisite service period of 24 months.

Restricted Stock Units

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically three years. The fair values of RSU awards granted during the years ended December 31, 2020, 2019, and 2018 were $135.42, $108.43, and $70.95, respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures. Pursuant to this program, 1.1 million, 1.5 million, and 1.3 million shares were granted and approximately 0.6 million, 0.8 million, and 1.0 million shares were issued during the years ended December 31, 2020, 2019, and 2018, respectively. Approximately 0.6 million shares are expected to be issued in 2021. As of December 31, 2020, the total remaining unrecognized compensation cost related to nonvested RSUs was $179.2 million, which will be amortized over the weighted-average remaining requisite service period of 31 months.

Note 13: Shareholders' Equity

During 2020, 2019, and 2018, we repurchased $500.0 million, $4.40 billion and $4.15 billion, respectively, of shares associated with our share repurchase programs. As of December 31, 2020, we had $1.00 billion remaining under our $8.00 billion share repurchase program that our board authorized in June 2018.

We have 5.0 million authorized shares of preferred stock. As of December 31, 2020 and 2019, no preferred stock was issued.

We have an employee benefit trust that held 50.0 million shares of our common stock at both December 31, 2020 and 2019, to provide a source of funds to assist us in meeting our obligations under various employee benefit plans. The cost basis of the shares held in the trust was $3.01 billion at both December 31, 2020 and 2019, and is shown as a reduction of shareholders’ equity. Any dividend transactions between us and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of EPS. The assets of the trust were not used to fund any of our obligations under these employee benefit plans during the years ended December 31, 2020, 2019, and 2018.

Note 14: 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. Deferred taxes related to GILTI, global intangible low-taxed income, are also recognized for the future tax effects of temporary differences.

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

In December 2017, the Tax Cuts and Job Act (the 2017 Tax Act) was signed into law. The 2017 Tax Act included significant changes to the U.S. corporate income tax system, such as the reduction in the corporate income tax rate from 35 percent to 21 percent, transition to a territorial tax system, changes to business related exclusions, deductions and credits, and modifications to international tax provisions, including a one-time repatriation transition tax (also known as the 'Toll Tax') on unremitted foreign earnings and GILTI, a new U.S. minimum tax on the earnings of our foreign subsidiaries. In 2018, we recorded $313.3 million of income tax benefit, mainly attributable to measurement period adjustments to the Toll Tax and GILTI.

Following is the composition of income tax expense:

	2020	2019	2018
Current:			
Federal[1]	**$ 567.6**	$ 280.2	$ 169.6
Foreign	**650.4**	299.8	106.8
State	**(47.3)**	(14.4)	4.7
Total current tax expense	**1,170.7**	565.6	281.1
Deferred:			
Federal[2]	**(97.4)**	141.3	(3.7)
Foreign	**(16.6)**	(24.1)	248.7
State	**(20.5)**	(54.8)	3.4
Total deferred tax (benefit) expense	**(134.5)**	62.4	248.4
Income taxes	**$ 1,036.2**	$ 628.0	$ 529.5

[1] The 2020 and 2019 current tax expense includes $144.4 million and $153.1 million of tax benefit, respectively, from utilization of net operating loss and tax credit carryforwards. The 2018 current tax expense includes $201.5 million of tax expense related to effects of the 2017 Tax Act.

[2] The 2018 deferred tax benefit includes $26.2 million of tax benefit related to effects of the 2017 Tax Act.

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

	2020	2019
Deferred tax assets:		
Purchases of intangible assets	**$ 2,560.6**	$ 2,512.4
Compensation and benefits	**1,045.6**	934.3
Tax credit carryforwards and carrybacks	**523.5**	455.8
Tax loss carryforwards and carrybacks	**488.3**	318.8
Sales rebates and discounts	**461.3**	197.3
Correlative tax adjustments	**404.2**	219.1
Foreign tax redeterminations	**242.8**	156.8
Operating lease liabilities	**150.7**	140.6
Capitalized research and development	**135.2**	75.7
Other	**605.8**	595.7
Total gross deferred tax assets	**6,618.0**	5,606.5
Valuation allowances	**(816.3)**	(616.5)
Total deferred tax assets	**5,801.7**	4,990.0
Deferred tax liabilities:		
Earnings of foreign subsidiaries	**(1,905.3)**	(1,776.4)
Intangibles	**(1,465.7)**	(1,298.0)
Inventories	**(623.7)**	(686.4)
Prepaid employee benefits	**(410.1)**	(305.9)
Property and equipment	**(315.2)**	(274.1)
Financial instruments	**(216.9)**	(139.4)
Operating lease assets	**(134.3)**	(124.7)
Total deferred tax liabilities	**(5,071.2)**	(4,604.9)
Deferred tax assets - net	**$ 730.5**	$ 385.1

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

At December 31, 2020, based on filed tax returns we have tax credit carryforwards and carrybacks of $887.3 million available to reduce future income taxes; $148.8 million, if unused, will expire by 2026, and $16.1 million, if unused, will expire between 2029 and 2039. The remaining portion of the tax credit carryforwards is related to federal tax credits of $84.8 million, international tax credits of $121.9 million, and state tax credits of $515.7 million, all of which are fully reserved.

At December 31, 2020, based on filed tax returns we had net operating losses and other carryforwards for international and U.S. federal income tax purposes of $1.52 billion: $162.6 million will expire by 2025; $781.7 million will expire between 2026 and 2040; and $576.3 million of the carryforwards will never expire. Net operating losses and other carryforwards for international and U.S. federal income tax purposes are partially reserved. Deferred tax assets related to state net operating losses and other carryforwards of $175.6 million are fully reserved as of December 31, 2020.

Domestic and Puerto Rican companies contributed approximately 39 percent, 44 percent, and 15 percent for the years ended December 31, 2020, 2019, and 2018, respectively, to consolidated income before income taxes. We have a subsidiary operating in Puerto Rico under a tax incentive grant effective through the end of 2031.

Substantially all of the unremitted earnings of our foreign subsidiaries are considered not to be indefinitely reinvested for continued use in our foreign operations. At December 31, 2020 and December 31, 2019, we accrued an immaterial amount of foreign withholding taxes and state income taxes that would be owed upon future distributions of unremitted earnings of our foreign subsidiaries that are not indefinitely reinvested. For the amount considered to be indefinitely reinvested, it is not practicable to determine the amount of the related deferred income tax liability due to the complexities in the tax laws and assumptions we would have to make.

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

	2020	2019	2018
Cash payments of income taxes	**$ 954.6**	$ 1,180.5	$ 1,076.7

The 2017 Tax Act provided an election to taxpayers subject to the Toll Tax to make payments over an eight year period beginning in 2018 through 2025. Having made this election, our future cash payments relating to the Toll Tax as of December 31, 2020 are as follows:

	Total	Less than 1 Year	1-3 Years	3-5 Years
2017 Tax Act Toll Tax	$2,403.1	$253.7	$729.3	$1,420.1

We have additional noncurrent income tax payables of $1.69 billion unrelated to the Toll Tax; we cannot reasonably estimate the timing of future cash outflows associated with these liabilities.

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

	2020	2019	2018
Income tax at the U.S. federal statutory tax rate	**$ 1,518.3**	$ 1,105.8	$ 772.8
Add (deduct):			
International operations, including Puerto Rico	**(297.1)**	(242.0)	(627.1)
General business credits	**(97.9)**	(108.8)	(87.4)
Non-deductible acquired IPR&D[(1)]	**63.2**	—	309.9
2017 Tax Act	**—**	—	175.3
Other	**(150.3)**	(127.0)	(14.0)
Income taxes	**$ 1,036.2**	$ 628.0	$ 529.5

[(1)] Non-deductible acquired IPR&D was related to the acquisitions of Disarm and a pre-clinical stage company in 2020 and ARMO in 2018. See Note 3 for additional information related to acquisitions.

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

	2020	2019	2018
Beginning balance at January 1	**$ 2,108.6**	$ 2,034.6	$ 1,000.8
Additions based on tax positions related to the current year	**225.6**	187.2	798.2
Additions for tax positions of prior years	**310.8**	425.3	410.9
Reductions for tax positions of prior years	**(52.4)**	(100.3)	(115.4)
Settlements	**(72.0)**	(260.5)	(33.2)
Lapses of statutes of limitation	**(41.7)**	(161.5)	(20.5)
Changes related to the impact of foreign currency translation	**73.0**	(16.2)	(6.2)
Ending balance at December 31	**$ 2,551.9**	$ 2,108.6	$ 2,034.6

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $1.67 billion and $1.53 billion at December 31, 2020 and 2019, respectively.

We file U.S. federal, foreign, and various state and local income tax returns. We are no longer subject to U.S. federal income tax examination for years before 2016. In most major foreign and state jurisdictions, we are no longer subject to income tax examination for years before 2012.

The U.S. examination of tax years 2016-2018 began in the fourth quarter of 2019 and remains ongoing; therefore, the resolution of this audit period will likely extend beyond the next 12 months. For tax years 2013-2015, all matters were effectively settled in 2019. As a result, our gross uncertain tax positions were reduced by approximately $200 million, we made a cash payment of approximately $125 million, and our consolidated results were benefited by an immaterial reduction in tax expense.

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

	2020	2019	2018
Income tax (benefit) expense	**$ 34.0**	$ (26.4)	$ 25.1

At December 31, 2020 and 2019, our accruals for the payment of interest and penalties totaled $196.7 million and $150.8 million, respectively.

Note 15: Retirement Benefits

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

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2020	2019	2020	2019
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 16,251.0**	$ 13,427.1	**$ 1,601.4**	$ 1,540.0
Service cost	**325.5**	250.4	**40.8**	36.3
Interest cost	**425.8**	486.0	**43.7**	58.0
Actuarial loss	**1,563.1**	2,631.7	**142.1**	54.3
Benefits paid	**(587.2)**	(584.2)	**(75.1)**	(87.3)
Curtailment (gain) loss	**2.2**	(16.8)	**—**	(0.5)
Foreign currency exchange rate changes and other adjustments	**245.1**	56.8	**0.8**	0.6
Benefit obligation at end of year	**18,225.5**	16,251.0	**1,753.7**	1,601.4
Change in plan assets:				
Fair value of plan assets at beginning of year	**12,858.0**	10,932.6	**2,768.2**	2,398.1
Actual return on plan assets	**1,802.4**	2,012.0	**539.0**	444.1
Employer contribution	**318.8**	429.9	**(5.1)**	13.2
Benefits paid	**(587.2)**	(584.2)	**(75.1)**	(87.3)
Foreign currency exchange rate changes and other adjustments	**187.0**	67.7	**—**	0.1
Fair value of plan assets at end of year	**14,579.0**	12,858.0	**3,227.0**	2,768.2
Funded status	**(3,646.5)**	(3,393.0)	**1,473.3**	1,166.8
Unrecognized net actuarial (gain) loss	**6,515.5**	6,177.6	**(349.1)**	(111.6)
Unrecognized prior service (benefit) cost	**15.4**	17.4	**(177.6)**	(236.4)
Net amount recognized	**$ 2,884.4**	$ 2,802.0	**$ 946.6**	$ 818.8
Amounts recognized in the consolidated balance sheet consisted of:				
Other noncurrent assets	**$ 299.6**	$ 163.3	**$ 1,697.0**	$ 1,381.3
Other current liabilities	**(67.9)**	(65.3)	**(7.4)**	(7.3)
Accrued retirement benefits	**(3,878.2)**	(3,491.0)	**(216.3)**	(207.2)
Accumulated other comprehensive (income) loss before income taxes	**6,530.9**	6,195.0	**(526.7)**	(348.0)
Net amount recognized	**$ 2,884.4**	$ 2,802.0	**$ 946.6**	$ 818.8

The unrecognized net actuarial loss (gain) and unrecognized prior service cost (benefit) have not yet been recognized in net periodic pension costs and were included in accumulated other comprehensive loss at December 31, 2020 and 2019.

Effective during the third quarter of 2020, we adopted a voluntary change in our method of applying an accounting principle for certain of our retirement benefit plans. The new accounting method changes the computation of expected returns on U.S. dollar denominated investment grade debt securities and derivatives in such plans from a calculated value that includes changes in the fair values over a period of five years to actual fair value. This change in accounting principle is preferable because changes in the fair value of this class of assets will be amortized into net periodic pension and retiree health cost sooner. No change is being made to the accounting principle for the other classes of pension assets. The impact of the adoption of this change in accounting method was not material to our historical and current consolidated financial statements.

A decrease in the discount rate was the primary driver for the $2.13 billion and $2.89 billion increase in the benefit obligation in 2020 and 2019, respectively.

In July 2018, we announced that we would amend our defined benefit pension and retiree health benefit plans to freeze or reduce benefits for certain employees effective January 1, 2019. We remeasured the impacted pension and retiree health plans' benefit obligations as of July 31, 2018, which resulted in a net curtailment gain of $28.0 million, which was recorded in asset impairment, restructuring, and other special charges.

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

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
(Percents)	2020	2019	2018	2020	2019	2018
Discount rate for benefit obligation	**2.4 %**	3.0 %	4.0 %	**2.6 %**	3.3 %	4.4 %
Discount rate for net benefit costs	**3.0**	4.0	3.4	**3.3**	4.4	3.7
Rate of compensation increase for benefit obligation	**3.3**	3.3	3.4			
Rate of compensation increase for net benefit costs	**3.3**	3.4	3.4			
Expected return on plan assets for net benefit costs	**7.3**	7.4	7.4	**6.0**	6.0	8.0

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

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

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

	2021	2022	2023	2024	2025	2026-2030
Defined benefit pension plans	$ 639.2	$ 635.3	$ 645.8	$ 673.1	$ 689.6	$ 3,800.8
Retiree health benefit plans	91.2	91.2	91.2	94.9	95.7	481.8

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

	2020	2019
Projected benefit obligation	**$ 15,770.7**	$ 14,039.7
Fair value of plan assets	**11,824.4**	10,483.4

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

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2020	2019	2020	2019
Accumulated benefit obligation	**$ 14,682.3**	$ 13,063.7	**$ 223.8**	$ 214.4
Fair value of plan assets	**11,824.4**	10,483.4	**—**	—

The total accumulated benefit obligation for our defined benefit pension plans was $17.03 billion and $15.17 billion at December 31, 2020 and 2019, respectively.

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

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2020	2019	2018	2020	2019	2018
Components of net periodic (benefit) cost:						
Service cost	**$ 325.5**	$ 250.4	$ 292.7	**$ 40.8**	$ 36.3	$ 41.5
Interest cost	**425.8**	486.0	458.5	**43.7**	58.0	57.3
Expected return on plan assets	**(901.5)**	(839.6)	(842.1)	**(158.1)**	(144.3)	(177.9)
Amortization of prior service (benefit) cost	**4.5**	6.1	4.6	**(59.5)**	(62.9)	(79.5)
Recognized actuarial loss (gain)	**396.3**	284.9	332.5	**(3.0)**	1.9	6.1
Curtailment (gain) loss	**—**	2.2	1.3	**—**	—	(29.3)
Net periodic (benefit) cost	**$ 250.6**	$ 190.0	$ 247.5	**$ (136.1)**	$ (111.0)	$ (181.8)

The following represents the amounts recognized in other comprehensive income (loss) for the years ended December 31, 2020, 2019, and 2018:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2020	2019	2018	2020	2019	2018
Actuarial gain (loss) arising during period	**$ (663.0)**	$ (1,461.0)	$ 182.8	**$ 238.8**	$ 246.1	$ 37.5
Plan amendments during period	**(2.2)**	—	(17.6)	**—**	—	14.1
Curtailment gain (loss)	**—**	19.0	45.2	**—**	—	(31.8)
Amortization of prior service (benefit) cost included in net income	**4.5**	6.1	4.6	**(59.5)**	(62.9)	(79.5)
Amortization of net actuarial loss included in net income	**396.3**	284.9	332.5	**(3.0)**	1.9	6.1
Foreign currency exchange rate changes and other	**(71.5)**	(7.7)	47.1	**2.4**	3.6	(0.1)
Total other comprehensive income (loss) during period	**$ (335.9)**	$ (1,158.7)	$ 594.6	**$ 178.7**	$ 188.7	$ (53.7)

We have defined contribution savings plans that cover our eligible employees worldwide. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save. Our contributions to the plans are based on employee contributions and the level of our match. Expenses under the plans totaled $164.3 million, $145.2 million, and $132.6 million for the years ended December 31, 2020, 2019, and 2018, respectively.

We provide certain other postemployment benefits primarily related to disability benefits and accrue for the related cost over the service lives of employees. Expenses associated with these benefit plans for the years ended December 31, 2020, 2019, and 2018 were not material.

Benefit Plan Investments

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

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

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

The defined benefit pension and retiree health benefit plan allocation for the U.S. and Puerto Rico currently comprises approximately 65 percent growth investments and 35 percent fixed-income investments. The growth investment allocation encompasses U.S. and international public equity securities, hedge funds, private equity-like investments, and real estate. These portfolio allocations are intended to reduce overall risk by providing diversification, while seeking moderate to high returns over the long term.

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

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

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

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

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

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

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

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

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2020 by asset category were as follows:

		Fair Value Measurements Using			
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 737.6	$ 476.1	$ —	$ 1.0	$ 260.5
International	2,635.8	1,102.3	—	—	1,533.5
Fixed income:					
Developed markets	4,301.3	2.9	3,179.2	—	1,119.2
Developed markets - repurchase agreements	(1,670.8)	—	(1,670.8)	—	—
Emerging markets	631.0	14.2	262.7	0.1	354.0
Private alternative investments:					
Hedge funds	2,661.3	—	—	—	2,661.3
Equity-like funds	2,844.7	—	—	16.9	2,827.8
Real estate	558.9	259.6	6.9	5.8	286.6
Other	1,879.2	60.4	301.2	18.0	1,499.6
Total	$ 14,579.0	$ 1,915.5	$ 2,079.2	$ 41.8	$ 10,542.5
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 68.3	$ 45.0	$ —	$ 0.1	$ 23.2
International	162.3	58.1	—	—	104.2
Fixed income:					
Developed markets	101.5	—	80.3	—	21.2
Emerging markets	53.5	—	24.7	—	28.8
Private alternative investments:					
Hedge funds	229.7	—	—	—	229.7
Equity-like funds	223.4	—	—	1.6	221.8
Cash value of trust owned insurance contract	2,204.6	—	2,204.6	—	—
Real estate	25.8	24.5	0.7	0.6	—
Other	157.9	14.1	21.1	1.7	121.0
Total	$ 3,227.0	$ 141.7	$ 2,331.4	$ 4.0	$ 749.9

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

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2020. The activity in the Level 3 investments during the year ended December 31, 2020 was not material.

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

Asset Class	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 794.2	$ 532.4	$ —	$ —	$ 261.7
International	2,439.2	1,046.8	—	—	1,392.4
Fixed income:					
Developed markets	3,661.4	4.8	2,658.9	—	997.7
Developed markets - repurchase agreements	(1,659.1)	—	(1,659.1)	—	—
Emerging markets	648.0	18.5	277.4	4.1	348.0
Private alternative investments:					
Hedge funds	2,897.9	—	—	—	2,897.9
Equity-like funds	2,279.3	—	—	16.8	2,262.5
Real estate	570.3	166.2	—	—	404.1
Other	1,226.8	62.9	222.6	6.6	934.7
Total	$ 12,858.0	$ 1,831.7	$ 1,499.8	$ 27.5	$ 9,499.0
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 76.5	$ 52.1	$ —	$ —	$ 24.4
International	152.6	60.8	—	—	91.8
Fixed income:					
Developed markets	82.7	—	56.3	—	26.4
Emerging markets	58.5	—	27.0	0.4	31.1
Private alternative investments:					
Hedge funds	250.8	—	—	—	250.8
Equity-like funds	187.4	—	—	1.6	185.8
Cash value of trust owned insurance contract	1,832.2	—	1,832.2	—	—
Real estate	31.3	16.2	—	—	15.1
Other	96.2	11.4	7.9	0.7	76.2
Total	$ 2,768.2	$ 140.5	$ 1,923.4	$ 2.7	$ 701.6

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

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

In 2021, we expect to contribute approximately $40 million to our defined benefit pension plans to satisfy minimum funding requirements for the year. We expect to contribute approximately $10 million in additional discretionary contributions in 2021.

Note 16: Contingencies

We are involved in various lawsuits, claims, government investigations and other legal proceedings that arise in the ordinary course of business. These claims or proceedings can involve various types of parties, including governments, competitors, customers, suppliers, service providers, licensees, employees, or shareholders, among others. These matters may involve patent infringement, antitrust, securities, pricing, sales and marketing practices, environmental, commercial, contractual rights, licensing obligations, health and safety matters, consumer fraud, employment matters, product liability and insurance coverage, among others. The resolution of these matters often develops over a long period of time and expectations can change as a result of new findings, rulings, appeals or settlement arrangements. Legal proceedings that are significant or that we believe could become significant or material are described below.

We believe the legal proceedings in which we are named as defendants are without merit and we are defending against them vigorously. It is not possible to determine the outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

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

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

Patent Litigation

Alimta Patent Litigation

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

U.S. Patent Litigation

Alimta (pemetrexed) is protected by a vitamin regimen patent until 2021, plus pediatric exclusivity through May 2022.

In August 2017, we filed a lawsuit in the U.S. District Court for the Southern District of Indiana against Apotex Inc. (Apotex) alleging infringement of Alimta's vitamin regimen patent for its application to market a pemetrexed product. In December 2019, the U.S. District Court for the Southern District of Indiana granted our motion for summary judgment of infringement, and in December 2020, the U.S. Court of Appeals for the Federal Circuit affirmed that ruling. Apotex did not request reconsideration or a rehearing of that ruling. However, Apotex could petition the U.S. Supreme Court to review the case.

In December 2019, we settled a lawsuit we filed against Eagle Pharmaceuticals, Inc. (Eagle) in response to its application to market a product using an alternative form of pemetrexed. Per the settlement agreement, Eagle has a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022.

European Patent Litigation

Legal proceedings are ongoing regarding our Alimta patents in various national courts throughout Europe. We are aware that several companies have received approval to market generic versions of pemetrexed in major European markets and that generic competitors may choose to launch at risk. Following a final decision in the Supreme Court of Germany in July 2020 overturning the lower court and upholding the validity of our Alimta patent, several generics that were on the market at risk left. We have removed the remaining generics from the market by obtaining preliminary injunctions in our favor. In September 2020, the Paris Court of First Instance in France issued a final decision upholding the validity of our Alimta patent and found infringement by Fresenius Kabi France and Fresenius Kabi Groupe France's (collectively, Kabi) pemetrexed product. The court issued an injunction against Kabi and provisionally awarded us damages. In January 2021, that same court issued a preliminary injunction against Zentiva France S.A.S. (Zentiva), the last remaining company with a generic pemetrexed product on the French market, and provisionally awarded us damages. In October 2020, the Court of Appeal of the Netherlands overturned a lower court decision and ruled that our Alimta patent is valid and infringed and reinstated an injunction against Kabi, thereby removing Kabi's pemetrexed product from the Netherlands market. Kabi has appealed this decision to the Netherlands Supreme Court. Kabi's generic pemetrexed product was the only at risk generic on the market in the Netherlands.

Our vitamin regimen patents have also been challenged in other smaller European jurisdictions. We will continue to seek to remove any generic pemetrexed products launched at risk in other European markets, seek damages with respect to such launches, and defend our patents against validity challenges.

Japanese Administrative Proceedings

In October 2020, the Japanese Patent Office (JPO) issued notices closing Hopira Inc.'s (Hospira) invalidation against our Japanese Alimta patents. As a result, Hospira filed a withdrawal notice with the JPO and the JPO accepted the withdrawal in November. This matter is now closed.

Emgality Patent Litigation

In September 2018, we were named as a defendant in litigation filed by Teva Pharmaceuticals International GMBH and Teva Pharmaceuticals USA, Inc. (collectively, Teva) in the U.S. District Court for the District of Massachusetts seeking a ruling that various claims in nine different Teva patents would be infringed by our launch and continued sales of Emgality for the prevention of migraine in adults. Trial is expected in December 2021. Separately, the U.S. Patent and Trademark Office (USPTO) granted our request to initiate an *inter partes review* (IPR) to reexamine the validity of the nine Teva patents asserted against us in the litigation. In February 2020, the USPTO ruled in our favor and found that the claims asserted against us in six of Teva's nine patents were invalid. In March 2020, the USPTO ruled against us on the remaining three Teva patents, finding that we failed to show that the remaining three patents were unpatentable based on the subset of invalidity arguments available in an IPR proceeding. In April 2020, we appealed the USPTO's March 2020 ruling, and Teva appealed the USPTO's February 2020 ruling to the U.S. Court of Appeals for the Federal Circuit. The district court litigation will proceed in parallel with the IPR appeals.

Jardiance Patent Litigation

In November 2018, Boehringer Ingelheim (BI), our partner in marketing and development of Jardiance, initiated U.S. patent litigation in the U.S. District Court of Delaware alleging infringement arising from Alkem Laboratories Ltd.'s (Alkem) and Ascend Laboratories, LLC's (Ascend) submissions of Abbreviated New Drug Applications (ANDA) seeking approval to market generic versions of Jardiance, Glyxambi, and Synjardy in accordance with the procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). Particularly with respect to Jardiance, Alkem's and Ascend's ANDAs seek approval to market generic versions of Jardiance prior to the expiration of the relevant patents, and allege that certain patents, including in some allegations the compound patent, are invalid or would not be infringed. We are not a party to this litigation. Trial was scheduled for April 2021 but has been postponed.

Taltz Patent Litigation

In July 2018, we were named as a defendant in litigation filed by Genentech, Inc. (Genentech) in Germany seeking a ruling that Genentech's patent would be infringed by our continued sales of Taltz in Germany. After it sold its patent rights to Novartis Pharma AG (Novartis) in June 2020, Genentech withdrew its infringement litigation and Novartis subsequently filed litigation against us in Germany asserting infringement based on sales of Taltz. In January 2021, we entered into a settlement agreement with Novartis whereby all pending litigation in Germany related to the Taltz patent has been withdrawn and this matter has concluded. We were also named in litigation in the U.K. in which Genentech asserted similar claims regarding its corresponding U.K. patent. Novartis purchased Genentech's U.K. patent rights for Taltz, sought substitution for Genentech in the U.K. litigation and then sought dismissal of all appeals. Orders to this effect were issued by the Patents Court and Court of Appeal in November 2020 and these matters have concluded.

Zyprexa Canada Patent Litigation

Beginning in the mid-2000's, several generic companies in Canada challenged the validity of our Zyprexa compound patent. In 2012, the Canadian Federal Court of Appeals denied our appeal of a lower court's decision that certain patent claims were invalid for lack of utility. In 2013, Apotex Inc. and Apotex Pharmachem Inc. (collectively, Apotex) brought claims against us in the Ontario Superior Court of Justice at Toronto for damages related to our enforcement of the Zyprexa compound patent under Canadian regulations governing patented drugs. Apotex seeks compensation based on novel legal theories under the Statute of Monopolies, Trade-Mark Act, and common law. Trial is expected in 2021 or 2022.

Product Liability Litigation

Actos® Product Liability

We are named along with Takeda Chemical Industries, Ltd. and Takeda affiliates (collectively, Takeda) as a defendant in four purported product liability class actions in Canada related to Actos, which we commercialized with Takeda in Canada until 2009, including one in Ontario filed December 2011 (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al.*), one in Quebec filed July 2012 (*Whyte et al. v. Eli Lilly et al.*), one in Saskatchewan filed November 2017 (*Weiler v. Takeda Canada Inc. et al.*), and one in Alberta filed January 2013 (*Epp v. Takeda Canada Inc. et al.*). In general, plaintiffs in these actions alleged that Actos caused or contributed to their bladder cancer.

Byetta® Product Liability

First initiated in March 2009, we are named as a defendant in approximately 570 Byetta product liability lawsuits in the U.S. involving approximately 810 plaintiffs. Approximately 55 of these lawsuits, covering about 285 plaintiffs, are filed in California state court and coordinated in a Los Angeles Superior Court. Approximately 515 of the lawsuits, covering about 515 plaintiffs, are filed in federal court, the majority of which are coordinated in a multi-district litigation (MDL) in the U.S. District Court for the Southern District of California. Three lawsuits, representing approximately four plaintiffs, have also been filed in various state courts. Approximately 565 of the lawsuits, involving approximately 800 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer); while six plaintiffs allege Byetta caused or contributed to pancreatitis. In addition, one case alleges that Byetta caused or contributed to ampullary cancer. The federal and state trial courts granted summary judgment in favor of us and our co-defendants on the claims alleging pancreatic cancer. The plaintiffs appealed those rulings. In November 2017, the U.S. Court of Appeals for the Ninth Circuit reversed the U.S. District Court's grant of summary judgment based on that court's discovery rulings and remanded the cases for further proceedings. In November 2018, the California Court of Appeal reversed the state court's grant of summary judgment based on that court's discovery rulings and remanded for further proceedings. We are aware of approximately 20 additional claimants who have not yet filed suit. These additional claims allege damages for pancreatic cancer or thyroid cancer.

Cialis Product Liability

First initiated in August 2015, we are named as a defendant in approximately 350 Cialis product liability lawsuits in the U.S. These cases, many of which were originally filed in various federal courts, contain allegations that Cialis caused or contributed to the plaintiffs' cancer (melanoma). In December 2016, the Judicial Panel on Multidistrict Litigation (JPML) granted the plaintiffs' petition to have filed cases and an unspecified number of future cases coordinated into a federal multidistrict litigation (MDL) in the U.S. District Court for the Northern District of California, alongside an existing coordinated proceeding involving Viagra®. The JPML ordered the transfer of the existing cases to the now-renamed MDL *In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation*. In April 2020, the MDL court granted summary judgment to the defendants on all of the claims brought against them by the plaintiffs. In May 2020, plaintiffs filed an appeal in the U.S. Court of Appeals for the Ninth Circuit.

Jardiance Product Liability

First initiated in January 2019, we and Boehringer Ingelheim Pharmaceuticals, Inc., a subsidiary of BI, have been named as a defendant in approximately 95 product liability lawsuits in the U.S., mostly in Stamford Superior Court in Connecticut, alleging that Jardiance caused or contributed to plaintiffs' Fournier's gangrene. Our agreement with BI calls for BI to defend and indemnify us against any damages, costs, expenses, and certain other losses with respect to product liability claims in accordance with the terms of the agreement.

Environmental Proceedings

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

Other Matters

340B Litigation

We are the plaintiff in a lawsuit filed in January 2021 in the U.S. District Court for the Southern District of Indiana against the U.S. Department of Health and Human Services (HHS), the Secretary of HHS, the Health Resources and Services Administration (HRSA), and the Administrator of HRSA. The lawsuit challenges the HHS's December 30, 2020 advisory opinion stating that drug manufacturers are required to deliver discounts under the 340B program to all contract pharmacies. We seek a declaratory judgment that the defendants violated the Administrative Procedures Act and the U.S. Constitution, a preliminary injunction enjoining implementation of the alternative dispute resolution process created by defendants and, with it, their application of the advisory opinion, and other related relief. A hearing on our motion for preliminary injunction has been scheduled for February 26, 2021.

In January 2021, we, along with other pharmaceutical manufacturers, were named as a defendant in a petition currently pending before the HHS Administration Dispute Resolution Panel. Petitioner seeks declaratory and other injunctive relief related to the 340B program.

Brazil Litigation – Cosmopolis Facility

Labor Attorney Litigation

First initiated in 2008, our subsidiary in Brazil, Eli Lilly do Brasil Limitada (Lilly Brasil), is named in a lawsuit brought by the Labor Attorney for the 15th Region in the Labor Court of Paulinia, State of Sao Paulo, Brazil, alleging possible harm to employees and former employees caused by exposure to heavy metals at a former Lilly Brasil manufacturing facility in Cosmopolis, Brazil, operated by the company between 1977 and 2003. In May 2014, the labor court judge ruled against Lilly Brasil, ordering it to undertake several actions of unspecified financial impact, including paying lifetime health coverage for the employees and contractors who worked at the Cosmopolis facility more than six months during the affected years and their children born during and after this period. We appealed this decision. In July 2018, the appeals court affirmed the labor court's ruling with a liquidated award of 300 million Brazilian real (for moral damages, donation of equipment, and creation of a foundation) which, adjusted for inflation and interest using the current Central Bank of Brazil's special system of clearance and custody rate (SELIC), is approximately 950 million Brazilian real (approximately $180 million as of December 31, 2020). The appeals court restricted the broad health coverage awarded by the labor court to health problems that claimants could show arose from exposure to the alleged contamination. In August 2019, Lilly Brasil filed an appeal to the superior labor court. In September 2019, the appeals court stayed a number of elements of its prior decision, including the obligation to provide health coverage for contractors, their children, and children of employees who worked at the Cosmopolis facility, pending the determination of Lilly Brasil’s appeal to the superior labor court. The cost of any such health coverage has not been determined.

In June 2019, the Labor Attorney filed an application in the labor court for enforcement of the healthcare coverage granted by the appeals court in its July 2018 ruling and requested restrictions on Lilly Brasil’s assets in Brazil. In July 2019, the labor court issued a ruling requiring either a freeze of Lilly Brasil’s immovable property or, alternatively, a security deposit of 500 million Brazilian real. Lilly Brasil filed a writ of mandamus challenging this ruling, but the court has stayed its decision on this writ and instead directed the parties to attend conciliation hearings, a process that concluded unsuccessfully in September 2020. Consequently, the partial stay of the proceedings relating to Lilly Brasil's application to appeal in the main proceedings has been lifted. In addition, the Labor Attorney's application for preliminary enforcement of the July 2018 healthcare coverage ruling was granted. As the conciliation hearings have been unsuccessful, we have filed a brief to strike the Labor Attorney’s application to enforce the previous healthcare coverage. Lilly Brasil is currently awaiting a determination as to whether its application seeking leave to appeal to the superior labor court has been successful.

Individual Former Employee Litigation

First initiated in 2003, we have also been named in approximately 30 lawsuits filed in the same labor court by individual former employees making similar claims. These lawsuits are each at various stages in the litigation process, with judgments being handed down in approximately half of the lawsuits, nearly all of which are on appeal in the labor courts.

China NDRC Antitrust Matter

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

Eastern District of Pennsylvania Pricing (Average Manufacturer Price) Inquiry

In November 2014, we, along with another pharmaceutical manufacturer, are named as co-defendants in *United States et al. ex rel. Streck v. Takeda Pharm. Am., Inc., et al.*, which was filed in November 2014 and unsealed in the U.S. District Court for the Northern District of Illinois. The complaint alleges that the defendants should have treated certain credits from distributors as retroactive price increases and included such increases in calculating average manufacturer prices. Trial is scheduled for February 2022.

Health Choice Alliance

We are named as a defendant in a lawsuit filed in June 2017 in the U.S. District Court for the Eastern District of Texas seeking damages under the federal anti-kickback statute and state and federal false claims acts for certain patient support programs related to our products Humalog, Humulin, and Forteo. In September 2019, the U.S. District Court granted the U.S. Department of Justice's motion to dismiss the relator's second amended complaint. In January 2020, the relator appealed the District Court's dismissal to the U.S. Court of Appeals for the Fifth Circuit. We are also named as a defendant in two similar lawsuits filed in Texas and New Jersey state courts in October 2019 seeking damages under the Texas Medicaid Fraud Prevention Act and New Jersey Medicaid False Claims Act, respectively. In November 2020, the Texas state court action was stayed pending a decision by the U.S. Court of Appeals for the Fifth Circuit on the aforementioned District Court appeal.

Pricing Litigation, Investigations, and Inquires

Litigation

In December 2017, we, along with Sanofi-Aventis U.S. LLC (Sanofi) and Novo Nordisk, Inc. (Novo Nordisk) were named as defendants in a consolidated purported class action lawsuit, *In re. Insulin Pricing Litigation*, in the U.S. District Court for the District of New Jersey relating to insulin pricing seeking damages under various state consumer protection laws and the Federal Racketeer Influenced and Corrupt Organization Act (federal RICO Act). Separately, in February 2018, we, along with Sanofi and Novo Nordisk, were named as defendants in *MSP Recovery Claims, Series, LLC et al. v. Sanofi Aventis U.S. LLC et al.*, in the same court, seeking damages under various state consumer protection laws, common law fraud, unjust enrichment, and the federal RICO Act. In both *In re. Insulin Pricing Litigation* and the *MSP Recovery Claims* litigation, the court dismissed claims under the federal RICO Act and certain state laws. Also, filed in the same court in November 2020, we, along with Sanofi, Novo Nordisk, CVS, Express Scripts, and Optum, have been sued in a purported class action, *FWK Holdings, LLC v. Novo Nordisk Inc., et al.*, for alleged violations of the federal RICO Act as well as the New Jersey RICO Act and anti-trust law. That same group of defendants, along with Medco Health and United Health Group, also have been sued in other purported class actions in the same court, *Rochester Drug Co-Operative Inc. v. Eli Lilly & Co. et al.* and *Value Drug Co. v. Eli Lilly & Co. et al.* both initiated in March 2020, for alleged violations of the federal RICO Act. In September 2020, the U.S. District Court for the District of New Jersey granted plaintiffs' motion to consolidate *FWK Holdings, LLC v. Novo Nordisk Inc., et al.*, *Rochester Drug Co-Operative Inc. v. Eli Lilly & Co. et al.*, and *Value Drug Co. v. Eli Lilly & Co. et al.*

In October 2018, the Minnesota Attorney General's Office initiated litigation against us, Sanofi, and Novo Nordisk, *State of Minnesota v. Sanofi-Aventis U.S. LLC et al.,* in the U.S. District Court for the District of New Jersey, alleging unjust enrichment, violations of various Minnesota state consumer protection laws, and the federal RICO Act. Additionally, in May 2019, the Kentucky Attorney General's Office filed a complaint against us, Sanofi, and Novo Nordisk, *Commonwealth of Kentucky v. Novo Nordisk, Inc. et al.*, in Kentucky state court, alleging violations of the Kentucky consumer protection law, false advertising, and unjust enrichment. In November 2019, Harris County in Texas initiated litigation against us, Sanofi, Novo Nordisk, Express Scripts, CVS, Optum, and Aetna, *County of Harris Texas v. Eli Lilly & Co., et al.*, in federal court in the Southern District of Texas alleging violations of the federal RICO Act, federal and state anti-trust law, and the state deceptive trade practices-consumer protection act. Harris County also alleges common law claims such as fraud, unjust enrichment, and civil conspiracy. This lawsuit relates to our insulin products as well as Trulicity.

Investigations, Subpoenas, and Inquiries

We received a subpoena from the New York and Vermont Attorney General Offices and civil investigative demands from the Washington, New Mexico, and Colorado Attorney General Offices relating to the pricing and sale of our insulin products. The Offices of the Attorney General in Mississippi, Washington D.C., California, Florida, Hawaii, and Nevada have requested information relating to the pricing and sale of our insulin products. We also received interrogatories and a subpoena from the California Attorney General's Office regarding our competition in the long-acting insulin market. We received two requests from the House of Representatives' Committee on Energy and Commerce and a request from the Senate's Committee on Health, Education, Labor, and Pensions seeking certain information related to the pricing of insulin products, among other issues. We also received requests from the House of Representatives' Committee on Oversight and Reform and the Senate's Committee on Finance, which seek detailed commercial information and business records. In January 2021, the Senate's Committee on Finance released a report summarizing the findings of its investigation. We are cooperating with all of these aforementioned investigations, subpoenas, and inquiries.

Research Corporation Technologies, Inc.

In April 2016, we were named as a defendant in litigation filed by Research Corporation Technologies, Inc. (RCT) in the U.S. District Court for the District of Arizona. RCT is seeking damages for breach of contract, unjust enrichment, and conversion related to processes used to manufacture certain products, including Humalog and Humulin. A trial date has not been set.

Note 17: Other Comprehensive Income (Loss)

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

(Amounts presented net of taxes)	Continuing Operations: Foreign Currency Translation Gains (Losses)	Continuing Operations: Unrealized Net Gains (Losses) on Securities	Continuing Operations: Defined Benefit Pension and Retiree Health Benefit Plans	Continuing Operations: Effective Portion of Cash Flow Hedges	Discontinued Operations	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2018 [1]	$ (1,191.7)	$ 113.5	$ (4,311.3)	$ (234.3)	$ (71.1)	$ (5,694.9)
Reclassification due to adoption of new accounting standard[2]	—	(128.9)	—	—	—	(128.9)
Other comprehensive income (loss) before reclassifications	(378.0)	24.5	250.7	(16.3)	12.2	(106.9)
Net amount reclassified from accumulated other comprehensive loss	—	(31.2)	207.9	11.7	2.1	190.5
Net other comprehensive income (loss)	(378.0)	(6.7)	458.6	(4.6)	14.3	83.6
Balance at December 31, 2018[3]	(1,569.7)	(22.1)	(3,852.7)	(238.9)	(56.8)	(5,740.2)
Other comprehensive income (loss) before reclassifications	(46.2)	28.9	(967.6)	14.5	(27.2)	(997.6)
Net amount reclassified from accumulated other comprehensive loss	(62.1)	(1.9)	181.7	12.5	84.0	214.2
Net other comprehensive income (loss)	(108.3)	27.0	(785.9)	27.0	56.8	(783.4)
Balance at December 31, 2019	(1,678.0)	4.9	(4,638.6)	(211.9)	—	(6,523.6)
Other comprehensive income (loss) before reclassifications	**250.5**	**6.8**	**(379.7)**	**(133.8)**	**—**	**(256.2)**
Net amount reclassified from accumulated other comprehensive loss	**—**	**3.1**	**267.3**	**13.0**	**—**	**283.4**
Net other comprehensive income (loss)	**250.5**	**9.9**	**(112.4)**	**(120.8)**	**—**	**27.2**
Ending balance at December 31, 2020	**$ (1,427.5)**	**$ 14.8**	**$ (4,751.0)**	**$ (332.7)**	**$ —**	**$ (6,496.4)**

[1] Accumulated other comprehensive loss as of January 1, 2018 consists of $5.72 billion of accumulated other comprehensive loss attributable to controlling interest and $23.7 million of accumulated other comprehensive income attributable to noncontrolling interest.

[2] This reclassification consists of $105.2 million of accumulated other comprehensive income attributable to controlling interest and $23.7 million of accumulated other comprehensive income attributable to noncontrolling interest. Refer to Note 1 for further details regarding the reclassification due to the adoption of ASU 2016-01.

[3] Accumulated other comprehensive loss as of December 31, 2018 consists of $5.73 billion of accumulated other comprehensive loss attributable to controlling interest and $11.0 million of accumulated other comprehensive loss attributable to noncontrolling interest.

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

Tax benefit (expense)	2020	2019	2018
Foreign currency translation gains/losses	**$ 128.3**	$ (18.4)	$ 51.6
Unrealized net gains/losses on securities	**(4.3)**	(7.4)	2.1
Defined benefit pension and retiree health benefit plans	**44.8**	184.1	(85.3)
Effective portion of cash flow hedges	**32.1**	(7.3)	1.3
Benefit/(provision) for income taxes allocated to other comprehensive income (loss) items	**$ 200.9**	$ 151.0	$ (30.3)

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

Reclassifications out of accumulated other comprehensive loss were as follows:

Details about Accumulated Other Comprehensive Loss Components	Year Ended December 31, 2020	2019	2018	Affected Line Item in the Consolidated Statements of Operations
Amortization of retirement benefit items:				
Prior service benefits, net	**$ (55.0)**	$ (56.8)	$ (74.9)	Other—net, (income) expense
Actuarial losses	**393.3**	286.8	338.6	Other—net, (income) expense
Total before tax	**338.3**	230.0	263.7	
Tax benefit	**(71.0)**	(48.3)	(55.8)	Income taxes
Net of tax	**267.3**	181.7	207.9	
Other, net of tax	**16.1**	(51.5)	(19.5)	Other—net, (income) expense
Reclassifications from continuing operations (net of tax)	**283.4**	130.2	188.4	
Reclassifications from discontinued operations (net of tax)	**—**	84.0	2.1	Net income from discontinued operations
Total reclassifications for the period, net of tax	**$ 283.4**	$ 214.2	$ 190.5	

Note 18: Other–Net, (Income) Expense

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

	2020	2019	2018
Interest expense	**$ 359.6**	$ 400.6	$ 242.5
Interest income	**(33.0)**	(80.4)	(159.3)
Debt extinguishment loss (Note 11)	**—**	252.5	—
Gain on sale of antibiotic business in China (Note 3)	**—**	(309.8)	—
Retirement benefit plans	**(251.8)**	(209.9)	(240.5)
Other (income) expense	**(1,246.7)**	(344.6)	11.7
Other–net, (income) expense	**$ (1,171.9)**	$ (291.6)	$ (145.6)

For the years ended December 31, 2020 and 2019, other income was primarily related to net gains on investments (Note 7).

Note 19: Discontinued Operations

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

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

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

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

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

	2019	2018
Revenue from discontinued operations	$ 580.0	$ 3,062.4
Net income from discontinued operations	3,680.5	81.4

The gain related to the disposition of Elanco in the consolidated statement of cash flows includes the operating results of Elanco through the disposition date, which were not material. Net cash flows of our discontinued operations for operating activities were not material for the year ended December 31, 2019. Net cash provided by operating activities related to our discontinued operations was approximately $500 million for the year ended December 31, 2018. The net cash flows of our discontinued operations for investing activities were not material for any period presented.

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

Management's Reports

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

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

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

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

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

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

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

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

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

Based on our evaluation under this framework, we concluded that our internal control over financial reporting was effective as of December 31, 2020. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of internal control over financial reporting as of December 31, 2020 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report, which appears herein. Their responsibility is to evaluate whether internal control over financial reporting was designed and operating effectively.

David A. Ricks	Anat Ashkenazi
Chairman, President, and Chief Executive Officer	*Senior Vice President and Chief Financial Officer*

February 17, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders‘ equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements“). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 17, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matters

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

Medicaid, Managed Care, and Medicare sales rebate accruals

Description of the Matter

As described in Note 2 to the consolidated financial statements under the caption "Net Product Revenue," the Company establishes provisions for sales rebate and discounts in the same period as the related sales occur. At December 31, 2020 the Company had $5,853.0 million in sales rebate and discount accruals. A large portion of these accruals are rebates associated with sales in the United States for which payment for purchase of the product is covered by Medicaid, Managed Care, and Medicare.

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

How We Addressed the Matter in Our Audit

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

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

Retirement Benefits - Valuation of Alternative Investments

Description of the Matter

As described in Note 15 to the consolidated financial statements under the caption "Benefit Plan Investments," the Company's benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. At December 31, 2020 the Company had $17,806.0 million in plan assets related to the defined benefit pension plans and retiree health benefit plans. Approximately 33% of the total pension and retiree health assets are in hedge funds and private equity-like investment funds ("alternative investments"). These alternative investments are valued using significant unobservable inputs or are valued at net asset value (NAV) reported by the counterparty, adjusted as necessary.

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

How We Addressed the Matter in Our Audit	We tested the Company's controls addressing the risks of material misstatement relating to valuation of alternative investments. This included testing management's review controls over alternative investment valuation, which included a comparison of returns to benchmarks and in-person or telephonic meetings with investment firms to discuss valuation policies and procedures, as well as portfolio performance. Our audit procedures included, among others, comparing fund returns to selected relevant benchmarks and understanding variations, obtaining the latest audited financial statements and comparing to the Company's estimated fair values and reconciling any differences. We also inquired of management about changes to the investment portfolio and/or related investment strategies and considerations. We assessed the historical accuracy of management's estimates by comparing actual activity to previous estimates. We evaluated for contrary evidence by confirming the fair value of the investments and ownership interest directly with the trustees and a sample of managers at year end.

/s/ Ernst & Young LLP

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

Indianapolis, Indiana

February 17, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Eli Lilly and Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 17, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 17, 2021

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of David A. Ricks, president and chief executive officer, and Anat Ashkenazi, senior vice president and chief financial officer, evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2020, and concluded that they were effective.

Management's Report on Internal Control over Financial Reporting

Mr. Ricks and Ms. Ashkenazi provided a report on behalf of management on our internal control over financial reporting, in which management concluded that the company's internal control over financial reporting is effective at December 31, 2020 based on the framework in "Internal Control—Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Due to the inherent limitations, no evaluation over internal control can provide absolute assurance that no material misstatements or fraud exist.

In addition, Ernst & Young LLP, the company's independent registered public accounting firm, issued an attestation report on the company's internal control over financial reporting as of December 31, 2020.

You can find the full text of management's report and Ernst & Young's attestation report in Item 8.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2020, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

Directors and Executive Officers

Information relating to our board of directors is found in our Definitive Proxy Statement, to be dated on or about March 19, 2021 (Proxy Statement), under “Governance - Board Operations and Governance” and is incorporated in this Annual Report on Form 10-K by reference.

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

Code of Ethics

Information relating to our code of ethics is found in our Proxy Statement under “Governance - Board Oversight of Strategy, Compliance, and Risk Management - Code of Ethics” and is incorporated in this Annual Report on Form 10-K by reference.

Corporate Governance

Information about the procedures by which shareholders can recommend nominees to our board of directors is found in our Proxy Statement under “Shareholder Engagement on Governance Issues - Shareholder Recommendations and Nominations for Director Candidates" is incorporated in this Annual Report on Form 10-K by reference.

The board of directors has appointed an audit committee consisting entirely of independent directors in accordance with applicable SEC and New York Stock Exchange requirements for audit committees. Information about our audit committee is found in our Proxy Statement under “Governance - Membership and Meetings of the Board and Its Committees - Audit Committee” and is incorporated in this Annual Report on Form 10-K by reference.

Item 11. Executive Compensation

Information on director compensation, executive compensation, and compensation committee matters can be found in the Proxy Statement under “Governance - Director Compensation,” “- Membership and Meetings of the Board and Its Committees - Compensation Committee,” “Compensation - Compensation Discussion and Analysis,” and “- Executive Compensation.” Such information is incorporated in this Annual Report on Form 10-K by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

Information relating to ownership of the company's common stock by management and by persons known by the company to be the beneficial owners of more than five percent of the outstanding shares of common stock is found in the Proxy Statement under "Ownership of Company Stock" and incorporated in this Annual Report on Form 10-K by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2020 regarding the company's compensation plans under which shares of the company's common stock have been authorized for issuance.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights [1]	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	$ —	49,510,908
Equity compensation plan not approved by security holders	—	—	—
Total	—	—	49,510,908

[1] 9,192,921 shares are underlying outstanding equity awards other than options.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Person Transactions

Information relating to the policies and procedures for approval of related person transactions by our board of directors can be found in the Proxy Statement under "Governance - Highlights of the Company's Corporate Governance - Conflicts of Interest and Transactions with Related Persons." Such information is incorporated in this Annual Report on Form 10-K by reference.

Director Independence

Information relating to director independence can be found in the Proxy Statement under "Governance - Director Independence" and is incorporated in this Annual Report on Form 10-K by reference.

Item 14. Principal Accountant Fees and Services

Information related to the fees and services of our principal independent accountants, Ernst & Young LLP, can be found in the Proxy Statement under "Audit Matters - Item 3. Ratification of the Appointment of the Independent Auditor - Audit Committee Report - Services Performed by the Independent Auditor" and "- Independent Auditor Fees." Such information is incorporated in this Annual Report on Form 10-K by reference.

Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The following consolidated financial statements of the company and its subsidiaries are found at Item 8:

- Consolidated Statements of Operations—Years Ended December 31, 2020, 2019, and 2018
- Consolidated Statements of Comprehensive Income (Loss)—Years Ended December 31, 2020, 2019, and 2018
- Consolidated Balance Sheets—December 31, 2020 and 2019
- Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2020, 2019, and 2018
- Consolidated Statements of Cash Flows—Years Ended December 31, 2020, 2019, and 2018
- Notes to Consolidated Financial Statements

(a)2. Financial Statement Schedules

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

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

(a)3. Exhibits

2.1	Agreement and Plan of Merger, dated January 5, 2019, among the Company, Bowfin Acquisition Corporation and Loxo Oncology, Inc.
3.1	Amended Articles of Incorporation
3.2	Bylaws, as amended
4.1	Indenture, dated February 1, 1991, between the Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., as Trustee
4.2	Tripartite Agreement dated September 13, 2007, appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed in Exhibit 4.1
4.3	Description of the Company's Common Stock
4.4	Description of the Company's 1.000% Notes due 2022, 1.625% Notes due 2026, and 2.125% Notes due 2030
4.5	Description of the Company's 6.77% Notes due 2036
4.6	Description of the Company's 7 1/8% Notes due 2025
4.7	Description of the Company's 0.625% Notes due 2031 and 1.700% Notes due 2049
10.1	Amended and Restated 2002 Lilly Stock Plan[(1)]
10.2	Form of Performance Award under the 2002 Lilly Stock Plan[(1)]
10.3	Form of Performance Award under the 2002 Lilly Stock Plan (with non-compete)[(1)]
10.4	Form of Performance Award under the 2002 Lilly Stock Plan (non-executive officer)[(1)]
10.5	Form of Shareholder Value Award under the 2002 Lilly Stock Plan[(1)]
10.6	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (with non-compete)[(1)]
10.7	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (non-executive officer)[(1)]
10.8	Form of Relative Value Award under the 2002 Lilly Stock Plan[(1)]
10.9	Form of Relative Value Award under the 2002 Lilly Stock Plan (with non-compete)[(1)]
10.10	Form of Restricted Stock Unit Award under the 2002 Lilly Stock Plan[(1)]
10.11	Restricted Stock Unit Award to Michael Harrington under the 2002 Lilly Stock Plan[(1)]
10.12	The Lilly Deferred Compensation Plan, as amended[(1)]
10.13	The Lilly Directors' Deferral Plan, as amended[(1)]
10.14	The Eli Lilly and Company Bonus Plan, as amended[(1)]
10.15	2007 Change in Control Severance Pay Plan for Select Employees, as amended[(1)]
21	List of Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Anat Ashkenazi, Senior Vice President and Chief Financial Officer
32	Section 1350 Certification
101	Interactive Data File
104	Cover Page Interactive Data File (formatted Inline XBRL and contained in Exhibit 101)

[(1)] Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary

Not applicable.

Index to Exhibits

The following documents are filed as part of this report:

Exhibit		Location
2.1	Agreement and Plan of Merger, dated January 5, 2019, among the Company, Bowfin Acquisition Corporation and Loxo Oncology, Inc.	Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Loxo Oncology, Inc. on January 7, 2019
3.1	Amended Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013
3.2	Bylaws, as amended	Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 9, 2021
4.1	Indenture, dated February 1, 1991, between the Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., as Trustee	Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 333-186979
4.2	Tripartite Agreement, dated September 13, 2007, appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed in Exhibit 4.1	Incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008
4.3	Description of the Company's Common Stock	Incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.4	Description of the Company's 1.000% Notes due 2022, 1.625% Notes due 2026, and 2.125% Notes due 2030	Incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.5	Description of the Company's 6.77% Notes due 2036	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.6	Description of the Company's 7 1/8% Notes due 2025	Incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.7	Description of the Company's 0.625% Notes due 2031 and 1.700% Notes due 2049	Incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
10.1	Amended and Restated 2002 Lilly Stock Plan	Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018
10.2	Form of Performance Award under the 2002 Lilly Stock Plan	Attached
10.3	Form of Performance Award under the 2002 Lilly Stock Plan (with non-compete)	Attached
10.4	Form of Performance Award under the 2002 Lilly Stock Plan (non-executive officer)	Attached
10.5	Form of Shareholder Value Award under the 2002 Lilly Stock Plan	Attached

10.6	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (with non-compete)	Attached
10.7	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (non-executive officer)	Attached
10.8	Form of Relative Value Award under the 2002 Lilly Stock Plan	Attached
10.9	Form of Relative Value Award under the 2002 Lilly Stock Plan (with non-compete)	Attached
10.1	Form of Restricted Stock Unit Award under the 2002 Lilly Stock Plan	Attached
10.11	Restricted Stock Unit Award to Michael Harrington under the 2002 Lilly Stock Plan	Incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
10.12	The Lilly Deferred Compensation Plan, as amended	Incorporated by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 31, 2013
10.13	The Lilly Directors' Deferral Plan, as amended	Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017
10.14	The Eli Lilly and Company Bonus Plan, as amended	Attached
10.15	2007 Change in Control Severance Pay Plan for Select Employees, as amended	Attached
21	List of Subsidiaries	Attached
23	Consent of Independent Registered Public Accounting Firm	Attached
31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer	Attached
31.2	Rule 13a-14(a) Certification of Anat Ashkenazi, Senior Vice President and Chief Financial Officer	Attached
32	Section 1350 Certification	Attached
101	Interactive Data File	Attached
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	Attached

Signatures

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

Eli Lilly and Company

By /s/ David A. Ricks
David A. Ricks
Chairman, President, and Chief Executive Officer

February 17, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 17, 2021 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ David A. Ricks DAVID A. RICKS	Chairman, President, and Chief Executive Officer (principal executive officer)
/s/ Anat Ashkenazi ANAT ASHKENAZI	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Donald A. Zakrowski DONALD A. ZAKROWSKI	Vice President, Finance, and Chief Accounting Officer (principal accounting officer)
/s/ Ralph Alvarez RALPH ALVAREZ	Director
/s/ Katherine Baicker, Ph.D. KATHERINE BAICKER, Ph.D.	Director
/s/ Carolyn R. Bertozzi, Ph.D. CAROLYN R. BERTOZZI, Ph.D.	Director
/s/ Michael L. Eskew MICHAEL L. ESKEW	Director
/s/ J. Erik Fyrwald J. ERIK FYRWALD	Director
/s/ Jamere Jackson JAMERE JACKSON	Director
 KIMBERLY H. JOHNSON	Director
/s/ William G. Kaelin, Jr., M.D. WILLIAM G. KAELIN, JR., M.D.	Director
/s/ Juan R. Luciano JUAN R. LUCIANO	Director
/s/ Marschall S. Runge, M.D., Ph.D. MARSCHALL S. RUNGE, M.D., Ph.D.	Director
/s/ Kathi P. Seifert KATHI P. SEIFERT	Director
/s/ Gabrielle Sulzberger GABRIELLE SULZBERGER	Director
/s/ Jackson P. Tai JACKSON P. TAI	Director
/s/ Karen Walker KAREN WALKER	Director

Trademarks Used In This Report

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

Actos® is a trademark of Takeda Pharmaceutical Company Limited.

Byetta® is a trademark of Amylin Pharmaceuticals, Inc.

Glyxambi®, Jardiance®, Jentadueto®, Synjardy®, Trajenta®, and Trijardy® are trademarks of Boehringer Ingelheim GmbH.

Posilac® is a trademark of Union Agener and Elanco US Inc.

Tyvyt® is a trademark of Innovent Biologics (Suzhou) Co., Ltd.

Viagra® is a trademark of Pfizer Inc.

Notice of 2021 Annual Meeting of Shareholders and Proxy Statement

YOUR VOTE IS IMPORTANT

Please vote online, by telephone, or, if you received or requested paper copies of your proxy materials, by signing, dating, and returning your proxy card by mail.

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 3, 2021: The annual report to shareholders and proxy statement are available at lilly.com/policies-reports/annual-report.

From Our Chairman and Lead Independent Director

Dear fellow Lilly shareholders,

As we turn the page on an extraordinary year, we would like to thank you for your continued support of Eli Lilly and Company. We are proud of Lilly's achievements in 2020, which demonstrated our conviction to unite caring with discovery to create medicines that make life better for people around the world. In addition to developing potential therapies for COVID-19 and partnering with governments to make COVID-19 antibody treatments available regardless of income level or geography, we continued to advance our pipeline to help people with diabetes, immune disorders, neurodegeneration, cancer, and pain.

Due to concerns regarding the ongoing COVID-19 pandemic and to support the health and well-being of our employees, board of directors, shareholders, and other meeting participants, the 2021 Annual Meeting of Shareholders (the Annual Meeting) will be held virtually via live webcast. Although you will not be able to attend the Annual Meeting at a physical location, we have designed the Annual Meeting live webcast to provide shareholders the opportunity to participate virtually to facilitate shareholder attendance and to provide a consistent experience to all shareholders, regardless of location.

As part of our mission to improve lives around the world, we are committed to creating a safe, supportive, ethical, and rewarding work environment. Lilly's core values of integrity, excellence, and respect for people and our dedication to diversity and inclusion are critical components of how we do business. We take a holistic approach because we're a stronger company when we have a workforce of top talent from different backgrounds—people who are respected, valued, welcomed, and heard. To fulfill our purpose, we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us. In short, our differences make a difference—to patients and to our business.

Our board recognizes that one of its key responsibilities is to ensure that Lilly is governed in a manner that provides both independent oversight and efficient and effective decision-making. Our chief executive officer brings to the role of chairman of our board substantial strategic and operational perspectives and a unique understanding of Lilly's opportunities and challenges. This familiarity with our business, as well as extensive experience and leadership in our industry, position our chief executive officer to drive strategy and agenda-setting at the board level. Further, our lead independent director, currently chief executive officer of a Fortune 100 company, drives an "outside in" analysis of company decisions and performance, maintains frequent contact with our chairman to ensure a productive partnership between our independent directors and management, and leads our independent directors in their important oversight function.

Our board continues to prioritize meaningful engagement with our shareholders and other key stakeholders. Since our 2020 annual meeting of shareholders, we have spoken with a number of investors on an array of subjects, including board leadership; environmental, social, and governance topics; drug pricing transparency and global access to our products, including our COVID-19 therapies; product quality and safety; key enterprise risks; executive compensation; and human capital management. Given the significant challenges the world faced in 2020, we appreciate now more than ever the thoughtful and constructive feedback that we receive from our stakeholders. As a result of this input, as in past years, the board is putting forward management proposals at the Annual Meeting to eliminate the classified board structure and supermajority voting requirements in our articles of incorporation.

We remain committed to serving you and the millions of patients around the world whose lives it is our mission to make better. We look forward to welcoming you at the Annual Meeting.

Sincerely,

David A. Ricks
Chairman, President, and CEO

Juan Luciano
Lead Independent Director

Table of Contents

Notice of 2021 Annual Meeting of Shareholders

To the holders of common stock of Eli Lilly and Company:

The 2021 Annual Meeting of Shareholders (the Annual Meeting) of Eli Lilly and Company (referred to as Lilly, we, us, or the company in this proxy statement) will be held as shown below:

TIME AND DATE	LOCATION	WHO CAN VOTE
11:00 a.m. EDT, Monday, May 3, 2021	**Virtually at** virtualshareholdermeeting.com/LLY2021	Shareholders of record at the close of business on February 22, 2021

Due to concerns regarding the ongoing COVID-19 pandemic and to support the health and well-being of our employees, board of directors, shareholders, and other meeting participants, the Annual Meeting will be held virtually via live webcast. Although you will not be able to attend the Annual Meeting at a physical location, we have designed the Annual Meeting live webcast to provide shareholders the opportunity to participate virtually to facilitate shareholder attendance and to provide a consistent experience to all shareholders, regardless of location.

This proxy statement is dated March 19, 2021, and we mailed our shareholders of record as of February 22, 2021 (other than those who previously requested electronic or paper delivery of our proxy materials and certain participants in The Lilly Employee 401(k) plan (401(k) Plan)) a notice of internet availability of proxy materials on or about that date.

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Admission Procedure for Attending the Annual Meeting

You will be able to attend the Annual Meeting, vote, and submit questions virtually via live webcast by visiting virtualshareholdermeeting.com/LLY2021. To be admitted to the Annual Meeting webcast, you must enter the 16-digit control number found on the proxy card, voting instruction form, or notice you received. You may vote during the Annual Meeting by following the instructions available on virtualshareholdermeeting.com/LLY2021 during the Annual Meeting.

For further information on how to attend the Annual Meeting, see the section titled "Other Information—Meeting and Voting Logistics."

Every shareholder vote is important. Even if you plan to attend the Annual Meeting, we encourage you to vote promptly online, by telephone, or, if you received or requested paper copies of your proxy materials, by signing, dating, and returning your proxy card or voting instructions by mail, so that a quorum may be represented at the meeting.

By order of the Board of Directors,

Ms. Anat Hakim
Senior Vice President, General Counsel and Secretary
March 19, 2021
Indianapolis, Indiana

Proxy Statement Summary

New in This Year's Proxy Statement

In response to the COVID-19 pandemic, we focused in 2020 on maintaining a reliable supply of our medicines, reducing the strain on the medical system, protecting the health, safety, and well-being of our employees, supporting our communities, and ensuring affordability of and access to our medicines, particularly insulin. In addition, we have been proud to mobilize our scientific and medical expertise to fight COVID-19. As of February 9, 2021, we have received three emergency use authorizations for our COVID-19 therapies, and we are working diligently to support affected patients, communities, and employees during these challenging times.

In addition, we have recently undertaken a comprehensive review of our human capital management initiatives, resources, and progress. In this proxy statement, you will find enhanced disclosure about our approach to human capital management, including diversity and inclusion (D&I), and our governance oversight of these topics. See "Governance—Highlights of the Company's Corporate Governance—Human Capital Management."

Effective January 25, 2021, Gabrielle Sulzberger was elected to the board as a member of the director class of 2021. Ms. Sulzberger was appointed to the Audit Committee and the Ethics and Compliance Committee. Effective February 16, 2021, Kimberly H. Johnson was elected to the board as a member of the director class of 2022. Ms. Johnson was appointed to the Compensation Committee and the Ethics and Compliance Committee. Kathi Seifert, who joined the board in 1995, will retire from the board following the Annual Meeting.

Effective January 1, 2021, our board disbanded the Finance Committee and reorganized the Public Policy and Compliance Committee as the Ethics and Compliance Committee. The former duties of the Finance Committee have been reallocated to the full board, the Audit Committee, and the Compensation Committee. This restructuring reduced the number of board committees to allow more time for meetings of the remaining committees, encouraging longer, more in-depth committee discussions, and allowing the board to have more in-depth discussions on capital allocation matters.

Further, as in past years, our board has approved, and recommends that our shareholders approve, two important management proposals at the Annual Meeting. The board recommends approval of amendments to the company's articles of incorporation to eliminate the classified board structure (see Item 4 herein) and to eliminate supermajority voting provisions (see Item 5 herein). The board believes these two proposals balance shareholder interests and demonstrate its accountability and willingness to take steps that address concerns expressed by shareholders.

Highlights of 2020 Performance

The following provides a brief overview of our 2020 performance in four dimensions: operating performance, progress in our innovation pipeline, business development, and shareholder return, both absolute and relative. See our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for more details.

We continued to progress our company's purpose and strategy in 2020 as we remained focused on:

- Discovering, acquiring, and developing first- or best-in-class medicines to address significant unmet needs in our core therapeutic areas—diabetes, oncology, immunology, neurodegeneration, and pain;
- Reaching patients who can benefit from our innovative medicines around the world, directly and through partnership with healthcare systems and collaborators, providing broad access to safe, life-changing medicines;
- Focusing our time and resources on new medicines that our customers value most, delivering volume-driven sustainable growth; and
- Reinvesting in our business and our people to discover new medicines to address unmet medical needs, improve cost productivity, reduce environmental impact and reliably supply quality medicines, while returning capital to shareholders.

We believe our strategic choices, coupled with robust execution, delivered significant value for shareholders and patients in 2020. We reached over 45 million patients globally with our medicines, expanded our patient support programs, achieved significant pipeline advancements and key data readouts across our core therapeutic areas, leveraged external innovation to expand our pipeline, and delivered high total shareholder returns relative to our peers and the S&P 500 index. The discussion below expands on our considerable success in 2020.

Operating Performance

Performance highlights:

- 2020 revenue increased 10 percent to approximately $24.5 billion;
- 2020 earnings per share (EPS) on a reported basis were $6.79, compared to 2019 EPS on a reported basis of $8.89; and
- On a non-GAAP basis, 2020 EPS increased 31 percent to $7.93.

Reported results were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include all revenue and expenses recognized during the periods. A reconciliation of EPS on a reported basis to EPS on a non-GAAP basis is included in Appendix A.

2020 Innovation and Business Development Progress

We made significant pipeline advances in 2020, including:

- U.S. approval of expanded label for Trulicity® (dulaglutide) to include 3.0 mg and 4.5 mg doses and an updated indication statement to include results from the REWIND™ cardiovascular outcomes trial;
- U.S. approval of Retevmo® (selpercatinib) for the treatment of metastatic non-small cell lung cancer in adult patients; for the treatment of advanced metastatic medullary thyroid cancer who require systemic therapy in adult and pediatric patients; and for the treatment of advanced metastatic thyroid cancer in adult and pediatric patients who require systemic therapy and are radioactive iodin-refractory;
- U.S. approval of Lyumjev® (insulin lispro-aabc), a rapid-acting human insulin analog for the treatment of diabetes;
- U.S. approval of new indications for Taltz® (ixekizumab) for the treatment of active non-radiographic axial spondyloarthritis (nr-axSpA) and for the treatment of pediatric patients with moderate to severe plaque psoriasis;
- U.S. approval of Tauvid™ (flortaucipir F 18 injection), a radioactive diagnostic agent, for positron emission tomography imaging of the brain to estimate the density and distribution of aggregated tau neurofibrillary tangles in patients with cognitive impairment who are being evaluated for Alzheimer's disease;
- U.S. approval of a new indication for Cyramza® (ramucirumab) in combination with erlotinib for the first-line treatment of people with metastatic non-small cell lung cancer; and
- European Union approval of a new indication for Olumiant® (baricitinib) for the treatment of moderate-to-severe atopic dermatitis.

We announced several key data readouts in 2020, including:

- positive top-line results from SURPASS-1, a Phase III monotherapy study evaluating the efficacy and safety of tirzepatide compared to placebo. Tirzepatide led to superior A1C and body weight reductions from baseline in adults with type 2 diabetes after 40 weeks of treatment. Tirzepatide is a novel, investigational, once-weekly, dual glucose-dependent insulinotropic polypeptide (GIP) and glucagon-like peptide-1 (GLP-1) receptor agonist that integrates the actions of both incretins into a single molecule, representing a new class of medicines being studied for the treatment of type 2 diabetes;
- in collaboration with Boehringer Ingelheim, positive top-line results from a Phase III study of Jardiance® (empagliflozin) in adults with heart failure with reduced ejection fraction, with and without diabetes. The study met its primary endpoint, demonstrating superiority with Jardiance compared to placebo in reducing the risk for the composite of cardiovascular death or hospitalization due to heart failure, when added to standard of care;
- positive results from a pre-planned interim analysis of monarchE, a Phase III study of Verzenio® (abemaciclib) in combination with standard adjuvant endocrine therapy for early breast cancer. The study met the primary endpoint of invasive disease-free survival, significantly decreasing the risk of breast cancer recurrence or death compared to standard adjuvant ET alone; and
- updated data from the LOXO-305 BRUIN Phase I/II clinical trial in mantle cell lymphoma and other non-Hodgkin lymphomas, as well as in chronic lymphocytic leukemia and small lymphocytic lymphoma, at the 2020 American Society of Hematology Annual Meeting.

We also completed multiple significant strategic acquisitions, license agreements, and research collaborations to strengthen our pipeline in 2020, including:

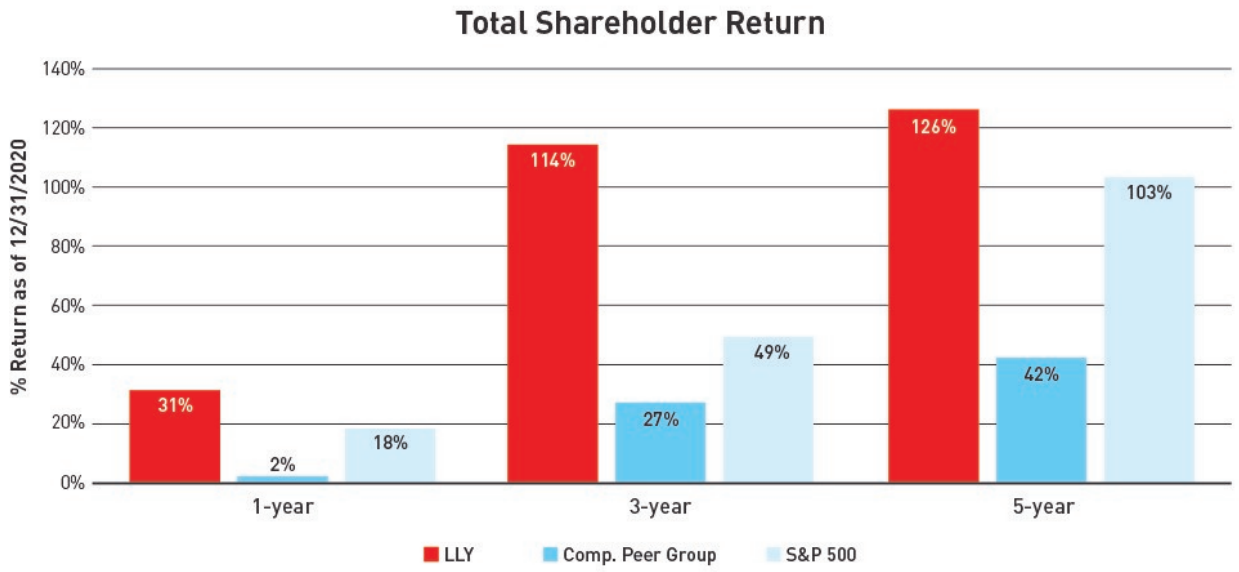
- acquisition of Dermira, Inc. to expand Lilly's immunology pipeline with the addition of lebrikizumab, which is being evaluated in a Phase III clinical development program for the treatment of moderate to severe atopic dermatitis;
- acquisition of Disarm Therapeutics, Inc., a privately held biotechnology company creating a new class of disease-modifying therapeutics for patients with axonal degeneration; and
- participated in, and made a $100 million commitment to, the AMR Action Fund, a $1 billion initiative from more than 20 biopharmaceutical companies to address the urgent need for new antibiotics to combat antimicrobial resistance.

Given the global COVID-19 pandemic, we also redirected our resources and made significant advancements in COVID-19 therapies in 2020, including:

- in collaboration with AbCellera Biologics Inc. (AbCellera), received emergency use authorization from the FDA for bamlanivimab in higher-risk patients who have been recently diagnosed with mild-to-moderate COVID-19;
- in collaboration with Incyte Corporation, received emergency use authorization from the FDA for baricitinib in combination with remdesivir for patients with COVID-19 infection;
- entered into an agreement with Junshi Biosciences Co., Ltd. to co-develop therapeutic antibodies for the potential prevention and treatment of COVID-19, including etesevimab, the lead antibody from the collaboration;
- entered into a global antibody manufacturing collaboration with Amgen Inc. to significantly increase the supply capacity available for Lilly's potential COVID-19 therapies; and
- entered into an agreement with the Bill & Melinda Gates Foundation, as part of the COVID-19 Therapeutics Accelerator, to facilitate access to future Lilly therapeutic antibodies under development for the potential prevention and treatment of COVID-19 to benefit low- and middle-income countries.

Shareholder Returns

We generated strong total shareholder returns (TSR) through December 31, 2020. Our TSR takes into account both share price appreciation and dividends. Any dividends paid by a given company are assumed to be reinvested in that company's stock on a quarterly basis. Our returns significantly exceeded our compensation peer group and the S&P 500 during the three- and five-year periods presented below:



Our Response to COVID-19

As discussed in "Proxy Statement Summary—Highlights of 2020 Performance—2020 Innovation and Business Development Progress," we have made significant advancements in developing potential therapies for COVID-19, including making available the first therapy designed for COVID-19 under an emergency use authorization, and we continue our research and development efforts and our partnership with regulators and governments to bring COVID-19 treatments to patients. In addition to dedicating substantial resources to these efforts, we have prioritized maintaining a reliable supply of and access to our medicines, particularly insulin, reducing the strain on the medical system, protecting the health, safety, and well-being of our employees, and supporting our workforce, affected communities, and patients who need our medicines.

Maintaining Supplies of and Access to Lilly Medicines

Throughout 2020, we took important steps to protect our manufacturing processes and remained in close communication with key suppliers regarding supplies of raw materials. As a result of our efforts, we were largely able to maintain our normal operations in 2020 and we maintained a steady supply of medicines on which millions of patients rely. We also initiated patient support programs to ensure patients maintained affordable access to their medications, and adjusted how we operate to offer innovative solutions to our customers. We remain committed to working with stakeholders in healthcare systems to help patients get the medicines they need. Specific examples include:

- launched the Insulin Value Program, allowing anyone with commercial insurance and those without insurance to fill their monthly prescription of Lilly insulin for $35; and
- established partnerships with leading diabetes technology companies to integrate their technologies into the solutions we are creating to improve diabetes management.

As a result of the pandemic, we have also accelerated changes to further utilize digital capabilities to run our business efficiently and effectively in a virtual environment. These include decentralizing clinical trials with virtual and more digitally-enabled studies, which could provide increased access to more diverse patient populations. We have also changed our go-to-market strategies, including leveraging omnichannel capabilities and virtual healthcare provider engagement. Although reduced in-person interactions by patients and our employees with the healthcare system has resulted, and may continue to result, in decreased demand for our products, we believe our approach is the appropriate posture as we support healthcare professionals navigating the ongoing COVID-19 pandemic and driving broad vaccination efforts.

Keeping Our Employees Safe and Healthy

While we have consistently focused on protecting the health and safety of our employees, the COVID-19 pandemic has emphasized the importance of this critical priority. In response to the pandemic, we have taken measures to protect our workforce, maximize social distancing, and inform employees about our policies. For example, we instituted travel restrictions and remote working arrangements for employees whose roles do not require on-site presence.

To support employee well-being in the U.S., we enhanced local benefits related to health care, childcare, and time off, and expanded reimbursement for home office ergonomic support expenditures. In the U.S., we provide full coverage for COVID-19 diagnostic testing and treatment, and at our corporate headquarters in Indianapolis, we provide free on-site testing for employees. In addition, as part of our *Make it Safe to Thrive* program, we partnered with our employee resource groups to offer a series of programs highlighting and addressing challenges faced by ERG members during the COVID-19 pandemic, aiming to build understanding of different experiences and to offer ways to be inclusive.

Supporting Our Communities

To support communities affected by the COVID-19 pandemic, we repurposed specialized labs to conduct free diagnostic testing in our home community of Indianapolis, and we created a drive-through testing facility at our corporate headquarters for essential workers, including healthcare workers and first responders, as well as employees. Lilly's labs tested samples from more than 90,000 people collected around the state and at the Lilly drive-through facility. Together with the governor of Indiana, the mayor of Indianapolis and other community stakeholders, we launched the #INThisTogether community awareness campaign to provide access to helpful information and to encourage a community-wide commitment to reducing COVID-19 infections.

Governance

Item 1: Election of Directors

For further information, see page 13

	Name, age* and principal occupation	Public boards	Management recommendation	Vote required to pass
	**Katherine Baicker, Ph.D., 49** Dean and Professor, Harris School of Public Policy, University of Chicago Director since 2011	HMS Holdings Corp.	**Vote FOR**	**Majority of votes cast**
	**J. Erik Fyrwald, 61** President and Chief Executive Officer, Syngenta AG Director since 2005	Bunge Limited	**Vote FOR**	**Majority of votes cast**
	**Jamere Jackson, 52** Executive Vice President and Chief Financial Officer, AutoZone, Inc. Director since 2016	Hibbett Sports, Inc.	**Vote FOR**	**Majority of votes cast**
	**Gabrielle Sulzberger, 60** Strategic Advisor, TwoSigma Impact Director since 2021	Mastercard Incorporated; Brixmor Property Group Inc.; Cerevel Therapeutics Holdings, Inc.	**Vote FOR**	**Majority of votes cast**
	**Jackson P. Tai, 70** Former Vice Chairman and Chief Executive Officer, DBS Group Holdings Ltd and DBS Bank Ltd. Director since 2013	Mastercard Incorporated; HSBC Holdings plc	**Vote FOR**	**Majority of votes cast**

*Age is as of the date of this proxy statement.

Our Corporate Governance Policies Reflect Best Practices

Strategy and risk oversight

- ✓ Our board actively oversees and approves our corporate strategy.
- ✓ Our board and board committee agendas are structured to engage our directors in informed reviews of strategic and forward-looking issues, as well as in constructive challenges to management initiatives and programs.
- ✓ Our board oversees the state of our compliance program and reviews our enterprise-level risks, including related to cybersecurity; our Audit Committee oversees our enterprise risk management processes and policies.
- ✓ We have a comprehensive code of ethical and legal business conduct that applies to our board and all employees worldwide. This code is reviewed and approved annually by the board.
- ✓ We have a supplemental code for our CEO and all members of financial management, in recognition of their unique responsibilities to ensure proper accounting, financial reporting, internal controls, and financial stewardship.

- ✓ The charters of our board committees clearly establish the committees' respective roles and responsibilities.
- ✓ We have an annual cap on director compensation.

Board skills and experience

- ✓ Our board membership is characterized by leadership, experience, and diversity.
- ✓ We conduct comprehensive orientation and continuing education programs for directors.
- ✓ Our board conducts a robust annual assessment of board performance led by the lead independent director, including an annual assessment of each individual director.
- ✓ We are committed to board refreshment and seek to balance continuity and fresh perspectives. Our director composition reflects a mix of tenure on the board. Currently, eight directors have served on the board for six years or more and seven directors have served on the board for five years or less.

Focus on independence

- ✓ Each of our current board members other than the CEO is independent (14 of our 15 directors as of the date of this proxy statement).
- ✓ We have a strong lead independent director empowered with clearly defined responsibilities.
- ✓ All standing board committees are composed solely of independent directors and led by independent committee chairs.
- ✓ Our board holds executive sessions of the independent directors at every regular board meeting that is presided over by our lead independent director.
- ✓ Our independent directors actively engage in board meetings, have direct access to management, and, along with our board committees, have discretion to hire independent advisors at the company's expense.
- ✓ Our independent directors lead the board's process for selecting the CEO.
- ✓ Our Compensation Committee (and, in the case of our CEO, in consultation with other independent directors and our external compensation consultant) establishes the compensation for our CEO and other executive officers.
- ✓ Our conflict of interest policy requires disclosures of potential conflicts to Lilly and clarifies when Lilly board service must be disclosed to others.

Governance and accountability to shareholders

- ✓ Our board values active shareholder engagement. In response to input from our shareholders, we have put forward for consideration at the Annual Meeting management proposals to eliminate the classified board structure and supermajority voting provisions in our articles of incorporation.
- ✓ In 2019, the board amended our bylaws to add proxy access rights for shareholders holding at least three percent of our common stock for at least three years to nominate to the board the greater of two directors or 20 percent of our board seats.
- ✓ We have a majority voting standard and resignation policy for the election of directors in uncontested elections.
- ✓ We do not have a shareholder rights plan ("poison pill").
- ✓ We have meaningful stock ownership and retention guidelines for our directors and executive officers to foster alignment with shareholders.

Sustainability

- ✓ Our board has a longstanding commitment to corporate responsibility.
- ✓ We have strong governance and disclosure of corporate political spending.
- ✓ We have transparent public policy engagement.
- ✓ Our board oversees and maintains ongoing engagement with our Compensation Committee, Directors and Corporate Governance Committee, and senior executives on key political, social, and governance matters, including sustainability and human capital management.
- ✓ We publish annual reports describing our sustainability efforts across key focus areas and we are engaged in a project to enhance our environmental, social, and governance sustainability reporting in 2021.

Compensation

Item 2: Advisory Vote on Compensation Paid to Named Executive Officers	Management recommendation	Vote required to pass
For further information, see page 42	**Vote FOR**	Majority of votes cast

Our Executive Compensation Programs Reflect Best Practices

- ✓ Shareholders strongly support our compensation practices: for the last five years, approximately 97 percent or more of shares cast voted in favor of our executive compensation programs.
- ✓ Our compensation programs are designed to align executive pay with shareholder interests and link pay to performance through a blend of short- and long-term performance measures.
- ✓ Our Compensation Committee annually reviews our compensation programs to ensure they provide incentives to deliver long-term, sustainable business results while discouraging excessive risk-taking and other adverse behaviors.
- ✓ We have a broad compensation recovery or "clawback" policy that applies to all executives and covers a wide range of misconduct.
- ✓ Our executive officers are subject to robust stock ownership and retention guidelines and are prohibited from hedging or pledging their company stock.
- ✓ We do not have "top hat" retirement plans. Supplemental plans are open to all employees and are limited to restoring benefits lost due to IRS limits on qualified plans.
- ✓ We do not provide tax gross-ups to executive officers (except for limited gross-ups related to international assignments).
- ✓ We have a very restrictive policy on perquisites.
- ✓ Our severance plans related to change-in-control require a double trigger.
- ✓ We do not have employment agreements with any of our executive officers.

Executive Compensation Summary for 2020

At the time total target compensation was established at the end of 2019, the target compensation in aggregate for our named executive officers was slightly below median of the company's peer group. Incentive compensation payouts exceeded target, consistent with strong company performance over the bonus and equity performance periods.

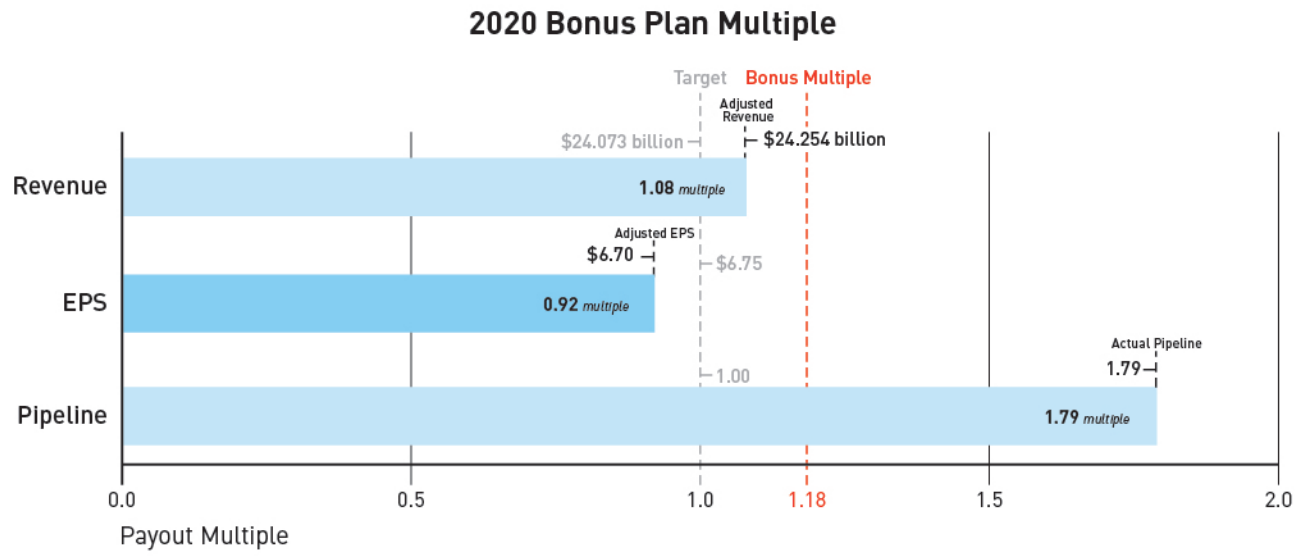
Pay for Performance

As described in the Compensation Discussion and Analysis (CD&A), we link our incentive pay programs to a mix of measures on three dimensions of company performance: operating performance; progress with our innovation pipeline; and shareholder return (both absolute and relative). The Compensation Committee adjusts reported EPS results to eliminate the distorting effect of certain unusual items on incentive compensation performance measures.

The summary below highlights how our incentive pay programs are intended to align with company performance. Please also see Appendix A for adjustments made to revenue and EPS for incentive compensation programs.

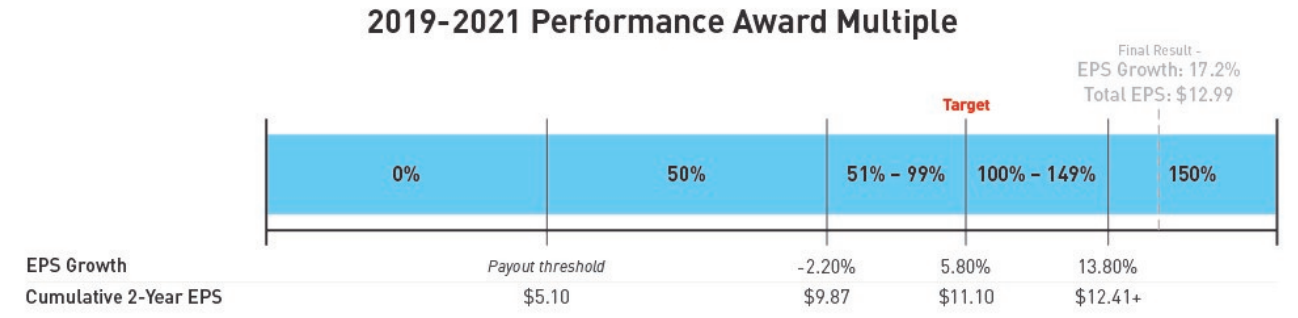
2020 Bonus Plan Multiple

In 2020, the company exceeded its annual cash bonus target for revenue, nearly achieved its target for EPS, and significantly exceeded its targets for pipeline progression. For purposes of the bonus, the Compensation Committee adjusted non-GAAP EPS by $0.98 to exclude net gains on investments in equity securities that significantly exceeded business plan. The Compensation Committee also reduced revenue and EPS for the purposes of the bonus calculation to exclude estimated savings from certain discrete and unplanned performance items from the bonus plan multiple. See the CD&A for further discussion of the Eli Lilly and Company Bonus Plan (Bonus Plan).



2019-2021 Performance Award Multiple

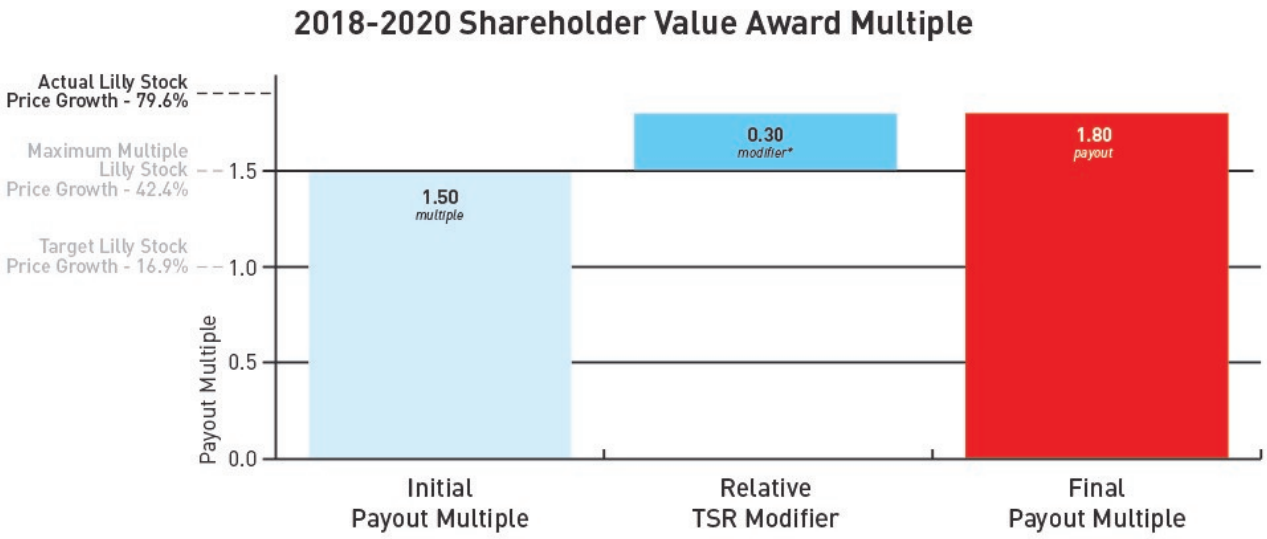
We exceeded the EPS growth targets under our performance award program, which has targets based on expected EPS growth of peer companies over a two-year period. For purposes of the performance award, the Compensation Committee adjusted non-GAAP EPS by $0.98 to exclude net gains on investments in equity securities that significantly exceeded business plan. This performance resulted in a performance award payout above target. See the CD&A for further discussion on the performance award program.



2018-2020 Shareholder Value Award Multiple

Our stock price growth exceeded the target range (16.9 percent to 29.7 percent) under our shareholder value award program, which is based on expected large-cap company returns over a three-year period. This performance resulted in a shareholder value award payout above target.

For individuals who were executive officers when the award was granted, shareholder value award payouts were modified based on a three-year cumulative TSR relative to peer companies. Our relative TSR was 68.7 percentage points above the peer group median, resulting in a maximum award payout of 180 percent of target (SVA payout multiple of 150 percent multiplied by the 1.2 modifier = 180 percent final payout). See the CD&A for further discussion on the shareholder value award program and the TSR modifier.



**Over the performance period, Lilly's cumulative TSR was 92.2 percent and the median peer cumulative TSR was 23.5 percent for a total outpeformance of 68.7 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the Compensation Committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent = 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

Audit Matters

Item 3: Ratification of the Appointment of the Independent Auditor	Management recommendation	Vote required to pass
For further information, see page 74	**Vote FOR**	**Majority of votes cast**

Management Proposals

Item 4: Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure	Management recommendation	Vote required to pass
For further information, see page 76	**Vote FOR**	80% of outstanding shares

Item 5: Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions	Management recommendation	Vote required to pass
For further information, see page 77	**Vote FOR**	80% of outstanding shares

Shareholder Proposals

	Management recommendation	Vote required to pass
Item 6: Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures **For further information, see page 78**	**Vote AGAINST**	Majority of votes cast
Item 7: Proposal to Amend the Bylaws to Require an Independent Board Chair **For further information, see page 80**	**Vote AGAINST**	Majority of votes cast
Item 8: Proposal to Implement a Bonus Deferral Policy **For further information, see page 82**	**Vote AGAINST**	Majority of votes cast
Item 9: Proposal to Disclose Clawbacks on Executive Incentive Compensation Due to Misconduct **For further information, see page 84**	**Vote AGAINST**	Majority of votes cast

Voting

How to Vote in Advance of the Meeting

Even if you plan to attend the Annual Meeting, we encourage you to vote prior to the meeting using one of the methods described below.

ONLINE

Visit the website listed on your notice, proxy card, or voting instruction form

BY TELEPHONE

Call 1-800-690-6903 using a touch-tone phone and follow the instructions provided

BY MAIL

If you received or requested paper copies of your proxy materials, sign, date, and return your proxy card or voting instruction form

Shareholders who hold their shares beneficially through an institutional holder of record, such as a broker or bank (sometimes referred to as holding shares in street name), will receive voting instructions from that holder of record. If you do not provide voting instructions to the holder of record, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. See "Other Information—Meeting and Voting Logistics—Voting Shares Held by a Broker" for more information.

Further information on how to vote, including if you hold voting shares in the 401(k) Plan, is provided at the end of this proxy statement under "Other Information—Meeting and Voting Logistics."

You may vote your shares prior to the Annual Meeting until 11:59 p.m. EDT on May 2, 2021 online or by telephone. If you are voting by mail, your marked, signed, and dated proxy card must be received by May 2, 2021. Shareholders who hold their shares in the 401(k) Plan must vote in advance of the Annual Meeting, by April 28, 2021, so the plan trustee can vote their shares accordingly. See "Other Information—Meeting and Voting Logistics—Voting Shares Held in the Company 401(k) Plan" for more information.

Voting at Our 2021 Annual Meeting

You may also opt to vote by attending the Annual Meeting, which will be held online via live webcast at virtualshareholdermeeting.com/LLY2021 on Monday, May 3, 2021, at 11:00 a.m. EDT. See the section titled "Other Information—Meeting and Voting Logistics" for instructions.

Governance

Item 1. Election of Directors

Under our articles of incorporation, the board is divided into three classes with approximately one-third of the directors standing for election each year. The term for directors to be elected this year will expire at the annual meeting of shareholders held in 2024. Each of the director nominees listed below has agreed to serve that term. The following sections provide information about our director nominees, including their qualifications, the director nomination process, and director compensation.

Board Recommendation on Item 1

The board recommends that you vote FOR each of the following director nominees:

- Katherine Baicker, Ph.D.
- J. Erik Fyrwald
- Jamere Jackson
- Gabrielle Sulzberger
- Jackson P. Tai

Board Operations and Governance

Board of Directors

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a bona fide nominee set forth in this proxy statement is unable to serve or for good cause will not serve, proxy holders may vote for another nominee proposed by the board or, as an alternative, the board may reduce the number of directors to be elected at the Annual Meeting.

Director Biographies

Set forth below is information, as of March 19, 2021, regarding our directors and director nominees, which has been confirmed by each of them for inclusion in this proxy statement. We have provided the most significant experiences, qualifications, attributes, and skills that led to the conclusion that each director or director nominee should serve as a director in light of our business and structure.

No family relationship exists among any of our directors, director nominees, or executive officers. To the best of our knowledge, there are no pending material legal proceedings in which any of our directors or nominees for director, or any of their associates, is a party adverse to us or any of our affiliates, or has a material interest adverse to us or any of our affiliates. Additionally, to the best of our knowledge, there have been no events under any bankruptcy laws, no criminal proceedings and no judgments, sanctions, or injunctions during the past 10 years that are material to the evaluation of the ability or integrity of any of our directors or nominees for director. There is no arrangement or understanding between any director or director nominee and any other person pursuant to which he or she was or is to be selected as a director or director nominee.

Class of 2021

The five directors listed below will seek reelection at the Annual Meeting. See "Item 1. Election of Directors" above for more information.

Katherine Baicker, Ph.D.

Age: 49, Director since 2011, **Board Committees:** Ethics and Compliance (chair); Science and Technology

PUBLIC BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
HMS Holdings Corp.	Panel of Health Advisers to the Congressional Budget Office; Advisory Board of the National Institute for Health Care Management; Editorial Board of Health Affairs; Research Associate of the National Bureau of Economic Research; Trustee of the Mayo Clinic, National Opinion Research Center, and the Chicago Council on Global Affairs; Member of the National Academy of Medicine, the National Academy of Social Insurance, the Council on Foreign Relations, and the American Academy of Arts and Sciences

CAREER HIGHLIGHTS

- **Harris School of Public Policy, University of Chicago**
  - Dean and the Emmett Dedmon Professor (2017 - present)
- **Harvard T.H. Chan School of Public Health, Department of Health Policy and Management**
  - C. Boyden Gray Professor (2014 -2017)
  - Acting Chair (2014 - 2016)
  - Professor of health economics (2007 - 2017)
- **Council of Economic Advisers, Executive Office of the President**
  - Member (2005 - 2007)
  - Senior Economist (2001 - 2002)

QUALIFICATIONS

Dr. Baicker is a leading researcher in the fields of health economics and public economics. As a valued adviser to numerous healthcare-related commissions and committees, her expertise in healthcare policy and healthcare delivery is recognized in both academia and government.

J. Erik Fyrwald

Age: 61, Director since 2005, **Board Committees:** Compensation; Science and Technology

PUBLIC BOARDS	PRIVATE BOARDS	NON-PROFIT BOARDS
Bunge Limited	Syngenta AG	UN World Food Program Farm to Market Initiative; CropLife International; Swiss-American Chamber of Commerce; Syngenta Foundation for Sustainable Agriculture (chair)

CAREER HIGHLIGHTS

- **Syngenta AG,** a global Swiss-based agriculture technology company that produces agrochemicals and seeds
  - President and Chief Executive Officer (2016 - present)
- **Univar, Inc.,** a leading distributor of chemicals and provider of related services
  - President and Chief Executive Officer (2012 - 2016)
- **Ecolab Inc.,** a leading provider of cleaning, sanitization, and water products and services
  - President (2012)
- **Nalco Company,** a leading provider of water treatment products and services
  - Chairman and Chief Executive Officer (2008 - 2011)
- **E.I. duPont de Nemours and Company,** a global chemical company
  - Group Vice President, agriculture and nutrition (2003 - 2008)

QUALIFICATIONS

Mr. Fyrwald has a strong record of operational and strategic leadership in complex worldwide businesses with a focus on technology and innovation. He is an engineer by training and has significant chief executive officer experience with Syngenta, Univar, and Nalco.

Jamere Jackson

Age: 52, Director since 2016, **Board Committees:** Audit (chair); Ethics and Compliance

PUBLIC BOARDS

Hibbett Sports, Inc.

CAREER HIGHLIGHTS

- **Autozone, Inc.,** a leading retailer and distributor of automotive replacement parts and accessories in the United States, Mexico, and Brazil
  - Executive Vice President and Chief Financial Officer (2020 - present)
- **Hertz Global Holdings Inc.*,** a global vehicle rental, leasing, and fleet management business
  - Chief Financial Officer (2018 - 2020)
- **Nielsen Holdings plc,** a global measurement and data analytics company
  - Chief Financial Officer (2014 - 2018)
- **General Electric Company**
  - Vice President and Chief Financial Officer, General Electric Oil & Gas, drilling and surface division (2013 - 2014)
  - Senior Executive, Finance, General Electric Aviation (2007 - 2013)
  - Finance Executive, General Electric Corporate (2004 - 2007)

QUALIFICATIONS

Through his senior financial roles at Autozone, Hertz, Nielsen, and General Electric, Mr. Jackson brings to the board significant global financial expertise and a strong background in strategic planning. He has spent his professional career in a broad range of financial and strategic planning roles. He is an audit committee financial expert, based on his chief financial officer experience and his training as a certified public accountant.

* Hertz Global Holdings Inc., The Hertz Corporation, and certain of their subsidiaries filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code in May 2020. We do not believe this proceeding is material to an evaluation of the ability or integrity of Mr. Jackson.

Gabrielle Sulzberger

Age: 60, Director since 2021, **Board Committees:** Audit; Ethics and Compliance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS
Mastercard Incorporated; Brixmor Property Group Inc.; Cerevel Therapeutics Holdings, Inc.	Whole Foods Markets, Inc.; Teva Pharmaceuticals Industries Limited; Stage Stores, Inc.; IndyMac Bancorp, Inc.; Bright Horizons Family Solutions Inc.	Metropolitan Museum of Art; Ford Foundation; Trinity Wall Street; Sesame Street Workshop; TimesUp

CAREER HIGHLIGHTS

- **TwoSigma Impact,** a private equity fund based in New York, New York
  - Strategic Advisor (2021 - present)
- **Rustic Canyon/Fontis Partners L.P.,** a private equity fund based in Pasadena, California
  - General Partner (2005 - 2018)

QUALIFICATIONS

Ms. Sulzberger brings 30 years of experience advising public and privately held companies in consumer products, retail, financial services, and life sciences, and deep corporate governance experience through her work with corporate boards. She is an audit committee financial expert based on her audit committee service at Cerevel and Whole Foods, her experience in private equity, and her prior service as chief financial officer of several public and private companies.

Jackson P. Tai

Age: 70, Director since 2013, **Board Committees:** Audit; Directors and Corporate Governance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Mastercard Incorporated; HSBC Holdings plc	Canada Pension Plan Investment Board; Koninklijke Philips N.V.; The Bank of China Limited; Singapore Airlines Limited; NYSE Euronext; ING Groep N.V.; CapitaLand Limited (Singapore); DBS Group Holdings Ltd and DBS Bank Ltd	Metropolitan Opera; Rensselaer Polytechnic Institute	Harvard Business School Asia-Pacific Advisory Board

CAREER HIGHLIGHTS

- **DBS Group Holdings Ltd and DBS Bank Ltd (formerly the Development Bank of Singapore),** one of the largest financial services groups in Asia
  - Vice Chairman and Chief Executive Officer (2002 - 2007)
  - President and Chief Operating Officer (2001 - 2002)
  - Chief Financial Officer (1999 - 2001)
- **J.P. Morgan & Co. Incorporated,** a leading global financial institution
  - Managing Director in the Investment Banking Division (1974 - 1999), including service as the senior officer for Japan Capital Markets and chairman of the Asia Pacific Management Committee

QUALIFICATIONS

Mr. Tai is a former chief executive officer with extensive experience in international business and finance, and he is an audit committee financial expert based on his public company experience, including as an audit committee member of HSBC Holdings and Mastercard, and as chair of the risk committee of HSBC Holdings. He has deep expertise in the Asia-Pacific region, an important growth market for Lilly. He also has broad corporate governance experience from his service on public company boards in North America, Europe, and Asia.

Class of 2022

The following five directors are serving terms that will expire in May 2022.

Ralph Alvarez

Age: 65, Director since 2009, **Board Committees:** Audit; Compensation (chair)

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Lowe's Companies, Inc.	Dunkin' Brands Group, Inc. McDonald's Corporation; KeyCorp; Skylark Co., Ltd.; Realogy Holdings Corp.	University of Miami President's Council

CAREER HIGHLIGHTS

- **Advent International Corporation,** a leading global private equity firm
  - Operating Partner (2017 - present)
- **Skylark Co., Ltd.,** a leading restaurant operator in Japan
  - Chairman of the Board (2013 - 2018)
- **McDonald's Corporation**
  - President and Chief Operating Officer (2006 - 2009)

QUALIFICATIONS

Through his positions at Skylark Co., Ltd. and McDonald's Corporation, as well as with other global restaurant businesses, Mr. Alvarez has extensive experience in consumer marketing, global operations, international business, and strategic planning. Mr. Alvarez is an audit committee financial expert based on his public company experience, including his prior audit committee service on the Lowe's board of directors. His international experience includes a special focus on Japan and emerging markets. He also has extensive corporate governance experience through his service on other public company boards as well as several private company boards.

Carolyn R. Bertozzi, Ph.D.

Age: 54, Director since 2017, **Board Committees:** Ethics and Compliance; Science and Technology

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Glenn Foundation; Grace Science Foundation	National Institute of Medicine; National Academy of Sciences; Foreign Member of the Royal Society; American Academy of Arts and Sciences

HONORS

Solvay Prize for the Future of Chemistry; MacArthur Foundation Fellowship; Lemelson MIT Prize; Heinrich Wieland Prize; National Academy of Sciences Award in the Chemical Sciences; UC Berkeley Distinguished Teaching Award; Donald Sterling Noyce Prize for Excellence in Undergraduate Teaching

CAREER HIGHLIGHTS

- **Stanford University**
  - Anne T. and Robert M. Bass Professor of Chemistry, Professor of Chemical and Systems Biology and Radiology by courtesy (2015 - present)
  - Baker Family Co-Director of Stanford ChEM-H (2017 - present)
- **Howard Hughes Medical Institute**
  - Investigator (2000 - present)
- **University of California, Berkeley**
  - T.Z. and Irmgard Chu Professor of Chemistry and Professor of Molecular and Cell Biology (1996 - 2015)

QUALIFICATIONS

Dr. Bertozzi is a prominent researcher and academician. She has extensive experience at Stanford University and the University of Berkeley, California, two major research institutions. Her deep expertise spans the disciplines of chemistry and biology, with an emphasis on studies of cell surface glycosylation associated with cancer, inflammation, and bacterial infection, and exploiting this knowledge for development of diagnostic and therapeutic approaches.

Kimberly H. Johnson

Age: 48, Director since 2021, **Board Committees:** Compensation; Ethics and Compliance

NON-PROFIT BOARDS + OTHER ORGANIZATIONS

Princeton University, Trustee
Share Our Strength, Director
Planet Word, Director

CAREER HIGHLIGHTS

- **Federal National Mortgage Association (Fannie Mae),** provider of affordable mortgage financing in the United States
  - Executive Vice President and Chief Operating Officer (2018-present)
  - Executive Vice President and Chief Risk Officer (2017-2018)
  - Senior Vice President and Chief Risk Officer (2015-2017)
  - Senior Vice President and Deputy Chief Risk Officer (2013-2015)
- **Credit Suisse AG,** a global wealth manager, investment bank, and financial services firm founded and based in Switzerland
  - Director, Interest Rate Derivative Products (2005-2006)
  - Vice President (2002-2004)

QUALIFICATIONS

Through her roles at Fannie Mae, where she also serves on the management committee, Ms. Johnson brings to the board significant financial expertise and a strong background in technology, governance and strategy for global risk management.

Juan R. Luciano

Age: 59, Director since 2016, Lead Independent Director since 2019. **Board Committees:** Compensation; Directors and Corporate Governance

PUBLIC BOARDS	NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Archer-Daniels-Midland Company; Wilmar International (alternate director)	Intersect Illinois; Kellogg School of Management, Northwestern University	Economic Club of Chicago; Commercial Club of Chicago; The Business Roundtable

CAREER HIGHLIGHTS

- **Archer-Daniels-Midland Company,** a global food-processing and commodities-trading company
  - Chairman (2016 - present)
  - Chief Executive Officer and President (2015 - present)
  - President (2014 - 2015)
  - Executive Vice President and Chief Operating Officer (2011 - 2014)
- **The Dow Chemical Company,** a multinational chemical company
  - Executive Vice President and President, Performance Division (2010 - 2011)

QUALIFICATIONS

Mr. Luciano has chief executive officer and global business experience with Archer-Daniels-Midland Company, where he has established a reputation for strong results-oriented and strategic leadership, as well as many years of global leadership experience at The Dow Chemical Company. He brings to the board a strong technology and operations background, along with expertise in the highly regulated food and agriculture sectors.

Kathi P. Seifert*

Age: 71, Director since 1995, **Board Committees:** Compensation; Directors and Corporate Governance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS
County Bancorp, Inc.	Albertsons Companies, Inc. (formerly Albertson's, Inc.); Revlon Consumer Products Co.; Supervalu Inc.; Lexmark International, Inc.	Community Foundation for the Fox Valley Region; New North Economic Development Corporation; Fox Cities Chamber of Commerce; Greater Fox Cities Area Habitat for Humanity; Riverview Gardens; Bubolz Nature Preserve; Fox Valley Humane Association

CAREER HIGHLIGHTS

- **Katapult, LLC,** a provider of pro bono mentoring and consulting services to nonprofit organizations
  - Chairman (2004 - present)
- **Kimberly-Clark Corporation,** a global consumer products company
  - Executive Vice President (1999 - 2004)

QUALIFICATIONS

Ms. Seifert is a retired senior executive of Kimberly-Clark. She has strong expertise in consumer marketing and brand management, having led sales and marketing for several worldwide brands, with a special focus on consumer health. She has extensive corporate governance experience through her service on the boards of other companies.

*Ms. Seifert will retire from the board following the Annual Meeting.

Class of 2023

The following five directors are serving terms that will expire in May 2023.

Michael L. Eskew

Age: 71, Director since 2008, **Board Committees:** Audit; Directors and Corporate Governance (chair)

PUBLIC BOARDS	NON-PROFIT BOARDS
3M Corporation; IBM Corporation; The Allstate Corporation	Chairman of the board of trustees of The Annie E. Casey Foundation

CAREER HIGHLIGHTS

- **United Parcel Service, Inc.,** a global shipping and logistics company
  - UPS Board of Directors (1998 - 2014)
  - Chairman and Chief Executive Officer (2002 - 2007)
  - Vice Chairman (2000 - 2002)

QUALIFICATIONS

Mr. Eskew has chief executive officer experience with UPS, where he established a record of success in managing complex worldwide operations, strategic planning, and building a strong consumer-brand focus. He is an audit committee financial expert based on his chief executive officer experience and his service on other U.S. public company audit committees. He has extensive corporate governance experience through his service on the boards of other companies.

William G. Kaelin, Jr., M.D.

Age: 63, Director since 2012, **Board Committees:** Directors and Corporate Governance; Science and Technology (chair)

INDUSTRY MEMBERSHIPS

National Academy of Medicine;
National Academy of Sciences;
American College of Physicians;
Association of American Physicians;
American Society of Clinical Investigation (ASCI);
American Academy of Arts and Sciences

HONORS

Nobel Prize in Physiology or Medicine;
Albert Lasker Basic Medical Research Award;
Wiley Prize in Biomedical Sciences from the Rockefeller University;
Steven C. Beering Award from the Indiana University School of Medicine; ASCI's Stanley J. Korsmeyer Award; Paul Marks Prize for Cancer Research from the Memorial Sloan Kettering Cancer Center;
Richard and Hinda Rosenthal Prize from the American Association for Cancer Research; Scientific Grand Prix of the Foundation Lefoulon-Delalande; Canada Gairdner International Award; Doris Duke Distinguished Clinical Scientist Award; Helis Award from Baylor College of Medicine; Massry Prize from the Meira and Shaul G. Massry Foundation

CAREER HIGHLIGHTS

- **Harvard Medical School**
  - Sidney Farber Professor of Medicine (2002 - present)
- **Brigham and Women's Hospital**
  - Professor (2002 - present)
- **Howard Hughes Medical Institute**
  - Investigator (2002 - present)
  - Assistant Investigator (1998 - 2002)

QUALIFICATIONS

Dr. Kaelin is a prominent medical researcher and academician. He has extensive experience at Harvard Medical School, a major medical institution, as well as special expertise in oncology—a key component of Lilly's business. He also has deep expertise in basic science, including mechanisms of drug action, and experience with pharmaceutical discovery research.

David A. Ricks

Age: 53, Director since 2017, **Board Committees:** none

PUBLIC BOARDS	NON-PROFIT BOARDS	INDUSTRY MEMBERSHIPS
Adobe Inc.	Board of Governors for Riley Children's Foundation; Central Indiana Corporate Partnership	International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) CEO Steering Committee; Pharmaceutical Research and Manufacturers of America (PhRMA); The Business Roundtable; National Council for Expanding American Innovation (NCEAI)

CAREER HIGHLIGHTS

- **Eli Lilly and Company**
  - Chairman, President, and Chief Executive Officer (2017 - present)
  - Senior Vice President and President, Lilly Bio-Medicines (2012 - 2016)

QUALIFICATIONS

Mr. Ricks was named President and Chief Executive Officer on January 1, 2017, and Chairman on June 1, 2017. Mr. Ricks joined Lilly in 1996, and most recently served as president of Lilly Bio-Medicines. He has deep expertise in product development, global sales and marketing, as well as public policy. He has significant global expertise in the company's commercial operations.

Marschall S. Runge, M.D., Ph.D.

Age: 66, Director since 2013, **Board Committees:** Ethics and Compliance; Science and Technology

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Michigan Medicine	Experimental Cardiovascular Sciences Study Section of the National Institutes of Health

CAREER HIGHLIGHTS

- **University of Michigan**
  - CEO, Michigan Medicine (2015 - present)
  - Executive Vice President for Medical Affairs (2015 - present)
  - Dean, Medical School (2015 - present)
- **University of North Carolina, School of Medicine**
  - Executive Dean (2010 - 2015)
  - Chair of the Department of Medicine (2000 - 2015)
  - Principal Investigator and Director of the North Carolina Translational and Clinical Sciences Institute (2010 - 2015)

QUALIFICATIONS

Dr. Runge brings the unique perspective of a practicing physician who has a broad background in healthcare and academia. He has extensive experience as a practicing cardiologist, a strong understanding of healthcare facility systems, and deep expertise in biomedical research and clinical trial design.

Karen Walker

Age: 59, Director since 2018, **Board Committees:** Audit; Compensation

PUBLIC BOARDS	NON-PROFIT BOARDS	ORGANIZATIONS
Sprout Social, Inc.	Salvation Army Advisory Board of Silicon Valley	Association of National Advertisers (board and executive committee)

CAREER HIGHLIGHTS

- **Intel Corporation,** a leader in the semiconductor industry
  - Senior Vice President and Chief Marketing Officer (2019 - present)
- **Cisco Systems, Inc.,** a provider of communications technologies and services to commercial and governmental customers
  - Senior Vice President and Chief Marketing Officer (2015 - 2019)
  - Senior Vice President, Marketing (2013 - 2015)
  - Senior Vice President of Segment, Services and Partner Marketing (2012 - 2013)

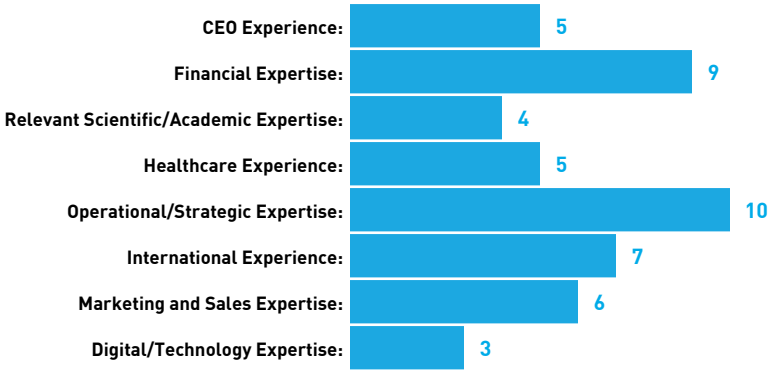
QUALIFICATIONS

Ms. Walker brings extensive marketing and digital expertise. She has valuable business experience developed through her business and consumer leadership positions in the information technology industry and is a recognized industry authority on both technology and marketing. Her business expertise includes senior field and marketing roles in Europe, North America, and the Asia-Pacific region.

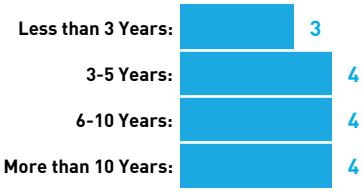
Director Qualifications and Nomination Process

Director Qualifications

Experience: Our directors are responsible for overseeing the company's business consistent with their fiduciary duties. This significant responsibility requires highly skilled individuals with various qualities, attributes, and professional experience. We believe the board is well-rounded, with a balance of relevant perspectives and experience, as illustrated in the following chart. Categories referencing "expertise" indicate that the director is an expert in the field, while "experience" indicates direct experience, including management and oversight of significant operations:



Board Tenure: As the following chart demonstrates, our director composition reflects a mix of tenure on the board, which provides an effective balance of historical perspective and an understanding of the evolution of our business with fresh perspectives and insights. Kathi Seifert, who joined the board in 1995, will retire from the board following the Annual Meeting. Effective January 25, 2021, Gabrielle Sulzberger was elected to the board as a member of the director class of 2021. Ms. Sulzberger was appointed to the Audit Committee and the Ethics and Compliance Committee. Effective February 16, 2021, Kimberly H. Johnson was elected to the board as a member of the director class of 2022. Ms. Johnson was appointed to the Compensation Committee and the Ethics and Compliance Committee. The following graphic highlights the tenure of our current board members:



Diversity: The board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, ethnicity, age, and experiences. Although the board does not establish specific diversity goals or have a standalone diversity policy, the board's overall diversity is an important consideration in the director selection and nomination process. The Directors and Corporate Governance Committee assesses the effectiveness of board diversity efforts in connection with the annual nomination process as well as in new director searches. The company's 15 directors range in age from 48 to 71 and include six women and seven members of underrepresented groups (including minority group members (MGM) as well as lesbian, gay, bisexual, transgender, or queer (LGBTQ) individuals).

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

Director Refreshment

Together with our lead independent director, the Directors and Corporate Governance Committee performs periodic assessments of the overall composition and skills of the board to ensure that the board is actively engaged in succession planning for directors, and that our board reflects the viewpoints, diversity, and expertise necessary to support our complex and evolving business. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors.

The results of these assessments inform the board's recommendations on nominations for directors at the annual meeting of shareholders each year and help provide us with insight on the types of experiences, skills, perspectives, and other characteristics we should be seeking for future director candidates. Based on this assessment, the Directors and

Corporate Governance Committee has recommended that the directors in the class of 2021 be elected at the Annual Meeting.

The board delegates the director screening process to the Directors and Corporate Governance Committee, which receives input from other board members. Director candidates are identified from several sources, including executive search firms retained by the committee, incumbent directors, management, and shareholders. The Directors and Corporate Governance Committee has retained Russell Reynolds Associates, an executive search and leadership consulting firm, to assist with identifying potential director candidates.

The Directors and Corporate Governance committee employs the same process to evaluate all candidates, including those submitted by shareholders. The committee initially evaluates a candidate based on publicly available information and any additional information supplied by the party recommending the candidate. If the candidate appears to satisfy the selection criteria and the committee's initial evaluation is favorable, the committee, assisted by management or a search firm, gathers additional data on the candidate's qualifications, availability, probable level of interest, and any potential conflicts of interest. If the committee's subsequent evaluation continues to be favorable, the candidate is contacted by the chairman of the board and one or more of the independent directors, including the lead independent director, for direct discussions to determine the mutual level of interest in pursuing the candidacy. If these discussions are favorable, the committee recommends that the board nominate the candidate for election by the shareholders (or elects the candidate to fill a vacancy, as applicable).

Director Compensation

Directors who are employees receive no additional compensation for serving on the board. Non-employee director compensation is reviewed and approved by the board, on the recommendation of the Directors and Corporate Governance Committee.

Cash Compensation

The following table shows the retainers and meeting fees in effect in 2020 for all non-employee directors:

Board and Committee Membership Retainers (annual, paid in monthly installments)		**Leadership Retainers** (annual, paid in monthly installments)	
Annual board retainer	$110,000	Lead independent director	$35,000
Audit Committee and Science and Technology Committee members (including the chairs)	$6,000	Audit Committee chair	$18,000
Compensation Committee, Directors and Corporate Governance Committee, Finance Committee, and Public Policy and Compliance Committee (renamed the Ethics and Compliance Committee effective January 1, 2021) members (including the chairs)	$3,000	Science and Technology Committee chair	$15,000
		All other committee chairs	$12,000

Directors are reimbursed for customary and usual travel expenses in connection with their travel to and from board meetings and other company events. Non-employee directors may also receive additional cash compensation for serving on ad hoc committees that may be formed by the board from time to time.

Stock Compensation

A significant portion of non-employee director compensation is linked to the long-term performance of Lilly stock. In 2020, non-employee directors received an annual equity-based award valued at $175,000. The award was credited to each non-employee director's deferred stock account established under the Lilly Directors' Deferral Plan as a number of units calculated by dividing $175,000 by the closing stock price on a pre-set annual date (approximately 1,245 units). The units track the economic value of shares of company stock with stock dividends being deemed "reinvested" in additional units based on the market price of the stock on the date dividends are paid. The units become converted into and issuable to the non-employee directors as shares of company stock commencing on the second January following a director's departure from board service (either in lump sum or installments as described below). When applicable, the annual equity-based award is prorated for time served.

Share Ownership Guidelines

Directors are required to hold meaningful equity ownership positions in the company. Non-employee directors are required to hold Lilly stock, directly or through units representing the right to receive shares of Lilly stock under the Lilly Directors' Deferral Plan, valued at not less than five times their annual board retainer; new non-employee directors are allowed five years to reach this ownership level. All non-employee directors serving at least five years have satisfied these guidelines. All other non-employee directors are, or in the case of newly elected directors, are expected to begin, making progress toward these requirements.

Annual Compensation Cap for Directors

In 2018, the board approved an annual cap to the total annual compensation (cash and equity compensation) for non-employee directors of $800,000. The cap is intended to avoid excessive director compensation and is included in both the Lilly Directors' Deferral Plan and in the Amended and Restated 2002 Lilly Stock Plan approved by shareholders at the 2018 annual meeting of shareholders.

Lilly Directors' Deferral Plan

In addition to the annual equity-based grants credited to each non-employee director's deferred stock account as described above, the Lilly Directors' Deferral Plan allows non-employee directors to defer receipt of all or part of their cash compensation until after their service on the board has ended. Each director can choose to invest any amounts deferred in one or both of the following two accounts:

Deferred Stock Account. This account allows the non-employee director, in effect, to invest his or her deferred cash compensation in company stock. Funds in this account are credited as units representing the right to receive shares of company stock based on the closing stock price on pre-set monthly dates. Hypothetical dividends are deemed "reinvested" in additional units based on the market price of the stock on the date dividends are paid. The units become converted into and issuable to the non-employee director as shares of company stock commencing on the second January following the director's departure from board service (either in a lump sum or installments as described below). The deferral stock account is the same account where the annual equity-based awards are credited with the same conversion timing and procedure applicable to the annual equity-based awards.

Deferred Compensation Account. Deferred cash compensation in this account earns interest each year at a rate of 120 percent of the applicable federal long-term rate, compounded monthly, as established the preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code of 1986 (the Internal Revenue Code). The aggregate amount of interest that accrued in 2020 for the participating directors was $109,753, at a rate of 2.5 percent. The rate for 2021 is 1.6 percent.

Both accounts may be paid out in a lump sum or in annual installments for up to 10 years based on individual director annual elections. All payments begin the second January following the director's departure from board service. Amounts in the deferred stock account are paid in shares of company stock.

2020 Compensation for Non-Employee Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation and Payments ($)[2]	Total ($)[3]
Mr. Alvarez	$131,000	$175,000	$0	$306,000
Dr. Baicker	$131,000	$175,000	$0	$306,000
Dr. Bertozzi	$119,000	$175,000	$0	$294,000
Mr. Eskew	$134,000	$175,000	$0	$309,000
Mr. Fyrwald	$119,000	$175,000	$55,600	$349,600
Mr. Jackson	$137,000	$175,000	$0	$312,000
Dr. Kaelin	$134,000	$175,000	$5,000	$314,000
Mr. Luciano	$163,000	$175,000	$0	$338,000
Dr. Runge	$119,000	$175,000	$0	$294,000
Ms. Seifert	$116,000	$175,000	$20,841	$311,841
Mr. Tai	$122,000	$175,000	$60,000	$357,000
Ms. Walker	$119,000	$175,000	$20,000	$314,000

*Ms. Sulzberger and Ms. Johnson were elected to the board of directors in 2021 and are not included in the table above.

[1] Each non-employee director received an equity-based award of units valued at $175,000 (approximately 1,245 units). These units, and all prior awards of such units, are fully vested; however, the shares subject to such awards of units are not issued until the second January following the director's departure from board service when, as described above

under "Lilly Directors' Deferral Plan," the units are converted into shares of company stock and distributed to the former director. The column shows the grant date fair value for each director's equity-based award computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, for additional detail regarding assumptions underlying the valuation of equity awards. Aggregate outstanding stock awards are shown in the "Common Stock Ownership by Directors and Executive Officers" table in the "Stock Units Not Distributable Within 60 Days" column.

[2] This column consists of amounts donated by the Eli Lilly and Company Foundation, Inc. (Foundation) under its matching gift program, which is generally available to U.S. employees as well as non-employee directors. Under this program, the Foundation matched 100 percent of charitable donations over $25 made to eligible charities, up to a maximum of $30,000 per year for each individual. The Foundation matched these donations via payments made directly to the recipient charity. The amounts for Mr. Fyrwald, Ms. Seifert, and Mr. Tai include matching contributions for donations made at the end of 2019 (Mr. Fyrwald - $28,000; Ms. Seifert - $4,000; and Mr. Tai - $30,000) for which the matching contribution was not paid until 2020.

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

2021 Director Compensation

The Directors and Corporate Governance Committee performs regular reviews of non-employee director compensation. In 2019, the Directors and Corporate Governance Committee performed an in depth review of non-employee director compensation, including a pharmaceutical company peer group analysis and general industry peer group analysis conducted with the assistance of an outside compensation consultant, discussions regarding the effectiveness of the non-employee directors in their various duties, and other considerations, including the desire to have non-employee director compensation positioned near the market median when compared against the general industry peer group. Although no formal changes or review of the non-employee director compensation were made or conducted in 2020, the Directors and Corporate Governance Committee intends to perform a non-employee director compensation review as part of its 2021 agenda.

Director Independence

The board annually determines the independence of directors based on a review and recommendation by the Directors and Corporate Governance Committee. No director is considered independent unless the board has affirmatively determined that he or she has no material relationship with the company, either directly or as a partner, significant shareholder, or officer of an organization that has a material relationship with the company. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. To evaluate the materiality of any such relationship, the board has adopted categorical independence standards consistent with the New York Stock Exchange (NYSE) listing standards, except that the "look-back period" for determining whether a director's prior relationships with the company impairs independence is extended from three to four years.

The company's process for determining director independence is set forth in our Standards for Director Independence, which can be found on our website at lilly.com/leadership/governance, along with our Corporate Governance Guidelines.

On the recommendation of the Directors and Corporate Governance Committee, the board determined that each current non-employee director is independent. The board also determined that the members of our Audit and Compensation Committees also meet the heightened independence standards applicable to those committees. The board determined that none of the non-employee directors has had during the last four years (i) any of the relationships identified in the company's categorical independence standards or (ii) any other material relationship with the company that would compromise his or her independence.

In making its independence determinations, the board considered that some of the non-employee directors are affiliated with companies or entities to which the company sold products or made payments, or from which the company purchased products or services during the year. Drs. Baicker, Bertozzi, Kaelin, and Runge are employed at medical or academic institutions with which the company engages in clinical research, provides research grants, and/or engages in commercial transactions in the ordinary course of business. Mr. Luciano is employed by Archer-Daniels-Midland Company and Mr. Fyrwald is employed by Syngenta AG. The company engages in routine business transactions with these companies. Aggregate payments to or from each of the organizations, in each of the last four fiscal years, did not exceed the greater of $1 million or 2 percent of that organization's consolidated gross revenues in a single fiscal year for the relevant four-year period. In reviewing these relationships, the board considers all relevant factors, including:

- whether any transactions were entered into at arm's length in the normal course of business and, to the extent they are commercial relationships, have standard commercial terms; and
- whether any director had any direct business relationships with the company or received any direct personal benefit from any of these transactions, relationships, or arrangements.

Committees of the Board of Directors

The duties and membership of our board-appointed committees are described below. Effective January 1, 2021, our board disbanded the Finance Committee and reallocated its duties to the full board, the Audit Committee, and the Compensation Committee. This restructuring reduced the number of board committees to allow more time for meetings of the remaining committees, encouraging longer, more in-depth committee discussions, and allowing the board to have more in-depth discussions on capital allocation matters.

All committee members are independent as defined in the NYSE listing requirements and Lilly's independence standards. The members of the Audit and Compensation Committees each meet the additional independence requirements applicable to them as members of those committees.

The Directors and Corporate Governance Committee makes recommendations to the board regarding director committee membership and selection of committee chairs. The board has no set policy for rotation of committee members or chairs but annually reviews committee memberships and chair positions, seeking the best blend of continuity and fresh perspectives on the committees.

The chair of each committee determines the frequency and agenda of committee meetings, subject to any minimums specified in the relevant committee charter, and the committees meet alone in executive session on a regular basis.

Membership and Meetings of the Board and Its Committees

In 2020, each director attended at least 75 percent of the total number of meetings of the board and the committees on which he or she served during his or her tenure as a board or committee member. In addition, all board members are expected to attend the Annual Meeting, and all directors then serving attended the 2020 annual meeting of shareholders. Current committee membership and the number of meetings of the board and each committee* held in 2020 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Ethics and Compliance	Science and Technology
Mr. Alvarez	✓	✓	C			
Dr. Baicker	✓				C	✓
Dr. Bertozzi	✓				✓	✓
Mr. Eskew	✓	✓		C		
Mr. Fyrwald	✓		✓			✓
Mr. Jackson	✓	C			✓	
Ms. Johnson**	✓		✓		✓	
Dr. Kaelin	✓			✓		C
Mr. Luciano	LD		✓	✓		
Mr. Ricks	✓					
Dr. Runge	✓				✓	✓
Ms. Seifert	✓		✓	✓		
Ms. Sulzberger**	✓	✓			✓	
Mr. Tai	✓	✓		✓		
Ms. Walker	✓	✓	✓			
Number of 2020 Meetings	10	9	6	4	6	9

** Effective January 1, 2021, the board disbanded the Finance Committee, which met eight times in 2020.*
*** Ms. Sulzberger and Ms. Johnson were elected in 2021.*

C **Committee Chair**
LD **Lead Independent Director**

All committee charters are available online at lilly.com/leadership/governance. Key responsibilities of each committee are set forth below.

Audit Committee

The Audit Committee assists the board in fulfilling its oversight responsibilities by monitoring:

- the integrity of financial information provided to our shareholders and others
- management's systems of internal controls and disclosure controls
- the performance of internal and independent audit functions
- the company's compliance with legal and regulatory requirements
- processes and procedures related to identifying and mitigating enterprise level risks.

The committee has sole authority to appoint or replace the independent auditor, subject to shareholder ratification.

The board has determined that Mr. Alvarez, Mr. Eskew, Mr. Jackson, Ms. Sulzberger, and Mr. Tai are audit committee financial experts, as defined in the rules of the U.S. Securities and Exchange Commission (SEC).

Compensation Committee

The Compensation Committee:

- oversees the company's global compensation philosophy and policies
- establishes the compensation of our CEO, in consultation with other independent directors and our external compensation consultant, and other executive officers

- acts as the oversight committee with respect to the company's deferred compensation plans, management stock plans, and other management incentive compensation programs
- reviews succession plans for the CEO and other key senior leadership positions, including a broad review of our succession management and diversity efforts
- advises our management and the board regarding other human capital management and employee compensation and benefits matters
- reviews, monitors, and oversees stock ownership guidelines for executive officers
- oversees the company's executive compensation recovery policy
- oversees the company's engagement with shareholders regarding executive compensation matters, including reviewing and evaluating the results of advisory votes on executive compensation.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2020, Mr. Alvarez, Mr. Eskew, Mr. Fyrwald, and Ms. Seifert served on the Compensation Committee.

None of the Compensation Committee members:

- has ever been an officer or employee of the company
- is or has been a participant in a related person transaction with the company (see "Governance—Highlights of the Company's Corporate Governance—Conflicts of Interest and Transactions with Related Persons—Review and Approval of Transactions with Related Persons" for a description of our policy on related person transactions)
- has any other interlocking relationships requiring disclosure under applicable SEC rules.

Directors and Corporate Governance Committee

The Directors and Corporate Governance Committee:

- leads the process for director recruitment, together with the lead independent director
- reviews recommendations for nominees for the board of directors
- oversees matters of corporate governance, including board performance, non-employee director independence and compensation, corporate governance guidelines, and shareholder engagement on governance matters
- identifies and brings to the attention of the board as appropriate current and emerging environmental, social, political, and governance trends and public policy issues that may affect the business operations
- annually assesses the performance of the board, board committees and board processes, and reviews such findings with the board.

Ethics and Compliance Committee

Effective January 1, 2021, the board reorganized the Public Policy and Compliance Committee into the Ethics and Compliance Committee.

The Ethics and Compliance Committee:

- reviews, identifies and, when appropriate, brings to the attention of the board legal and regulatory trends and issues, and compliance and quality matters that may have an impact on the business operations, financial performance, or reputation of the company
- reviews, monitors, and makes recommendations to the board on corporate policies and practices related to compliance, including those related to employee health and safety.

Science and Technology Committee

The Science and Technology Committee:

- reviews and advises the board regarding the company's strategic research and development goals and objectives
- monitors and evaluates developments, technologies, and trends in pharmaceutical research and development
- regularly reviews the company's product pipeline
- advises the board on the scientific aspects of significant business development opportunities
- assists the board with its oversight responsibility for enterprise risk management in areas affecting the company's research and development.

Finance Committee

Prior to its dissolution effective January 1, 2021, the Finance Committee reviewed and made recommendations to the board regarding financial matters, including:

- capital structure and strategies
- dividends
- stock repurchases
- capital expenditures

- investments, financing, and borrowings
- benefit plan funding and investments
- financial risk management
- significant business development opportunities.

Effective January 1, 2021, the board disbanded the Finance Committee and reallocated its responsibilities to the full board, the Audit Committee, and the Compensation Committee.

Board Oversight of Strategy, Compliance, and Risk Management

The board takes an active approach to its role in overseeing the development and execution of the company's business strategies. On an annual basis, the board and executive management conduct an extended review and discussion of the company's strategy, reviewing goals, the external environment, key questions, and key risks. Board meetings include discussions of company performance relative to the strategy. The board also reviews strategic focus areas for the company, such as innovation, information security, cybersecurity, and human capital management. See also "Governance—Highlights of the Company's Corporate Governance—Human Capital Management."

The board, together with its committees, oversees the processes by which the company conducts its business to ensure the company operates in a manner that complies with laws and regulations and reflects the highest standards of integrity. Effective January 1, 2021, the Public Policy and Compliance Committee was reorganized to become the Ethics and Compliance Committee, with a refined focus on legal and regulatory trends and issues, and compliance and quality matters that may have an impact on the business operations, financial performance, or reputation of the company. The Ethics and Compliance Committee continues to meet at least four times per year, including semi-annual private sessions to discuss compliance with the company's chief ethics and compliance officer, the general auditor, and the senior vice president, global quality. On an annual basis, the full board reviews the company's overall state of compliance and the Ethics and Compliance Committee receives an update on compliance at each meeting.

The chief ethics and compliance officer and the senior vice president, global quality report directly to the CEO.

The company also has an enterprise risk management program directed by its chief ethics and compliance officer. Enterprise risks are identified and prioritized by management through both top-down and bottom-up processes. Key enterprise level risks are overseen by the full board and our enterprise risk management process is overseen by the Audit Committee. Company management is charged with managing risk through robust internal processes and controls. The enterprise level risks are reviewed annually at a full board meeting, and relevant enterprise risks are also addressed in periodic business function reviews and at the annual board and senior management strategy session.

Code of Ethics

The board approves the company's code of ethics, which is set out in:

The Red Book: A comprehensive code of ethical and legal business conduct applicable to all employees worldwide and to our board. The Red Book is reviewed and approved annually by the board.

Code of Ethical Conduct for Lilly Financial Management: A supplemental code for our CEO and all members of financial management, in recognition of their unique responsibilities to ensure proper accounting, financial reporting, internal controls, and financial stewardship.

These documents are available online at lilly.com/operating-responsibly/ethics-compliance and lilly.com/operating-responsibly/ethics-compliance/financial-management-ethical-conduct. In the event of any amendments to, or waivers from, a provision of the code affecting the CEO, chief financial officer, chief accounting officer, controller, or persons performing similar functions, we intend to post on the above website, within four business days after the event, a description of the amendment or waiver as required under applicable SEC rules, and we will maintain that information on our website for at least 12 months.

Highlights of the Company's Corporate Governance

We are committed to good corporate governance, which promotes the long-term interests of shareholders and other company stakeholders, builds confidence in our leadership, and strengthens accountability by the board and management. The board has adopted corporate governance guidelines that set forth the company's basic principles of corporate governance. The section that follows outlines key elements of the guidelines and other important governance matters. Investors can learn more by reviewing the corporate governance guidelines, which are available online at lilly.com/leadership/governance.

Role of the Board

Directors are elected by the shareholders to oversee the actions and results of the company's management. The board exercises oversight over a broad range of areas, but the board's key responsibilities include the following (certain of which are carried out through the board's committees):

- providing general oversight of the business
- approving corporate strategy
- approving major management initiatives
- selecting, compensating, evaluating, and, when necessary, replacing the CEO, and compensating other senior executives
- ensuring that an effective succession plan is in place for all key senior leadership positions and reviewing our broader talent management process, including human capital management strategies, overall corporate culture, and D&I programs
- overseeing the company's ethics and compliance program and management of significant business risks
- selecting, compensating, and evaluating directors
- overseeing the company's enterprise risk management program
- overseeing the company's approach to current and emerging political, social, environmental, and governance trends and public policy issues that may affect the company.

The board takes an active role in its oversight of our corporate strategy. Each year, the board and executive management closely examine the company's strategy, including key risks and decisions facing the company. Decisions reached in this session are updated throughout the year, including as the board discusses the company's financial performance, the performance of our business units, and progress in our product pipeline.

Board Composition and Requirements

Mix of Independent Directors and Officer-Directors

We believe there should always be a substantial majority (75 percent or more) of independent directors. The CEO should be a member of the board.

Voting for Directors

In an uncontested election, directors are elected by a majority of votes cast. An incumbent nominee who fails to receive a greater number of votes "for" than "against" his or her election will tender his or her resignation from the board (following the certification of the shareholder vote). The board, on recommendation of the Directors and Corporate Governance Committee, will decide whether to accept the resignation. The company will promptly disclose the board's decision, including, if applicable, the reasons the board rejected the resignation.

Director Tenure and Retirement Policy

Non-employee directors must retire from the board no later than the date of the annual meeting that follows their seventy-second birthday, although the Directors and Corporate Governance Committee may recommend exceptions to this policy. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors annually, with a more robust assessment at least every three years when considering whether to nominate directors to new three-year terms. The company has not adopted term limits because the board believes that the company benefits from having a mix of longer- and shorter-tenured members of the board.

Other Board Service

To ensure proper engagement from our directors and effective functioning of our board, we have instituted certain limitations on service on the boards of other companies. In general, no director may serve on more than three other public company boards. The Directors and Corporate Governance Committee may approve exceptions if it determines that the additional service will not impair the director's effectiveness on the Lilly board.

Board Confidentiality Policy

The board has adopted a Confidentiality Policy, applicable to all current and future members of the board. The policy prohibits a director from sharing confidential information obtained in his or her role as a director with any third party except under limited circumstances where the director is seeking legal advice or is required by law to disclose information. The Confidentiality Policy can be viewed on the company's website: lilly.com/leadership/governance.

Leadership Structure; Oversight of Chairman, CEO, and Senior Management

Leadership Structure

Our board believes that there is no "one-size-fits-all" approach to board leadership and recognizes that one of its key responsibilities is to evaluate its optimal leadership structure to ensure both independent oversight of management and an engaged board with complementary qualities, perspectives, and experiences. The board regularly reviews its leadership structure and developments in the area of corporate governance to ensure that our chosen leadership structure continues to strike the appropriate balance for the company and our stakeholders and enables us to promote the long-term interests of our shareholders. Throughout 2020, the board continued its proactive assessment of board succession and refreshment and, after thoughtful consideration of our business, long-term strategy, and related risks, and the strong role of our lead independent director, the independent directors believe that combining the chairman and CEO roles, coupled with a strong lead independent director position, continues to be in the best interest of the company and our shareholders. The board believes that Mr. Ricks' extensive knowledge of, and experience in, the pharmaceutical industry enables him to effectively set the long-term strategic direction of the company and provide diligent, long-term leadership and direction for management and our board.

Mr. Luciano serves as the current lead independent director. Mr. Luciano is a strong lead independent director who fulfilled each of the duties below during the past year. As the CEO and president of Archer-Daniels-Midland Company, he brings valuable and diverse experience and outside perspective to his lead independent director role, which permits him to serve as a trusted adviser to Mr. Ricks and ensure effective board management.

In 2020, the independent directors, led by Mr. Luciano, met at each regularly scheduled board meeting in executive session to discuss various matters related to the oversight of the company, the management of the board's affairs, and the CEO's performance. We believe Mr. Luciano fosters an open and constructive dialogue during these sessions as well as during individual discussions with the independent directors. Mr. Luciano advises Mr. Ricks on the independent directors' discussions, including performance feedback.

Board Independence

The board has put in place a number of governance practices to ensure effective independent oversight, including:

- **Executive sessions of the independent directors:** Held after every regular board meeting and presided over by the lead independent director.

- **Annual performance evaluation of the chairman and CEO:** Conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee and independent directors in establishing the CEO's compensation for the next year.

- **A strong, independent, clearly defined lead independent director role:** The lead independent director's responsibilities include:
  - leading the board's processes for selecting the CEO
  - overseeing the independent directors' annual performance evaluation of the chairman and CEO
  - serving as a liaison between the chairman and the independent directors
  - presiding at all meetings of the board at which the chairman is not present
  - presiding at executive sessions of the independent directors
  - calling meetings of the independent directors, as appropriate
  - approving meeting agendas and schedules and reviewing information to be provided to the board
  - being available for consultation and direct communication with shareholders, as appropriate
  - together with the chairman and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process
  - together with the Directors and Corporate Governance Committee, leading the director succession planning process
  - retaining advisors for the independent directors, as appropriate.

- The independent directors and all committees have the ability to retain their own independent advisors, at the company's expense, whenever they deem it desirable to do so.

- The lead independent director is appointed annually by the board, which conducts an assessment of his or her performance as part of the annual board assessment process. Currently, Mr. Luciano is the lead independent director.

- **Director access to management and independent advisors:** Independent directors have direct access to members of management whenever they deem it necessary, and the company's executive officers attend part of each regularly scheduled board meeting.

CEO Succession Planning

The Compensation Committee, board, and CEO annually review the company's succession plans for the CEO and other key senior leadership positions. The independent directors also meet without the CEO to discuss CEO succession planning.

During these reviews, the CEO and directors discuss:

- future candidates for the CEO and other senior leadership positions
- succession timing
- development plans for the strongest candidates.

The independent directors and the CEO maintain a confidential plan for the timely and efficient transfer of the CEO's responsibilities in the event of an emergency or his sudden departure, incapacitation, or death.

The company ensures that the directors have multiple opportunities to interact with the company's top leadership talent in both formal and informal settings to allow them to most effectively assess the candidates' qualifications and capabilities.

Human Capital Management

Overview and Oversight

At Lilly, dedication to human capital management is a core component of our corporate governance and culture. Our comprehensive approach to human capital management is grounded in our core values of integrity, excellence, and respect for people, which reflect our commitment to creating a safe, supportive, ethical, and rewarding work environment.

The board exercises active oversight over our overall talent management process, including human capital management strategies, corporate culture, and D&I programs. The board also oversees the work of its committees in developing corporate policies and frameworks designed to attract, retain, engage, and develop a workforce that aligns with our values and mission. The Compensation Committee advises the board on human capital management and employee compensation and benefit matters, and annually reviews our leadership development, succession planning practices, and diversity efforts. The Directors and Corporate Governance Committee in turn identifies and brings to the attention of the board, as appropriate, current and emerging social, environmental, political, and governance trends and public policy issues that may affect our business operations, performance, or reputation.

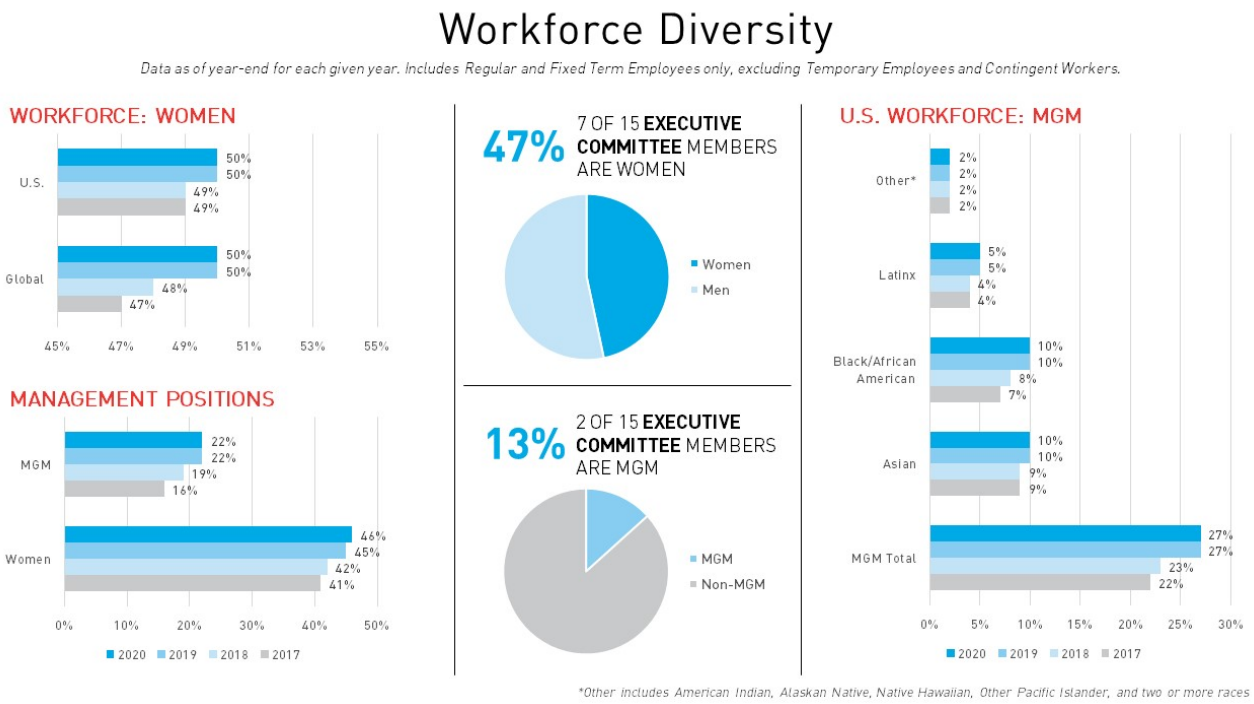
The board also oversees human capital management by regularly engaging with management and facilitating a system of reporting that highlights the importance of D&I to Lilly. For example, as part of our commitment to D&I, our board considers the contributions related to D&I of our CEO and other executive committee members when determining their compensation. Our board also oversees the activities of our CEO and executive committee in setting expectations for inclusive leadership and holding leaders accountable for building diverse and inclusive teams. Our CEO receives regular reports from Lilly's senior vice president for human resources and diversity. In addition, our chief D&I officer is a vice president who reports to the senior vice president for human resources and diversity, who is a member of our executive committee. We believe this system of oversight and reporting by the board and our key executives is critical to our success in fostering an inclusive, supportive, and rewarding workplace.

Measuring Progress on Diversity and Inclusion

We are committed to fairness and nondiscrimination in our employment practices, and we deeply value diverse backgrounds, skills, and global perspectives. To fulfill our purpose, we believe we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us. In short, our differences make a difference—to patients and to our business.

We believe that fostering D&I begins with understanding, and we have approached D&I with the same rigor as our other business-critical priorities. Our *Employee Journeys* research has yielded important insights about the experiences of women, Black/African American, Latinx, Asian, and LGBTQ employees at Lilly. In response to insights from our *Employee Journeys* research, we developed, among others, an education and awareness program to help build cultural literacy and understanding about conditions needed for employees to feel psychologically safe at work. More than 3,000 leaders and 13,000 employees have participated in required training to gain greater awareness of how unconscious bias and microaggressions can harm team cohesiveness and hurt employee engagement. Our *Employee Journeys* research has also resulted in growing energy around D&I, with a company-wide network of D&I champions, initiatives, and teams across business areas—and an expanding appreciation of the value of different perspectives. The results of this research

are reviewed by our senior leadership, and we deploy actions and activities in response to these insights to improve our workplace and corporate culture.



Since 2017, we have committed to increasing the number of women, Black/African American, Latinx, and Asian populations in leadership roles, and we actively monitor our progress. From the end of 2017 through the end of 2020, we increased the number of women in management globally from 41 percent to 46 percent. For MGM in the U.S. over the same period, we increased management representation from 16 percent to 22 percent. Across all levels of our workforce, from the end of 2017 through the end of 2020, we have seen increased representation for MGMs in the U.S. and women globally.

Our focus on D&I is also a critical component of our broader corporate governance. Seven of 15 members (approximately 47 percent) of our executive committee (which includes our CEO) are women and two are MGM, including one MGM woman. In addition, the company's 15 directors range in age from 48 to 71 and include six women and seven members of underrepresented groups (including MGM as well as LGBTQ individuals).

Recognition

At Lilly, we strive to be leaders in D&I and workplace benefits, and we are honored when we receive recognition for our dedicated efforts to improve the lives of our employees. Below are some of our accolades for 2020 and early 2021:

Ethisphere:
World's Most Ethical Companies

DiversityInc:
Top 50 Companies for Diversity: #3

Forbes:
America's Best Employers for Diversity

Forbes and JUST Capital:
Forbes JUST 100, America's Most JUST Companies

Human Rights Campaign Foundation (2020 and 2021):
Corporate Equality Index – Perfect Score

Newsweek
America's Most Responsible Companies

National Organization on Disability:
2020 Leading Disability Employer

Science Magazine:
Top Employers: #16

Working Mother Magazine:
100 Best Companies, Top 75 Companies for Executive Women, Best Companies for Dads, and Best Companies for Multicultural Women

Employee Development

We believe talent begins with the hiring process. We therefore require hiring managers to consider a diverse pool of candidates and we strive to provide a diverse panel of interviewers for open positions. We believe that hiring in this way helps ensure that people from all backgrounds have equal opportunity to advance their careers.

We offer training to enable our employees to perform their duties in our highly regulated industry. We also strive to cultivate a culture that promotes ongoing learning by encouraging employees to seek further education and growth experiences, helping them build rewarding careers. We have introduced online programming to facilitate access to our learning and development offerings. Many training courses are designed to improve accessibility for people with disabilities and other unique needs. Across Lilly, we are working to design learning experiences to be more inclusive and effective.

To further improve our talent programs and processes, in 2019, we introduced *Explore Your Career*, a global framework of tools and resources for our employees. We believe *Explore Your Career* provides broader access and transparency about career development and advancement at Lilly. In 2018, we introduced *Emerge*, a three-day program led by our CEO that is designed to develop MGM talent at Lilly, and three cohorts comprising Black/African American women, Latinx and Asian women, and MGM men have participated in this enterprise-level program since its inception. Lilly also offers established leadership development programs for women and earlier career multi-cultural talent, as well as leaders at all levels.

Employee resource groups (ERGs) are another important component of developing talent at Lilly. We currently have 10 ERGs representing groups including women, MGMs, LGBTQ individuals, and people with disabilities. ERGs offer our diverse workforce opportunities to build relationships, engage with senior leaders, advance our caring community, and offer unique insights and perspectives to improve our business. Membership in our ERGs continues to grow, with an estimated 11,430 people participating worldwide at the end of 2020.

In furtherance of our efforts to create an inclusive workplace, in 2020 we expanded *Make it Safe to Thrive*, an education and awareness program to help employees and leaders understand how individual psychological safety can be created and enhanced, with the goal of ensuring that all employees feel safe to speak up and to share their ideas at work. The program includes live and online training and a monthly video series.

Compensation, Benefits, and Pay Equity

While our rewards programs vary around the world, we take a holistic approach to employee benefits. These may include flexible work arrangements, on-site conveniences, such as cafes, fitness centers, child development centers, competitive time-off programs, retirement benefits, and health and disability programs that are available to eligible employees when they need support. We are committed to rewarding, supporting, and developing our employees who make it possible to fulfill our mission to unite caring with discovery to create medicines that make life better for people around the world.

We are also committed to ensuring pay is administered equitably across our workforce. For more than 20 years, we have regularly conducted pay equity studies of our workforce in the U.S. and have more recently started conducting studies of our workforce outside of the U.S. While infrequent, we have made pay adjustments as warranted based on these analyses. We believe that pay equity is critical to our success in supporting a global, diverse, and inclusive workforce.

Employee Health and Safety

Due to concerns regarding the ongoing COVID-19 pandemic, we have taken various measures to protect the health and safety of our employees, including instituting travel restrictions and work-from-home arrangements. For further information on the measures we have taken in response to COVID-19, see "Proxy Statement Summary—Our Response to COVID-19—Keeping Our Employees Safe and Healthy."

Board Education and Annual Performance Assessment

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

Every year, the Directors and Corporate Governance Committee, together with the chair and the lead independent director, conducts a robust assessment of the board's performance, board committee performance, and all board processes, based on input from all directors. We also conduct an annual assessment of each individual director's performance, and every three years we conduct a detailed review of individual director performance when considering whether to nominate the director to a new three-year term.

Conflicts of Interest and Transactions with Related Persons

Conflicts of Interest

Occasionally a director's business or personal relationships may give rise to an interest that conflicts, or appears to conflict, with the interests of the company. As outlined in the company's corporate governance guidelines, directors must disclose to the company all relationships that could create a conflict or an appearance of a conflict. The board, after consultation with counsel, takes appropriate steps to identify actual or apparent conflicts and ensure that all directors voting on an issue are disinterested with respect to that issue. A director may be excused from board discussions and decisions on an issue related to an actual or apparent conflict, as appropriate.

In addition, a director's relationship with Lilly may give rise to an interest that conflicts, or appears to conflict, with the interests of another company, institution, or other stakeholder. A director must disclose his or her relationship with Lilly in connection with any scientific publication, using the International Committee of Medical Journal Editors (ICMJE) conflict of interest form for this purpose when possible. Each director must disclose his or her service on the board to his or her employer and any other organization with which the director has a relationship of trust and where the relationship with the company is relevant. In addition, directors must follow the internal conflict of interest policies and procedures of each such organization.

Review and Approval of Transactions with Related Persons

The board has adopted a policy and procedures for review, approval, and monitoring of transactions involving the company and related persons (directors and executive officers, their immediate family members, or shareholders of more than five percent of the company's outstanding stock). The policy covers any related person transaction that meets the minimum threshold for disclosure in this proxy statement under relevant SEC rules (generally, transactions involving amounts exceeding $120,000 in which a related person has a direct or indirect material interest).

Policy:

Related person transactions must be approved by the board or by a committee of the board consisting solely of independent directors, who will approve the transaction only if the board or committee determines that it is in the best interests of the company. In considering the transaction, the board or committee will consider all relevant factors, including:

- the company's business rationale for entering into the transaction
- the alternatives to entering into a related person transaction
- whether the transaction is on terms comparable to those available to third parties, or in the case of employment relationships, to employees generally
- the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts
- the overall fairness of the transaction to the company.

Procedures:

- Management or the affected director or executive officer will bring the matter to the attention of the chairman, the lead independent director, the chair of the Directors and Corporate Governance Committee, or the General Counsel and Secretary.
- The chairman and the lead independent director shall jointly determine (or, if either is involved in the transaction, the other shall determine in consultation with the chair of the Directors and the Corporate Governance Committee) whether the matter should be considered by the board or by one of its existing committees consisting only of independent directors.
- If a director is involved in the transaction, he or she will be recused from all discussions and decisions about the transaction.
- The transaction must be approved in advance whenever practicable, and if not practicable, must be ratified, if appropriate, as promptly as practicable.
- The board or relevant committee will review the transaction annually to determine whether it continues to be in the company's best interests.

In 2020, there were no related party transactions required to be reported pursuant to relevant SEC rules in this proxy statement.

Communication with the Board of Directors

You may send written communications to members of the board, including independent directors, addressed to:

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

Shareholder Engagement on Governance Issues

To ensure that a diversity of perspectives is thoughtfully considered on a number of issues, each year the company engages large shareholders and other key constituents to discuss areas of interest or concern related to corporate governance, as well as any specific issues for the coming proxy season. Since our 2020 annual meeting of shareholders, we have spoken with a number of investors on an array of subjects, including board leadership; environmental, social, and governance topics; drug pricing transparency and global access to our products, including our COVID-19 therapies; product quality and safety; key enterprise risks; executive compensation; and human capital management. Given the significant challenges the world faced in 2020, we appreciate now more than ever the thoughtful and constructive feedback that we receive from our stakeholders. While a few shareholders communicated differing views on some of our governance practices, the investors with whom we spoke were generally supportive of our performance and overall compensation and governance policies. This feedback has been discussed with our chairman and CEO, the lead independent director, our Compensation Committee, Ethics and Compliance Committee, and our Directors and Corporate Governance Committee, and it was a key input into board discussions on corporate governance topics. As a result of these discussions and its own deliberations, the board decided to recommend in favor of the two management proposals described below. We are committed to continuing to engage with our investors to ensure their diverse perspectives on corporate governance and other issues are thoughtfully considered.

Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements

Each year between 2007 and 2012, and again in 2018, 2019, and 2020, our management put forward proposals to eliminate the company's classified board structure. The proposals did not pass because they failed to receive a "supermajority vote" of 80 percent of the outstanding shares of our common stock, as required in the company's articles of incorporation. In addition, in 2010, 2011, 2012, 2018, 2019, and 2020, we submitted management proposals to eliminate the supermajority voting requirements themselves. Those proposals also did not receive the required 80 percent vote.

Prior to 2012, these proposals received support ranging from 72 to 77 percent of our outstanding shares. In 2012, the vote in support of these proposals was approximately 63 percent of our outstanding shares, driven in part by a 2012 NYSE rule revision prohibiting brokers from voting their clients' shares on corporate governance matters absent specific instructions from such clients. In 2018, 2019, and 2020, the vote in support was approximately 62, 66, and 69 percent of our outstanding shares, respectively.

After considering the interests of the company and our shareholders, we have resubmitted management proposals to eliminate the classified board and supermajority voting requirements for consideration at the Annual Meeting (see Items 4 and 5). We will continue to engage with our shareholders on these and other topics to ensure that we continue to demonstrate strong corporate governance and accountability to shareholders.

Shareholder Proposals

If a shareholder wishes to have a proposal considered for inclusion in next year's proxy statement, he or she must submit the proposal in writing so that we receive it by November 19, 2021. Proposals should be addressed to the General Counsel and Secretary and mailed to Lilly Corporate Center, Indianapolis, IN 46285. For convenience, emailed copies may also be sent to shareholderproposals@lilly.com. In addition, the company's bylaws provide that any shareholder wishing to propose any other business at the 2022 annual meeting of shareholders must give the company written notice by November 19, 2021, and no earlier than September 20, 2021. That notice must provide certain other information as described in the bylaws. A copy of the bylaws is available online at lilly.com/leadership/governance.

Shareholder Recommendations and Nominations for Director Candidates

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

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

The candidate must meet the selection criteria described above under "Governance—Director Qualifications and Nomination Process—Director Qualifications" and must be willing and expressly interested in serving on the board.

Under Section 1.9 of the company's bylaws, a shareholder who wishes to directly nominate a director candidate at the 2022 annual meeting of shareholders (i.e., to propose a candidate for election who is not otherwise nominated by the board through the recommendation process described above) must give the company written notice by November 19, 2021, and no earlier than September 20, 2021. The notice should be addressed to the General Counsel and Secretary at the address provided above. The notice must contain prescribed information about the candidate and about the shareholder proposing the candidate as described in more detail in Section 1.9 of the bylaws. A copy of the bylaws is available online at lilly.com/leadership/governance.

We know of no other matters to be submitted to shareholders at the Annual Meeting other than the proposals referred to in this proxy statement.

Ownership of Company Stock

Common Stock Ownership by Directors and Executive Officers

The following table sets forth the number of shares of company common stock beneficially owned by the directors, the named executive officers, and all directors and executive officers as a group, as of February 12, 2021. On February 12, 2021, there were 958,425,693 shares of the company's common stock outstanding. None of the stock or stock units owned by any of the listed individuals has been pledged as collateral for a loan or other obligation.

	Common Stock [1]			
Beneficial Owners	Shares Owned [2]	Stock Units Distributable Within 60 Days [3]	Percent of Class	Stock Units Not Distributable Within 60 Days [4]
Ralph Alvarez	—	—	*	49,145
Katherine Baicker, Ph.D.	—	—	*	20,398
Carolyn R Bertozzi, Ph.D.	—	—	*	6,267
Michael L. Eskew	—	—	*	43,904
J. Erik Fyrwald	100	—	*	67,025
Anat Hakim	—	7,928	*	7,929
Jamere Jackson	—	—	*	7,009
Kimberly H. Johnson	—	—	*	—
William G. Kaelin, Jr., M.D.	—	—	*	18,813
Juan R. Luciano	—	—	*	12,619
David A. Ricks	462,924 [5]	—	*	56,205
Marschall S. Runge, M.D., Ph.D.	—	—	*	14,341
Kathi P. Seifert	3,533	—	*	73,838
Daniel Skovronsky, M.D., Ph.D.	115,680	—	*	18,735
Joshua L. Smiley	79,819 [6]	—	*	—
Gabrielle Sulzberger	—	—	*	—
Jackson P. Tai	45,570	—	*	14,170
Karen Walker	—	—	*	4,224
Alfonso G. Zulueta	61,634	—	*	10,706
All directors and executive officers as a group (30 people):	**1,229,181**	**7,928**	*	**480,586**

* Less than 1.0 percent of the outstanding common stock of the company.

[1] The sum of the "Shares Owned" and "Stock Units Distributable Within 60 Days" columns represents the shares considered "beneficially owned" for purposes of disclosure in this proxy statement. Unless otherwise indicated in a footnote, each person listed in the table possesses sole voting and sole investment power with respect to their shares.

[2] This column includes the number of shares of common stock held individually as well as the number of 401(k) Plan shares held by the beneficial owners indirectly through the 401(k) Plan.

[3] This column sets forth restricted stock units that vest within 60 days of February 12, 2021.

[4] For the executive officers, this column reflects restricted stock units that will not vest within 60 days of February 12, 2021. For the non-employee directors, this column reflects the number of units representing the right to receive shares of company stock credited to the directors' accounts in the Lilly Directors' Deferral Plan.

[5] The shares shown for Mr. Ricks include 15,720 shares that are owned by a family foundation for which he is a director. Mr. Ricks has shared voting power and shared investment power with respect to the shares held by the foundation.

[6] Mr. Smiley resigned from his officer position on February 9, 2021. His shares are included in the total for all directors and officers as a group based on Mr. Smiley's Form 4 filed on February 10, 2021.

Common Stock Ownership of Certain Beneficial Holders

The following table sets forth the number of shares of company common stock beneficially owned as of December 31, 2020, unless otherwise indicated, by each person known to the company to beneficially own more than 5 percent of the outstanding shares of the company's common stock:

Name and Address	Number of Shares Beneficially Owned	Percent of Class*
Lilly Endowment Inc. (the Endowment)[1] 2801 North Meridian Street Indianapolis, IN 46208	111,132,343	11.6%
The Vanguard Group[2] 100 Vanguard Blvd. Malvern, PA 19355	68,661,494	7.2%
BlackRock, Inc.[3] 55 East 52nd Street New York, NY 10055	58,811,768	6.1%
The PNC Financial Services Group, Inc.[4] 101 W Washington St. Indianapolis, IN 46255	52,012,151	5.4%

*Percent of class is calculated based on the shares of our common stock outstanding as of February 12, 2021.

[1] Based on information provided to Lilly by the Endowment as of January 12, 2021 and a Schedule 13G/A filed by the Endowment with the SEC on January 21, 2021, the Endowment has sole voting and sole dispositive power with respect to all of its shares. The board of directors of the Endowment is composed of N. Clay Robbins, chairman, president & CEO; Mary K. Lisher; William G. Enright; Daniel P. Carmichael; Charles E. Golden; Eli Lilly II; David N. Shane; Craig Dykstra; Jennett M. Hill; and John C. Lechleiter.

[2] Based solely on the Schedule 13G/A filed with the SEC on February 10, 2021 by The Vanguard Group, it beneficially owns 68,661,494 shares altogether. It does not have sole voting power with respect to any of its shares and it has shared voting power with respect to 1,463,329 of its shares. It has sole dispositive power with respect to 64,975,145 of its shares and shared dispositive power with respect to 3,686,349 of its shares.

[3] Based solely on the Schedule 13G/A filed with the SEC on January 29, 2021 by BlackRock, Inc., it has sole voting power with respect to 51,122,422 of its shares and sole dispositive power with respect to 58,811,768 shares.

[4] Based solely on the Schedule 13G/A filed with the SEC on February 12, 2021 by The PNC Financial Services Group, Inc.; PNC Bancorp, Inc.; PNC Bank, National Association (PNC Bank); PNC Capital Advisors, LLC; PNC Delaware Trust Company; and PNC Investments LLC (collectively, PNC), PNC beneficially owns 52,012,151 shares altogether. PNC has sole voting power with respect to 1,948,954 of its shares and shared voting power with respect to 50,001,182 of its shares. PNC has sole dispositive power with respect to 1,596,522 of its shares and shared dispositive power with respect to 50,374,248 of its shares. Of the total shares of common stock reported for PNC above, 50,000,000 shares are held in the Eli Lilly and Company Compensation Trust account for which PNC Bank serves as directed trustee. As directed trustee, PNC Bank is deemed to share both voting power and investment discretion with respect to those 50,000,000 shares.

Compensation

Item 2. Advisory Vote on Compensation Paid to Named Executive Officers

Section 14A of the Securities Exchange Act of 1934 provides the company's shareholders with the opportunity to approve, on an advisory basis, the compensation of the company's named executive officers as disclosed in the proxy statement. Our compensation philosophy is designed to attract, engage, and retain highly talented individuals from a variety of backgrounds and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing the company's core values of integrity, excellence, and respect for people.

The Compensation Committee and the board believe that our executive compensation aligns well with our philosophy and with corporate performance. Executive compensation is an important matter for our shareholders. We routinely review our compensation practices and engage in ongoing dialogue with our shareholders to ensure our practices are aligned with stakeholder interests and reflect best practices.

We request shareholder approval, on an advisory basis, of the compensation of the company's named executive officers as disclosed in this proxy statement. As an advisory vote, this proposal is not binding on the company. However, the Compensation Committee values input from shareholders and will consider the outcome of the vote when making future

executive compensation decisions. At our 2017 annual meeting of shareholders, our shareholders expressed a preference that advisory votes on executive compensation occur every year, as recommended by our board. Consistent with this preference, the board determined that the company would hold advisory votes on executive compensation on an annual basis until the next advisory vote on the frequency of advisory votes on executive compensation, which will occur no later than our 2023 annual meeting of shareholders.

Board Recommendation on Item 2

The board recommends that you vote FOR the approval, on an advisory basis, of the compensation paid to the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the CD&A, the compensation tables, and related narratives provided below in this proxy statement.

Compensation Committee Matters

Background

Role of the Independent Consultant in Assessing Executive Compensation

The Compensation Committee has retained Frederic W. Cook & Co., Inc. (FW Cook) as its independent compensation consultant. FW Cook reports directly to the Compensation Committee, and it is not permitted to have any business or personal relationship with management or members of the Compensation Committee. The consultant's responsibilities are to:

- review the company's total compensation philosophy, peer group, and target competitive positioning for reasonableness and appropriateness
- review the company's executive compensation program and advise the Compensation Committee of evolving best practices
- provide independent analyses and recommendations to the Compensation Committee on the CEO's pay
- review the draft CD&A and related tables for the proxy statement
- proactively advise the Compensation Committee on best practices for board governance of executive compensation
- undertake special projects at the request of the Compensation Committee chair.

FW Cook interacts directly with members of company management only on matters under the Compensation Committee's oversight and with the knowledge and permission of the Compensation Committee chair.

Role of Executive Officers and Management in Assessing Executive Compensation

With the oversight of the CEO and the senior vice president of human resources and diversity, the company's global compensation group formulates recommendations on compensation philosophy, plan design, and compensation for executive officers (other than the CEO, as noted below). The CEO provides the Compensation Committee with a performance assessment and compensation recommendation for each of the other executive officers. The Compensation Committee considers those recommendations with the assistance of its compensation consultant. The CEO and the senior vice president of human resources and diversity attend Compensation Committee meetings; they are not present for executive sessions or any discussion of their own compensation. Only non-employee directors and the Compensation Committee's consultant attend executive sessions.

The CEO does not participate in the formulation or discussion of his pay recommendations. He has no prior knowledge of the recommendations that the consultant makes to the Compensation Committee.

Risk Assessment Process

As part of the company's overall enterprise risk management program, in 2020 (consistent with prior years), the Compensation Committee reviewed the company's compensation policies and practices and concluded that the programs and practices are not reasonably likely to have a material adverse effect on the company. The Compensation Committee noted numerous policy and design features of the company's compensation programs and governance structure that reduce the likelihood of inappropriate risk-taking, including, but not limited to:

- Only independent directors serve on the Compensation Committee
- The Compensation Committee engages its own independent compensation consultant
- The Compensation Committee has downward discretion to lower compensation plan payouts
- The Compensation Committee approves all adjustments to financial results that affect compensation calculations
- Different measures and metrics are used across multiple incentive plans that appropriately balance cash/stock, fixed/variable pay, and short-term/long-term incentives
- Incentive plans have predetermined maximum payouts
- Performance objectives are challenging but achievable

- Programs with operational metrics have a continuum of payout multiples based upon achievement of performance milestones, rather than "cliffs" that might encourage suboptimal or improper behavior
- A compensation recovery policy is in place for all members of senior management; negative compensation consequences can result in cases involving serious compliance violations
- Meaningful share ownership and retention requirements are in place for all members of senior management and the board.

Compensation Committee Report

The Compensation Committee evaluates and establishes compensation for executive officers and oversees the deferred compensation plan, management stock plans, and other management incentive and benefit programs. Management has the primary responsibility for the company's financial statements and reporting process, including the disclosure of executive compensation in the CD&A. With this in mind, the Compensation Committee has reviewed and discussed the CD&A with management. Based on this discussion, the Compensation Committee recommended to the board that the CD&A be included in this proxy statement and the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, for filing with the SEC.

Compensation Committee

Ralph Alvarez, Chair
J. Erik Fyrwald
Juan R. Luciano
Kathi P. Seifert
Karen Walker

Compensation Discussion and Analysis

This CD&A describes our executive compensation philosophy, the Compensation Committee's process for setting executive compensation, the elements of our compensation program, the factors the Compensation Committee considered when setting executive compensation for 2020, and how the company's results affected incentive payouts. This CD&A provides compensation information for our CEO, David Ricks, our former chief financial officer, Joshua Smiley, who resigned from his officer position on February 9, 2021, and the three other most highly compensated executive officers who were serving as executive officers on December 31, 2020, Daniel Skovronsky, Anat Hakim, and Alfonso Zulueta.

	Name, age* and principal occupation
	**David A. Ricks, 53** Chairman, President and CEO
	**Joshua L. Smiley, 51** Former Senior Vice President and Chief Financial Officer
	**Daniel Skovronsky, M.D., Ph.D., 47** Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories
	**Anat Hakim, 52** Senior Vice President, General Counsel and Secretary
	**Alfonso G. Zulueta, 58** Senior Vice President and President, Lilly International

*Age is as of the date of this proxy statement.

Our Philosophy on Compensation

At Lilly, our purpose is to unite caring with discovery to create medicines that make life better for people around the world. To do this, we must attract, engage, and retain highly talented individuals from a variety of backgrounds and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing the company's core values of integrity, excellence, and respect for people. Our compensation programs are designed to help us achieve these goals while balancing the long-term interests of our shareholders and customers.

Objectives

Our compensation and benefits programs are based on the following objectives:

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

- **Attract and retain talented employees:** Compensation opportunity is market competitive and reflects the level of job impact and responsibilities. Retention of talent is an important factor in the design of our compensation and benefit programs.

- **Implement broad-based programs:** While the amount of compensation paid to employees varies, the overall structure of our compensation and benefit programs is broadly similar across the organization to encourage and reward all employees who contribute to our success.

- **Consider shareholder input:** Management and the Compensation Committee consider the results of our annual say-on-pay vote and other sources of shareholder feedback when designing executive compensation and benefit programs.

Say-on-Pay Results for 2020

At our 2020 annual meeting of shareholders, approximately 97 percent of the shares cast voted in favor of the company's say-on-pay proposal on executive compensation. Management and the Compensation Committee view this vote as supportive of the company's overall approach toward executive compensation.

Compensation Committee's Processes and Analyses

Setting Compensation

The Compensation Committee considers individual performance assessments, compensation recommendations from the CEO (with respect to each of the other executive officers), company performance, peer group data, input from its compensation consultant, and its own judgment when determining compensation for the company's executive officers.

- **Individual performance:** Generally, the independent directors, under the direction of the lead independent director, meet with the CEO at the beginning of each year to establish the CEO's performance objectives. At the end of the year, the independent directors meet to assess the CEO's achievement of those objectives along with other factors, including contribution to the company's performance, diversity, ethics, and integrity. This evaluation is used in setting the CEO's compensation opportunity for the next year.

  The Compensation Committee receives individual performance assessments and target compensation recommendations from the CEO for each of the remaining executive officers. Each executive officer's performance assessment is based on the achievement of objectives established at the start of the year, as well as other factors, including contribution to the company's performance, diversity, ethics, and integrity. The Compensation Committee considers these inputs, its knowledge of and interactions with each executive officer, and its judgment to develop a final individual performance assessment. For new executive officers, target compensation is set by the Compensation Committee at the time of promotion or offer.

- **Company performance:** Lilly performance is considered in multiple ways:
  - Overall performance for the prior year based on a variety of metrics is a factor in establishing target compensation for the coming year.
  - At the beginning of each calendar year, annual performance goals are established and approved by the committee. Performance against these annual goals is used to determine the short-term cash incentive payout.
  - Prior to the annual grant, multi-year performance goals are established and approved by the committee. Performance against these multi-year objectives is used to determine the long-term incentive equity payout.

- **Peer group analysis:** The Compensation Committee uses data from the peer group described below as a market check for compensation decisions but does not use this data as the sole basis for its compensation targets and does not target a specific position within that range of market data.

- **Input from independent compensation consultant concerning executive pay:** The Compensation Committee considers the advice of its independent compensation consultant, FW Cook, when setting executive officer compensation.

Competitive Pay Assessment

Lilly's peer group is composed of companies that directly compete with Lilly, use a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. The Compensation Committee selects a peer group whose median market cap and revenue are broadly similar to Lilly's. The Compensation Committee reviews the peer group at least every three years. The Compensation Committee established the following peer group in May 2018 for purposes of assessing competitive pay:

AbbVie	Celgene*	Novo Nordisk
Allergan	Gilead	Pfizer
Amgen	GlaxoSmithKline	Roche
AstraZeneca	Johnson & Johnson	Sanofi
Biogen	Merck	Shire*
Bristol-Myers Squibb	Novartis	Takeda

*Market data unavailable for assessing competitive 2020 pay due to business mergers.

At the time of the review in May 2018, all peer companies were no greater than two times our revenue or market cap except Johnson & Johnson, Novartis, Pfizer, and Roche. The Compensation Committee included these four companies despite their size because they compete directly with Lilly, have similar business models, and seek to hire from the same pool of management and scientific talent.

When determining pay levels for target compensation, the Compensation Committee considers an analysis of peer group pay for each executive officer position (except CEO), along with internal factors such as the performance and experience of each executive officer. The independent compensation consultant for the Compensation Committee provides a similar analysis when recommending pay levels for the CEO. The CEO analysis includes a comparison of our CEO actual total direct compensation in the prior year to company performance on an absolute basis and on a relative basis to the peer group. The analysis also includes a comparison of current target total direct compensation for our CEO to the most recently available data on CEO target total direct compensation for our peer companies. On average, the named executive officer's target total direct compensation for 2020 was below the median of the peer group, which reflects several named executive officers being relatively new to their roles.

Components of Our Compensation

Our 2020 executive compensation was primarily composed of three components:

- base salary
- annual cash bonus, which is generally based on company performance relative to internal targets for revenue, EPS, and the progress of our pipeline
- three different forms of equity incentives:
  - performance awards, which are performance-based equity awards that vest over three years and have a performance component measuring the company's two-year change in EPS relative to the expected peer group change followed by a 13-month service-vesting period
  - shareholder value awards, which are performance-based equity awards that pay out based on absolute company stock price growth measured over a three-year period, followed by a one-year holding period
  - relative value awards, which are performance-based equity awards that pay out based on company TSR results relative to peers measured over a three-year period, followed by a one-year holding period.

Executives also receive a company benefits package, described below under "Other Compensation Practices and Information—Employee Benefits."

Adjustments to Reported Financial Results

The Compensation Committee has authority to adjust the company's reported revenue and EPS upon which incentive compensation payouts are determined to eliminate the distorting effect of unusual income or expense items. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items in the award year

- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

The Compensation Committee considers the adjustments approved by the Audit Committee for reporting non-GAAP EPS and other adjustments, based on guidelines approved by the Compensation Committee prior to the performance period. The Compensation Committee reviews and approves adjustments on a quarterly basis and may adjust payouts for items, including but not limited to, the impact of significant acquisitions or divestitures, the impact of share repurchases that differ significantly from business plan, gains and losses on investments in equity securities that differ significantly from business plan, and large swings in foreign exchange rates. Further details on the adjustments for 2020 and the rationale for making these adjustments are set forth in Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award." For ease of reference, throughout the CD&A and the other compensation disclosures, we refer simply to "revenue" and "EPS," but we encourage you to review the information in Appendix A to understand the adjustments from reported revenue and EPS that were approved.

The Compensation Committee also has general authority to apply downward (but not upward) discretion to bonus, performance award, shareholder value award, and relative value award payouts for individual executive officers.

1. Base Salary

In setting salaries, Lilly seeks to retain, motivate, and reward successful performers while maintaining affordability within the company's business plan. Base salaries are reviewed and established annually and may be adjusted upon promotion, following a change in job responsibilities, or to maintain market competitiveness. Salaries are based on each person's level of contribution, responsibility, expertise, and competitiveness and are compared annually with peer group data.

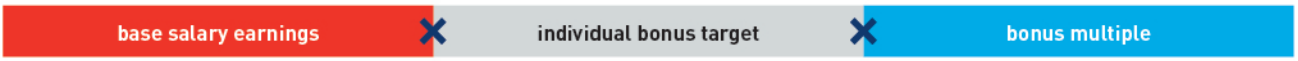
Base salary increases for 2020 were established based upon a corporate budget for salary increases, which is set considering company performance over the prior year, expected company performance for the following year, and general external trends.

2. Annual Cash Bonus

The Bonus Plan is designed to reward the achievement of the company's annual financial and innovation objectives. All the named executive officers participated in the Bonus Plan during 2020.

Bonus Plan

The Compensation Committee sets performance goals and individual bonus targets for the Bonus Plan at the beginning of each year. The bonus is based on three areas of company performance measured relative to internal targets: revenue, EPS, and innovation progress. The annual cash bonus payout is calculated as follows:



Actual payouts can range from 0 to 200 percent of an individual's bonus target. The Compensation Committee references the annual operating plan and pipeline objectives to establish performance targets and to assess the relative weighting for each objective. The 2020 weightings remain unchanged from the prior year:

Lilly Goals	Weighting
Revenue performance	25%
EPS performance	50%
Pipeline progress	25%

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

3. Equity Incentives

The company grants three types of equity incentives to executives and certain other employees: performance awards that are designed to focus leaders on multi-year operational performance relative to peer companies, shareholder value awards that are intended to align earned compensation with long-term growth in shareholder value, and relative value awards which encourage TSR outperformance within our industry. These awards, when considered together, align with shareholder interests by incenting long-term operational excellence, shareholder return and peer company outperformance without encouraging excessive risk-taking behaviors. The Compensation Committee has the discretion to adjust any payout from an equity award granted to an executive officer downward (but not upward) from the amount yielded by the applicable formula.

Performance Awards

Performance awards vest over three years. Payouts are based on achieving EPS growth targets over a two-year performance period, followed by an additional 13-month service-vesting period for executive officers, during which the award is held in the form of restricted stock units. The growth-rate targets are set relative to the median expected EPS growth for our peer group over the same performance period. These awards do not accumulate dividends during the two-year performance period, but they do accumulate dividend equivalent units during the service-vesting period.

The Compensation Committee believes EPS growth is an effective measure of operational performance because it is closely linked to shareholder value, is broadly communicated to the public, is understood by Lilly employees, and allows for objective comparisons to performance of Lilly's peer group. Consistent with the objectives established by the Compensation Committee, Lilly company performance exceeding the expected peer group median results in above-target payouts, while Lilly company performance lagging the expected peer group median results in below-target payouts. Possible payouts range from 0 percent to 175 percent of the target number of shares, depending on Lilly EPS growth over the performance period.

The measure of EPS used in the performance award program differs from the measure used in the Bonus Plan in two ways. First, the EPS goal in the Bonus Plan is set with reference to internal goals that align to our annual operating plan for the year, while the EPS goal in the performance award program is set based on the expected growth rates of our peer group. Second, the Bonus Plan measures EPS over a one-year period, while the performance award program measures EPS over a two-year period. In a given year, the Bonus Plan may pay above target while the performance award pays below target (or vice versa).

Shareholder Value Awards

Shareholder value awards are earned based on Lilly's share price performance. Shareholder value awards pay above target if Lilly's stock outperforms an expected rate of return and below target if Lilly's stock underperforms that expected rate of return. The expected rate of return is based on the three-year TSR that a reasonable investor would consider appropriate when investing in a basket of large-cap U.S. companies, as determined by the Compensation Committee. The minimum price to achieve target is calculated by multiplying the starting share price of Lilly's stock by the three-year compounded expected rate of return less Lilly's dividend yield. Shareholder value awards have a three-year performance period, and any shares paid are subject to a one-year holding requirement. No dividends are accrued during the performance period. Executive officers receive no payout if Lilly's TSR for the three-year period is zero or negative. Possible payouts are based on share price growth and range from 0 to 175 percent of the target number of shares.

In prior years, shareholder value awards were subject to modification by +/– 20 percent based on Lilly's relative TSR versus peer companies over the performance period. Starting in 2020, this modifier was eliminated in favor of grants of a separate award tied to relative TSR (see "Relative Value Awards" below).

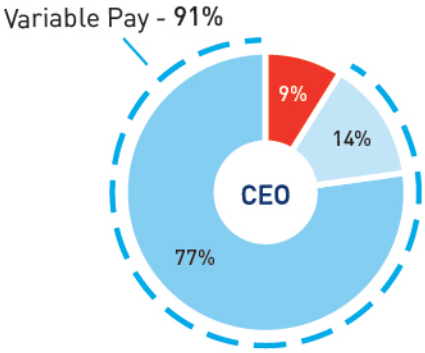
Relative Value Awards

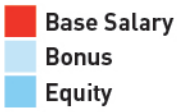
Relative value awards are earned based on Lilly's TSR performance relative to industry peers. The minimum performance to achieve target is a TSR that is equal to the median TSR performance for the peer group. Relative value awards have a three-year performance period, and any shares paid are subject to a one-year holding requirement. No dividends are accrued during the performance period. Executive officers receive no payout if Lilly's TSR for the three-year period is 30 or more percentage points below the median TSR performance for the peer group over the same time period. Possible payouts range from 0 to 175 percent of the target number of shares.

Pay for Performance

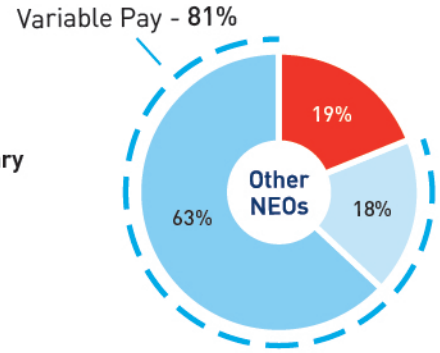
The mix of compensation for our named executive officers reflects Lilly's desire to link executive compensation with individual and company performance. As reflected in the charts below, a substantial portion of the target pay for executive officers is performance-based. The annual cash bonus and equity payouts are contingent upon company performance, with the bonus factoring in performance over a one-year period, and equity compensation factoring in performance over multi-year periods (as described above). The charts below depict the annualized mix of target compensation for Lilly's CEO and the average for the other named executive officers (including Mr. Smiley).

CEO 2020 Target Compensation Mix





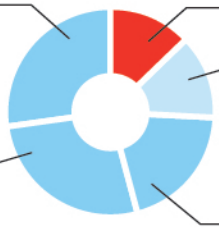
Other Named Executive Officers (NEOs) 2020 Target Compensation Mix



COMPENSATION DETAILS

Shareholder Value Award
- Promotes delivery of shareholder returns
- Measures 3-year stock price appreciation
- No payout occurs if TSR performance is less than or equal to 0%
- Payouts must be held for at least 1 year

Relative Value Award
- Encourages relative outperformance within the industry
- Measures 3-year relative TSR performance compared to peers
- Payouts must be held for at least 1 year



Base Salary
- Encourages talent attraction and retention

Bonus
- Drives annual financial performance and pipeline progression
- Measures revenue and non-GAAP EPS compared to business plan and pipeline progress against internal objectives

Performance Award
- Rewards efficient business execution
- Measures 2-year non-GAAP EPS growth vs. projected peer non-GAAP EPS growth
- Includes an additional 13-month service vesting period

2020 Target Total Compensation

Performance Review Process

In setting 2020 target compensation for the named executive officers, the Compensation Committee considered individual contributions, Lilly performance during 2019, internal relativity, peer group data, and input from the CEO for named executive officers other than himself.

2020 Evaluation of Individual Named Executive Officer Performance

A summary of the Compensation Committee's review of individual named executive officer performance in 2019 that influenced decisions on 2020 target compensation for these executives is provided below:

David Ricks, Chairman, President, and CEO: In accordance with the company's Corporate Governance Guidelines, the independent directors conducted an assessment of Mr. Ricks' performance led by the lead independent director. The independent directors believe the company largely met or exceeded its combined financial and strategic goals for 2019 under Mr. Ricks' leadership. In 2019, Mr. Ricks and his team:

- delivered on the company's financial commitments despite the withdrawal of Lartruvo® (olaratumab) globally in the first quarter of 2019
- launched BAQSIMI® (glucagon), a new form of glucagon for diabetes, and received approval for Reyvow® in the United States. Additionally, 15 new medicines were launched to patients in Europe, Japan, and the rest of world, including three launches in China: Trulicity, Olumiant, and Taltz
- progressed 16 potential new medicines into Phase I clinical development from both internal research efforts and external sources
- continued to drive a cross-company productivity agenda resulting in savings that funded increased investment in research and development and achieved planned capital return to shareholders
- completed the divestiture of Elanco
- completed the acquisition of Loxo Oncology, Inc. (Loxo), the largest acquisition in the company's history and submitted selpercatinib (also known as Loxo 292) to the FDA for the treatment of metastatic rearranged during transfection (RET) fusion-positive non-small cell lung cancer and thyroid cancer
- implemented a strategy that improved D&I across the company, increased the representation of women and minorities in management, and conducted pay equity studies to ensure equality in pay. The company was recognized for its efforts by receiving the Catalyst award recognizing our initiatives for workplace gender equity and was ranked #3 on the Diversity Inc. top 50 companies list
- improved certain environmental performance areas, such as greenhouse gas emissions, energy efficiency, waste efficiency, and wastewater
- initiated work to refresh our long-term goals for environmental, safety, and governance to ensure the company is fulfilling its objectives in these areas.

In addition, the company was named one of the world's most ethical companies by the Ethisphere Institute.

Daniel Skovronsky, M.D., Ph.D., Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories: Dr. Skovronsky advanced innovation for patients during his first full year as the company's chief scientific officer. His contributions in 2019 include:

- advanced innovative medicines through the product pipeline including the first approval Baqsimi, a new form of glucagon for diabetes, and Reyvow for treatment of acute migraine in the United States. The company also achieved approval for 15 new medicines for patients in Europe, Japan and the rest of world including three launches in China: Trulicity, Olumiant, and Taltz
- co-led the acquisition of Loxo, the largest acquisition in the company's history
- sped research resulting in 16 potential new medicines advancing to Phase I clinical development including both internally discovered molecules and molecules sourced externally via business development, the most the company has achieved in more than a decade
- enhanced strategies to further reduce the time drug candidates spend in development, leading to earlier product launch
- led Lilly's external research efforts, including expansion of key research hubs in New York, Boston and San Francisco
- led D&I strategies in research and development to improve innovation and productivity; acted as executive sponsor of Lilly's Japanese Network, an employee resource group focused on supporting and advancing people of Japanese heritage in the company.

Anat Hakim, Senior Vice President, General Counsel and Secretary: Ms. Hakim joined Lilly as senior vice president and general counsel in February 2020. In October 2020, Ms. Hakim was elected secretary by the board, thereby changing her title to senior vice president, general counsel and secretary. Prior to joining Lilly, Ms. Hakim served as executive vice president, general counsel and secretary of WellCare Health Plans. Ms. Hakim began her career at Latham & Watkins LLP after earning her law degree from Harvard University. She later moved to Foley & Lardner LLP. In 2010 she joined Abbott Laboratories (Abbott) as divisional vice president and associate general counsel for intellectual property litigation supporting Abbott's pharmaceutical business; in 2013, she was named associate general counsel for litigation. Ms. Hakim was recognized as general counsel of the year in 2019 by Corporate Counsel for her work at WellCare Health Plans.

Alfonso Zulueta, Senior Vice President and President, Lilly International: Mr. Zulueta demonstrated strong leadership of Lilly International and across the company. In 2019, he:

- delivered strong financial results from volume driven growth across multiple therapeutic areas including diabetes, immunology, and oncology
- successfully launched numerous products in multiple countries and therapeutic areas, resulting in strong product market shares
- built new capabilities with digital technologies to meet customer needs
- drove a productivity agenda across Lilly International

- championed and completed several business development arrangements to maximize the Lilly portfolio
- served as executive sponsor of Organization of Latinx at Lilly (OLA), the company's employee resource group focused on supporting and advancing the development of Latinx employees across the company.

In addition to the performance evaluations of the named executive officers above, the Compensation Committee reviewed Mr. Smiley's performance, and determined that Mr. Smiley contributed to the strong financial performance of the company in 2019, including the completion of the Elanco divestiture, the acquisition of Loxo, and partnerships with business unit presidents and our chief scientific officer to drive resource allocation. In connection with Mr. Smiley's resignation as an officer on February 9, 2021, and because the performance-based elements of Mr. Smiley's total compensation package had not yet been paid, the Compensation Committee took action to reduce his 2020 Bonus Plan payout to zero, reduce his 2018-2020 shareholder value award, and cancel all of his other outstanding equity incentive awards granted in 2019 and 2020. See "Compensation Recovery Policy" as well as the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

2020 Target Compensation

The information below reflects total compensation at target for named executive officers for 2020. The actual compensation received in 2020 is summarized below in "2020 Compensation Results."

Rationale for Changes to Named Executive Officer Target Compensation

The Compensation Committee established the 2020 target total compensation for each named executive officer, except Ms. Hakim, based on the named executive officer's 2019 performance, internal relativity, and peer group data. The Compensation Committee approved Ms. Hakim's target total compensation upon her hire in February 2020. In connection with Mr. Smiley's resignation as an officer on February 9, 2021, and because the performance-based elements of Mr. Smiley's total compensation package had not yet been paid, the Compensation Committee took action to reduce his 2020 Bonus Plan payout to zero, reduce his 2018-2020 shareholder value award, and cancel his other outstanding equity incentive awards.

The Compensation Committee used the terms of the applicable award agreements to take these actions, which give authority to the Compensation Committee to reduce payouts in a manner consistent with the authority provided in our Compensation Recovery Policy. See "Compensation Recovery Policy" as well as the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Base Salary

The following table shows the approved annualized salary effective at the beginning of March for each named executive officer. Base pay increases are reflective of strong individual performance and a relatively low base pay market position due to limited tenure in each executive officer's respective role. Each named executive officer's actual base salary earned during 2020 is reflected in the Summary Compensation Table in the "Executive Compensation" section of this proxy.

Name	2019 Annual Base Salary Effective March 1, 2019	2020 Annual Base Salary Effective March 1, 2020	Increase
Mr. Ricks	$1,400,000	$1,500,000	7%
Mr. Smiley	$900,000	$1,000,000	11%
Dr. Skovronsky	$900,000	$1,000,000	11%
Ms. Hakim	N/A[1]	$775,000	N/A
Mr. Zulueta	N/A[1]	$850,000	N/A

[1] Ms. Hakim and Mr. Zulueta were not named executive officers in 2019.

Annual Cash Bonus Targets

Based on a review of internal relativity, peer group data, and individual performance, the Compensation Committee retained the same percent-of-salary bonus targets as in 2019 for Mr. Ricks, Mr. Smiley, and Dr. Skovronsky and set Ms. Hakim's bonus target at 80 percent and Mr. Zulueta's bonus target at 95 percent. Bonus targets are shown in the table below as a percentage of each named executive officer's earnings from base salary in 2020:

Name	2019 Bonus Target	2020 Bonus Target
Mr. Ricks	150%	150%
Mr. Smiley	95%	95% [2]
Dr. Skovronsky	95%	95%
Ms. Hakim	N/A [1]	80%
Mr. Zulueta	N/A [1]	95%

[1] Ms. Hakim and Mr. Zulueta were not named executive officers in 2019.

[2] As a result of Mr. Smiley's resignation as an officer on February 9, 2021 and because the 2020 bonus had not yet been paid, his 2020 bonus payout was $0. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Equity Incentives - Target Grant Values

For 2020 equity grants, the Compensation Committee set the total target values for named executive officers based on peer group data, individual performance, and internal relativity. Named executive officers have 35 percent of their equity target allocated to shareholder value awards and relative value awards, respectively, and 30 percent to performance awards. Total target values for the 2019 and 2020 equity grants to the named executive officers were as follows:

Name	2019 Annual Equity Grant	2020 Annual Equity Grant
Mr. Ricks	$10,500,000	$12,500,000
Mr. Smiley	$2,700,000 [3]	$3,300,000 [3]
Dr. Skovronsky	$3,500,000	$4,100,000
Ms. Hakim	N/A [1]	$2,000,000 [2]
Mr. Zulueta	N/A [1]	$2,250,000

[1] Ms. Hakim and Mr. Zulueta were not named executive officers in 2019.

[2] Ms. Hakim also received an equity grant of restricted stock units valued at $2,000,043 upon her hire in February 2020.

[3] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, he forfeited his 2019 and 2020 annual equity grants. The target amounts of $2,700,000 and $3,300,000 for his 2019 and 2020 annual equity grants have been reduced to $0. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Performance Goals for 2020 Incentive Programs

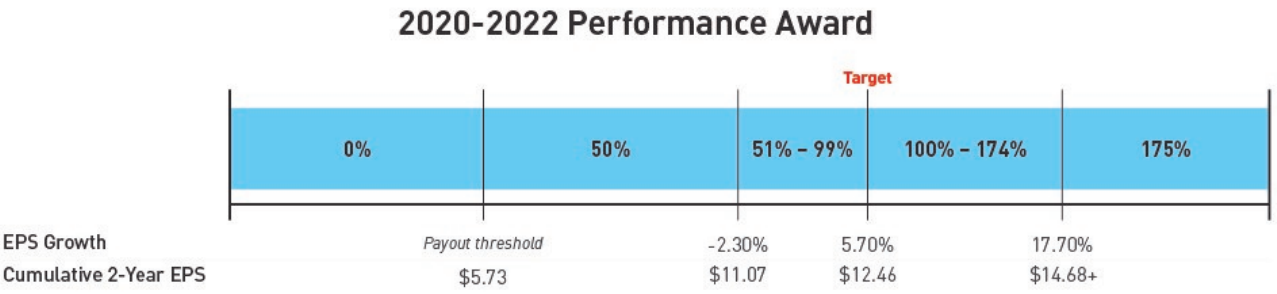
Annual Cash Bonus Goals

The Compensation Committee established the company performance targets using the company's 2020 annual operating plan, which was approved by the board in 2019. These targets are described below under "2020 Compensation Results."

2020-2022 Performance Award

In February 2020, the Compensation Committee established a compounded two-year EPS growth target of 5.7 percent per year based on investment analysts' consensus EPS growth estimates for our peer group companies at that time. To translate the 5.7 percent per year growth goal into a 2-year cumulative EPS target, the Compensation Committee applied the target growth to the 2019 non-GAAP EPS of $6.04 to obtain target 2020 results of $6.38 and then applied the goal growth again to the target 2020 results to obtain target 2021 results of $6.75. The target 2020 and 2021 results were added together to yield a 2-year cumulative EPS target of $13.13. Payouts for the 2020-2022 performance award can range from 0 to 175 percent of the target number of shares, as shown below:

In December 2020, the Compensation Committee approved an updated 2020–2022 Performance Award to align with Lilly's decision to adjust EPS results to remove the impact of gains and losses on investments in equity securities from compensation program outcomes. The updated award retained the Compensation Committee's decision to establish a compounded two-year EPS growth target of 5.7 percent per year, but the growth was applied to an adjusted 2019 non-GAAP EPS of $5.73 that excluded gains and losses on investments in equity securities. The Compensation Committee applied the target growth to the 2019 non-GAAP EPS of $5.73 to obtain target 2020 results of $6.06 and then applied the goal growth again to the target 2020 results to obtain target 2021 results of $6.40. The target 2020 and 2021 results were added together to yield an updated cumulative 2-Year EPS goal of $12.46. Payouts for the 2020-2022 Performance Award can range from 0 to 175 percent of the target number of shares, as shown below:



2020-2022 Shareholder Value Award

For purposes of establishing the stock price target for the shareholder value awards, the starting price was $119.76 per share, the average closing stock price for all trading days in November and December 2019. The target share price was established using the expected annual rate of return for large-cap companies (8 percent), less an assumed Lilly dividend yield of 2.47 percent. To determine payout, the ending price will be the average closing price of company stock for all trading days in November and December 2022. The award is designed to deliver no payout to executive officers if the shareholder return (including projected dividends) is zero or negative. Possible payouts based on share price ranges are illustrated in the grid below.

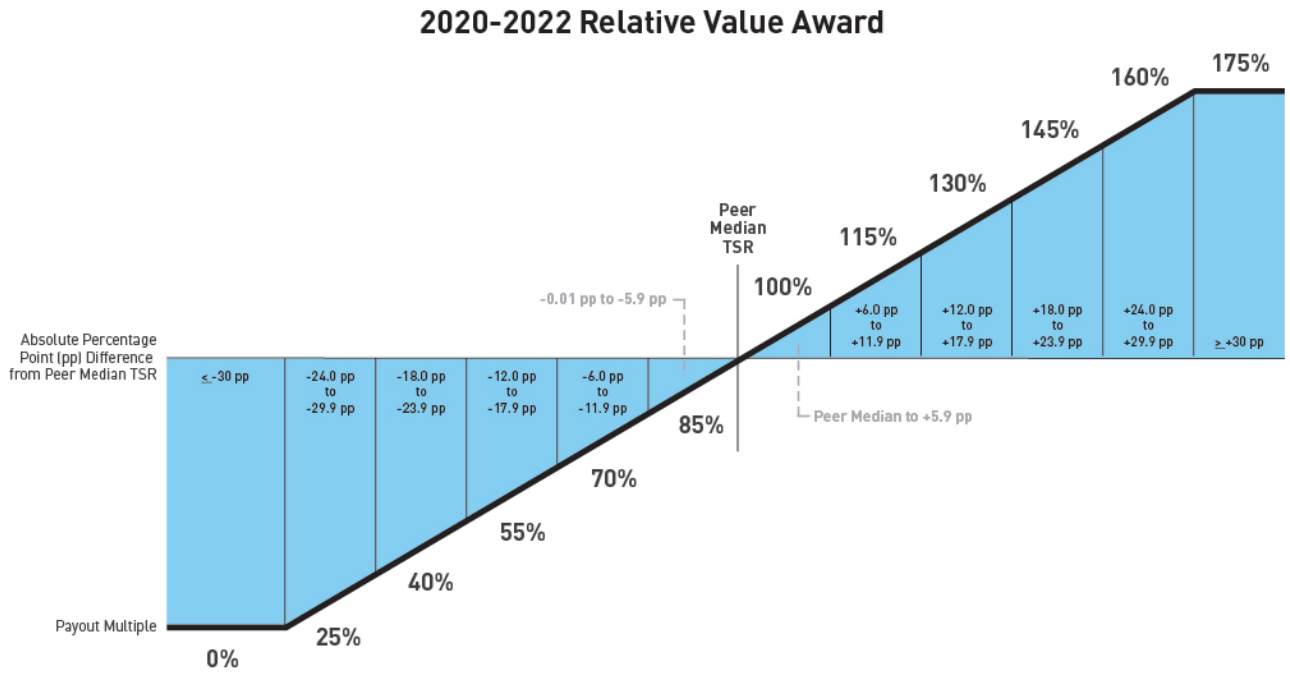
2020-2022 Shareholder Value Award

				Target			
% of Target	0%	50%	75%	100%	125%	150%	175%
Stock Price	<$109.78	$109.78 – $125.25	$125.26 – $140.73	$140.74 – $156.21	$156.22 – $171.69	$171.70 – $187.17	>$187.17
Compounded Annual Stock Price Growth	< -2.9%	-2.9% – 1.5%	1.5% – 5.5%	5.5% – 9.3%	9.3% – 12.8%	12.8% – 16.0%	≤16.0%

2020-2022 Relative Value Award

The relative value award is based on the most recent three-year Lilly TSR performance compared to industry peers. To determine payout, the TSR performance is calculated for Lilly and its peers. This calculation compares the average closing price of each company's stock for all trading days in November and December 2019 to the average closing price of each company's stock for all trading days in November and December 2022, assuming reinvestment of dividends, to obtain the TSR for each company. The median TSR for the peer companies is then subtracted from Lilly's TSR to determine what payout has been earned. For example, if Lilly's TSR was 55 percent over the three-year performance

period and the median peer company performance was 41 percent, Lilly would have outperformed by 14 percentage points (55 percent - 41 percent). This outperformance would have resulted in a 130 percent payout based on the payout ranges depicted below.



2020 Compensation Results

The information in this section reflects the amounts paid to named executive officers under the Bonus Plan and for equity awards granted in prior years for which the relevant performance period ended in 2020.

Lilly Performance

In 2020 we exceeded our revenue target and nearly achieved our EPS target. We also exceeded our target for pipeline progress. Key pipeline highlights include the first regulatory approval for Retevmo and Lyumjev and two emergency use authorizations for bamlanivimab monotherapy and for baricitinib in combination with remdesivir for patients diagnosed with COVID-19. Lilly also received new indication approvals for Taltz and Cyramza in the United States and for Olumiant in the European Union. By the end of 2020, Lilly had also exceeded its two-year EPS growth target for the performance award and our three-year stock price growth target for the shareholder value award. The discussion below details the measures used in each program, what the performance goal was to obtain target performance, how performance outcomes were assessed and what the Compensation Committee approved as the final payout multiple.

Bonus Plan

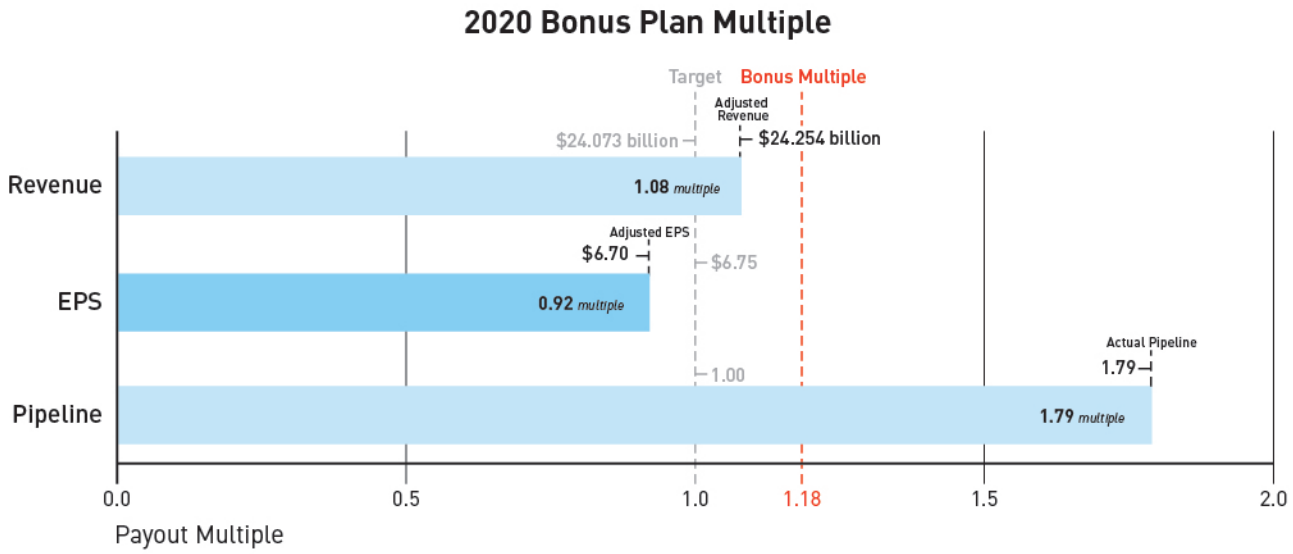
The company utilized revenue, EPS, and pipeline progress to incent the achievement of 2020 company objectives. Each measure contributes to the final payout multiple on a weighted basis: revenue (25 percent), EPS (50 percent), and pipeline progress (25 percent). Each performance measure is assessed a payout multiple contribution of 0 to 200 percent.

The company exceeded its annual cash bonus target for revenue, nearly achieved its target for EPS and significantly exceeded its targets for pipeline progression. The Compensation Committee adjusted non-GAAP EPS by $0.98 to exclude net gains on investments in equity securities that significantly exceeded business plan. The Compensation Committee also reduced revenue and EPS for the purposes of the bonus calculation to exclude estimated savings from certain discrete and unplanned performance items from the bonus plan multiple. The Science and Technology Committee's assessment of the company's product pipeline achievements is detailed below:

Activity	Objective	Achievement
Approvals	2 new drug first approvals 15-17 other approvals	2 new drug first approvals 24 other approvals
Potential new drug Phase III starts	2	3
Potential new drug Phase I starts	14-15	17
Potential new indication or line extension Phase III starts	6	9
Plan Boldly	Meet industry benchmark for speed of development	Exceeded industry benchmark for speed of development
Deliver to Launch	Meet planned project timelines	Accelerated planned project timelines
Qualitative Assessment	Assessment of the chief scientific officer's evaluation of performance against strategic objectives	

Based on the recommendation of the Science and Technology Committee, the Compensation Committee approved a pipeline multiple of 1.79.

The company's performance compared to targets as well as the resulting bonus multiple, is illustrated below:



For additional information on financial results, see Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award."

When combined, the revenue, EPS, and pipeline multiples yielded a bonus multiple of 1.18.

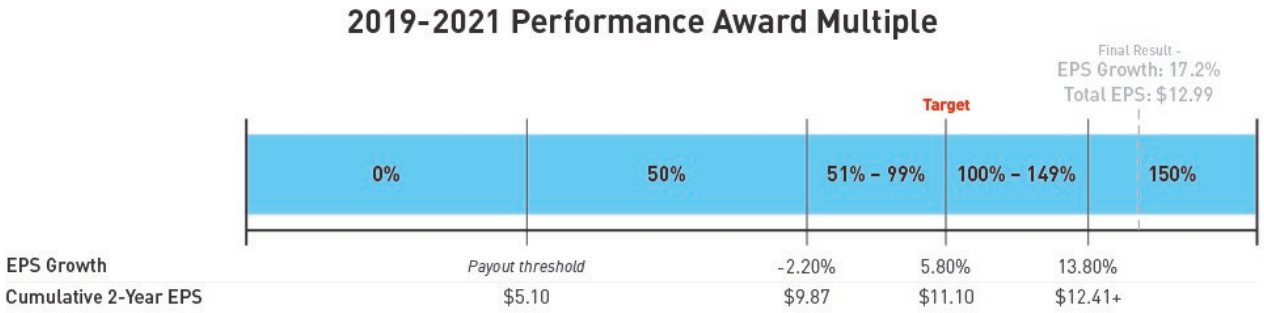
The 2020 bonuses paid to the applicable named executive officers under the Bonus Plan were as follows:

Name	2020 Bonus ($)
Mr. Ricks	$2,625,500
Mr. Smiley	$0*
Dr. Skovronsky	$1,102,317
Ms. Hakim	$670,633
Mr. Zulueta	$952,850

* As a result of Mr. Smiley's resignation as an officer on February 9, 2021 and the fact his bonus had not yet been paid, the Compensation Committee exercised its discretion to reduce his payout under the Bonus Plan for 2020 from $1,102,317 to $0. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

2019-2021 Performance Awards

The target cumulative EPS for the 2019-2021 performance award was set in the first quarter of 2019, reflecting expected industry growth of 5.8 percent each year over the two-year performance period of 2019-2020. The company's adjusted EPS growth for the two-year period was 17.2 percent. The Compensation Committee adjusted non-GAAP EPS by $0.98 to exclude net gains on investments in equity securities that significantly exceeded business plan.



For the named executive officers, shares earned for the 2019-2020 performance period are subject to an additional 13-month service-vesting period and are shown in the table below as restricted stock units.

Name	Target Shares	RSUs Earned
Mr. Ricks	37,470	56,205
Mr. Smiley	9,635	0**
Dr. Skovronsky	12,490	18,735
Ms. Hakim*	N/A	N/A
Mr. Zulueta	7,137	10,706

* Ms. Hakim joined Lilly in February 2020, so she did not receive a PA grant in 2019.

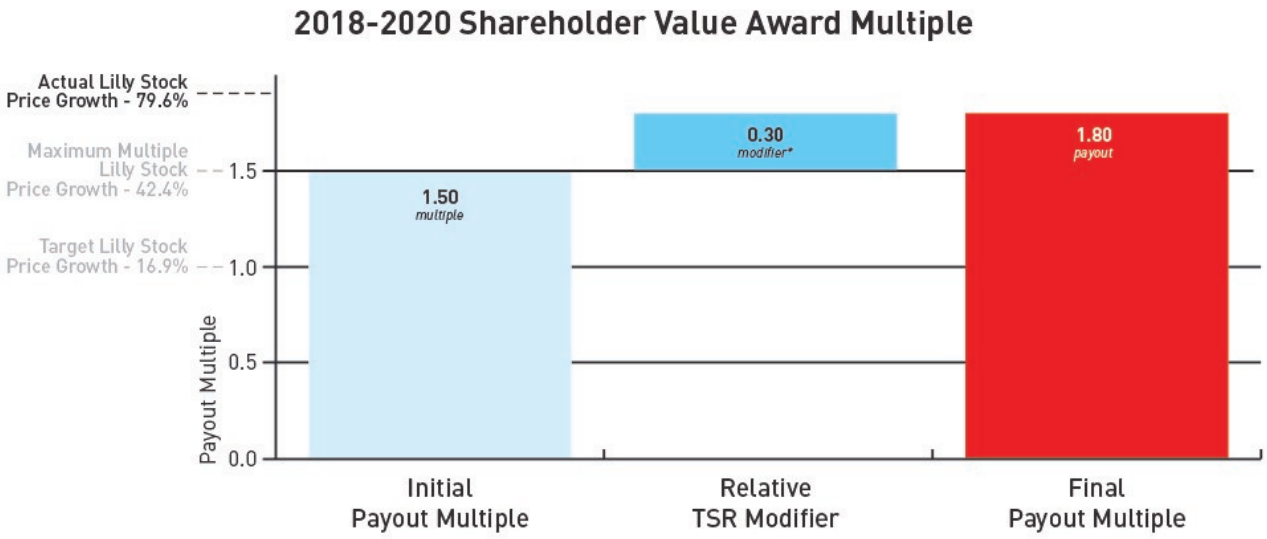
** As a result of Mr. Smiley's resignation as an officer on February 9, 2021 and the fact his 2019-2021 performance award had not yet been converted to a 13-month service vesting RSU, the Compensation Committee exercised its discretion to cancel Mr. Smiley's 2019-2021 performance award resulting in zero RSUs earned. See discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

2018-2020 Shareholder Value Award

The target stock price range of $99.02 to $109.83 (16.9 percent to 29.7 percent total stock price growth) for the 2018-2020 shareholder value award was set in 2018 based on a beginning stock price of $84.70, which was the average closing price for Lilly stock for all trading days in November and December 2017. The ending stock price of $152.16 represents stock price growth of 79.6 percent over the relevant three-year period resulting in a payout multiple of 1.50.

The relative TSR modifier applies to those individuals who were executive officers when the award was granted. The cumulative TSR median for the company's peer group was 23.5 percent, and Lilly's TSR over the same period was 92.2

percent. Given this positive relative performance, our relative TSR was 68.7 percentage points above the peer group median resulting in a maximum award payout of 180 percent of target (SVA payout multiple of 150 percent multiplied by the 1.2 modifier = 180 percent final payout).



*Over the performance period, Lilly's cumulative TSR was 92.2 percent and the median peer cumulative TSR was 23.5 percent for a total outpeformance of 68.7 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the Compensation Committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent = 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

The number of shares paid to each of our named executive officers for the 2018-2020 performance period were as follows:

Name	Target Shares	Shares Paid Out
Mr. Ricks	131,036	235,865
Mr. Smiley	33,487	45,207**
Dr. Skovronsky*	22,461	33,692
Ms. Hakim*	N/A	N/A
Mr. Zulueta	29,119	52,414

* The TSR modifier did not apply to Dr. Skovronsky's 2018-2020 shareholder value award payouts since he was not an executive officer at the time of grant. Ms. Hakim joined Lilly in February 2020, so she did not receive a SVA grant in 2018.

** As a result of Mr. Smiley's resignation as an officer on February 9, 2021 and the fact his 2018-2020 shareholder value award had not yet been paid, the Compensation Committee exercised its discretion to reduce Mr. Smiley's 2018–2020 shareholder value award payout by 25 percent or $3,100,954. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Other Compensation Practices and Information

Employee Benefits

The company offers core employee benefits coverage to:

- provide our workforce with a reasonable level of financial support in the event of illness or injury
- provide post-retirement income
- enhance productivity and job satisfaction through benefit programs that focus on overall well-being.

The benefit programs available to executive officers are offered to all U.S. employees and include medical and dental coverage, disability insurance, and life insurance. In addition, the 401(k) Plan and The Lilly Retirement Plan (the Retirement Plan) are intended to provide U.S. employees a reasonable level of retirement income reflecting employees' careers with the company. To the extent that any employee's retirement benefit exceeds Internal Revenue Service (IRS) limits for amounts that can be paid through a qualified plan, the company also offers a nonqualified pension plan and a

nonqualified savings plan. These plans provide only the difference between the calculated benefits and the IRS limits, and the formula is the same for all U.S. employees. The cost of employee benefits is partially borne by the employee, including each executive officer.

Perquisites

The company provides very limited perquisites to executive officers. In response to the COVID-19 pandemic, the company considered various actions to promote the health and safety of its employees, including its named executive officers, recognizing that the company's important objectives during this critical time would be significantly disadvantaged without the full services of its employees. As part of this process, the company has encouraged Mr. Ricks' personal use of the corporate aircraft (up to a maximum incremental cost of $60,000) as a means to (i) increase his time available for business purposes and (ii) enhance his health and safety. The incremental cost of personal use of corporate aircraft is included as a perquisite in the Summary Compensation Table under the heading "All Other Compensation."

The Lilly Deferred Compensation Plan

Members of senior management may defer receipt of part or all of their cash compensation under The Lilly Deferred Compensation Plan (Deferred Compensation Plan), which allows executives to save for retirement in a tax-effective way at minimal cost to the company. Under this unfunded plan, amounts deferred by the executive are credited at an interest rate of 120 percent of the applicable federal long-term rate, as described in more detail following the "Nonqualified Deferred Compensation in 2020" table.

Severance Benefits

Except in the case of certain terminations following a change in control of the company, the company is generally not obligated to pay severance to executive officers upon termination of their employment; any such payments are at the discretion of the Compensation Committee.

The company has adopted change-in-control severance pay plans for nearly all employees, including executive officers. The plans are intended to preserve employee morale and productivity and encourage retention in the face of the disruptive impact of an actual or rumored change in control. In addition, the plans are intended to align executive and shareholder interests by enabling executives to evaluate corporate transactions that may be in the best interests of the shareholders and other constituents of the company without undue concern over whether the transactions may jeopardize the executives' own employment.

Highlights of Our Change-in-Control Severance Plans

- all regular employees are covered
- double trigger required
- no tax gross-ups
- up to two-year pay protection
- 18-month benefit continuation

Although benefit levels may differ depending on the employee's job level and seniority, the basic elements of the plans are comparable for all eligible employees:

- **Double trigger:** Unlike "single trigger" plans that pay out immediately upon a change in control, our plans require a "double trigger" —a change in control followed by an involuntary loss of employment within two years. This is consistent with the plan's intent to provide employees with financial protection upon loss of employment. With respect to unvested equity, performance to the date of the change in control will be used to determine the number of shares earned under an award, but vesting does not accelerate immediately upon a change in control. Rather, the performance-adjusted awards will convert to time-based restricted stock units that continue to vest with the new company. Shares will pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the awards.

- **Covered terminations:** Employees are eligible for payments if, within two years of the change in control, their employment is terminated (i) without cause by the company or (ii) for good reason by the employee, each as defined in the plan. See "Compensation—Executive Compensation—Payments Upon Termination or Change in Control" for a more detailed discussion, including a discussion of what constitutes a change in control.

- **Employees who suffer a covered termination receive up to two years of pay and 18 months of benefits protection:** These provisions ensure employees a reasonable period of protection of their income and core employee benefits.

- *Severance payment.* Eligible terminated employees would receive a severance payment ranging from six months to two years' base salary. Executives are all eligible for two years' base salary plus two times the then-current year's target bonus.
- *Benefit continuation.* Basic employee benefits such as health and life insurance would continue for 18 months following termination of employment, unless the individual becomes eligible for coverage with a new employer. All employees would receive an additional two years of both age and years-of-service credit for purposes of determining eligibility for retiree medical and dental benefits.

- **Accelerated vesting of equity awards:** Any unvested equity awards would vest at the time of a covered termination.

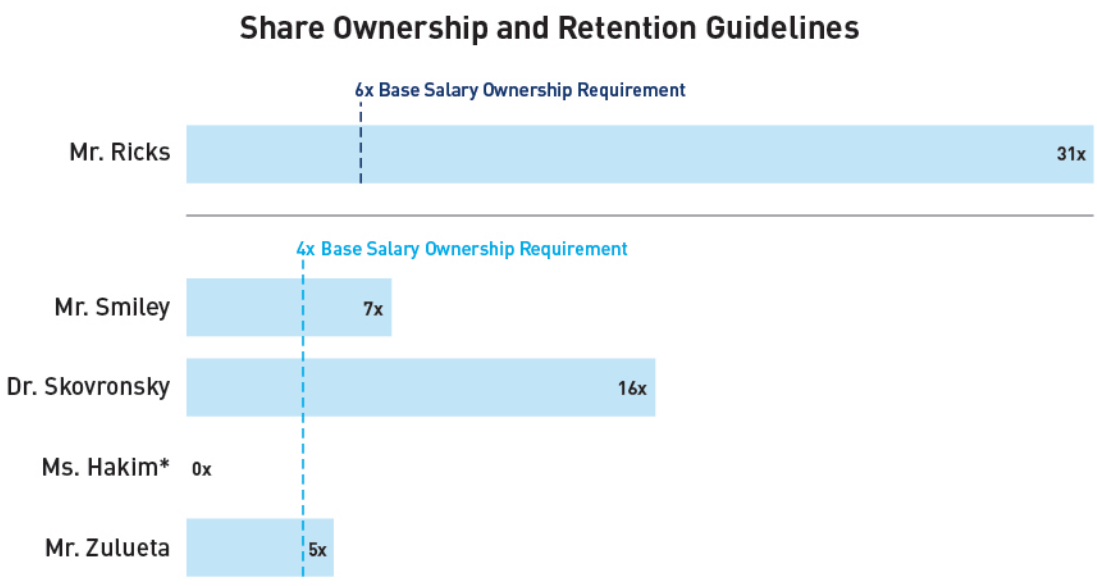
- **Excise tax:** In some circumstances, the payments or other benefits received by the employee in connection with a change in control could exceed limits established under Section 280G of the Internal Revenue Code. The employee would then be subject to an excise tax on top of normal federal income tax. The company does not reimburse employees for these taxes. However, the amount of change-in-control-related benefits will be reduced to the 280G limit if the effect would be to deliver a greater after-tax benefit than the employee would receive with an unreduced benefit.

Share Ownership and Retention Guidelines

Share ownership and retention guidelines help create direct alignment of interests between senior management and shareholders over the longer term. Lilly has established a formal share ownership policy under which the CEO and other senior executives are required to acquire and hold Lilly shares in an amount representing a multiple of base salary.

Until the required number of shares is reached, an executive officer must hold 50 percent of all shares, net of tax, from all equity payouts. Executive officers are also required to hold all shares received from equity program payouts, net of taxes, for at least one year, even once share ownership requirements have been met. For performance awards granted to executive officers, this holding requirement is met by the 13-month service-vesting period after the end of the performance period.

All of the named executive officers are compliant with the share ownership guidelines. The following graphic shows each respective named executive officers' guideline and each named executive officers' holdings as of December 31, 2020:



**Ms. Hakim joined Lilly in February 2020 and none of her stock awards had vested as of December 31, 2020.*

Prohibition on Hedging and Pledging Shares

Non-employee directors and employees, including executive officers, are not permitted to hedge their economic exposures to company stock through short sales or derivative transactions. Non-employee directors and all members of senior management (approximately 150 employees in 2020) are prohibited from pledging any company stock (i.e., using company stock as collateral for a loan or trading shares on margin).

Executive Compensation Recovery Policy

All incentive awards are subject to forfeiture upon termination of employment prior to the end of the performance or vesting period or for disciplinary reasons. In addition, the Compensation Committee has adopted an executive compensation recovery policy that gives the Compensation Committee broad discretion to claw back incentive payouts from any member of senior management whose misconduct results in a material violation of law or company policy that causes significant harm to the company or who fails in his or her supervisory responsibility to prevent such misconduct by others.

Additionally, the company can recover all or a portion of any incentive compensation from an executive officer in the case of materially inaccurate financial statements or material errors in the performance calculation, whether or not such inaccuracies or errors result in a restatement and whether or not the executive officer has engaged in wrongful conduct.

The recovery policy covers any incentive compensation awarded or paid to a member of senior management during the last three years. Subsequent changes in status, including retirement or termination of employment, do not affect the company's rights to recover compensation under the policy.

The principles of our robust recovery policy are also incorporated into the terms of our incentive plans and award agreements, which, in the event of misconduct meeting the standards described above, allow the Compensation Committee to reduce or cancel awards or payouts that would otherwise have been earned based on company performance. Action by the Compensation Committee to reduce or cancel awards or payouts can occur during or following the relevant performance period. In connection with Mr. Smiley's resignation, the Compensation Committee took action under these terms to reduce Mr. Smiley's earned 2020 cash bonus and outstanding equity awards prior to their payout. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Looking Ahead to 2021 Compensation

Starting in 2021, the majority of award agreements granting equity-based incentive awards to our executive officers will include changes designed to protect the company's interests and encourage focus on long-term performance. First, the award agreements will contain a non-competition provision stating that the executive officer agrees to not perform services for a competitor of the company for a period of one year following termination of service with the company. If an executive officer violates the non-competition provision, the executive will forfeit any rights to the equity granted under the award agreement. Second, the award agreements will provide that if the executive officer terminates employment due to retirement a year or more into the relevant performance period, then the executive will continue to vest in the award until the conclusion of the performance period, subject to adherence to the non-competition provision.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) [1]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($) [2]	Change in Pension Value ($) [3]	All Other Compensation ($) [4]	Total Compensation ($)
David A. Ricks	2020	$1,483,333	$0	$13,587,500	$0	$2,625,500	$5,883,924	$128,372	$23,708,629
Chairman, President, and Chief Executive Officer	2019	$1,400,000	$0	$12,222,000	$0	$2,919,000	$4,658,242	$84,000	$21,283,242
	2018	$1,400,000	$0	$10,584,000	$0	$3,633,000	$1,529,337	$84,000	$17,230,337
Joshua L. Smiley	2020	$983,333	$0	$3,587,100 [7]	$0	$0 [6]	$2,685,276	$58,539	$7,314,248*
Former Senior Vice President and Chief Financial Officer	2019	$895,833	$0	$3,142,800 [7]	$0	$1,182,948	$2,073,070	$53,750	$7,348,401*
	2018	$875,000	$0	$2,704,800 [7]	$0	$1,438,063	$174,980	$52,500	$5,245,343
Daniel M. Skovronsky, M.D., Ph.D.	2020	$983,333	$0	$4,456,700	$0	$1,102,317	$751,223	$58,539	$7,352,112
Senior Vice President, Chief Scientific Officer, and President, Lilly Research Laboratories	2019	$900,000	$0	$4,074,000	$0	$1,188,450	$446,521	$54,000	$6,662,971
	2018	$837,500	$0	$2,806,000	$0	$1,376,431	$75,717	$50,250	$5,145,898
Anat Hakim [5]	2020	$710,417	$150,000	$4,174,043	$0	$670,633	$87,848	$124,958	$5,917,899
Senior Vice President, General Counsel and Secretary	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Alfonso G. Zulueta	2020	$850,000	$0	$2,445,750	$0	$952,850	$2,268,269	$50,608	$6,567,477
Senior Vice President and President, Lilly International	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Supplemental table reflecting 2019 and 2020 compensation for services provided to Joshua L. Smiley, after giving effect to his resignation.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value ($)	All Other Compensation ($)	Total Compensation ($)(a)
Joshua L. Smiley	2020	$983,333	$0	$0	$0	$0	$2,685,276	$58,539	$3,727,148
Former Senior Vice President and Chief Financial Officer	2019	$895,833	$0	$0	$0	$1,182,948	$2,073,070	$53,750	$4,205,601

The table directly above sets forth the amounts received by Mr. Smiley with respect to services rendered in fiscal years 2019 and 2020, and excludes the following amounts required to be reported in the Summary Compensation Table in this proxy statement, which were reduced or cancelled by the Compensation Committee in 2021 (and will not actually be received or retained by Mr. Smiley):

- $3,587,100 reported as Stock Awards for 2020, which represents the grant date fair value of the 2020-2022 SVA, 2020-2022 RVA, and 2020-2022 PA; and
- $3,142,800 reported as Stock Awards for 2019, which represents the grant date fair value of the 2019-2021 SVA and 2019-2021 PA.

This table is not required by SEC rules and is not designed to replace the Summary Compensation Table. However, we believe it is useful for shareholders to understand the compensation paid to Mr. Smiley in connection with his services to the company in 2019 and 2020 that he will retain after the actions taken by the Compensation Committee in connection with his resignation. See "Agreement with Former Chief Financial Officer" below.

(a) The value in the Total Compensation column is the sum of Salary, Bonus, Stock Awards, Option Awards, Non-Equity Incentive Plan Compensation, Change in Pension Value, and All Other Compensation reflected in this supplementary table for Mr. Smiley for fiscal years 2019 and 2020. See footnotes to the Summary Compensation Table for more information on the derivation of each of the figures included above.

[1] This column shows the grant date fair value of performance awards, shareholder value awards and relative value awards for all named executive officers and an additional restricted stock unit award for Ms. Hakim computed in accordance with FASB ASC Topic 718. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, for additional detail regarding assumptions underlying the valuation of equity awards. All values in the "Stock Awards" column were based upon the probable outcome of performance conditions as of the grant date, which vary year to year. As described above under "2020-2022 Performance Awards," the Compensation Committee decided to remove gains and losses from investments in equity securities when calculating non-GAAP EPS for 2021 and later years. The adjustment to the 2020-2022 Performance Award resulted in no incremental fair value, thus no additional value was included for this change.

For purposes of comparison, the supplemental table below shows the total target grant values of stock awards approved by the Compensation Committee:

Name	2018 Total Equity	2019 Total Equity	2020 Total Equity
Mr. Ricks	$9,000,000	$10,500,000	$12,500,000
Mr. Smiley	$2,300,000	$2,700,000*	$3,300,000*
Dr. Skovronsky	$2,300,000	$3,500,000	$4,100,000
Ms. Hakim**	N/A	N/A	$4,000,043
Mr. Zulueta**	N/A	N/A	$2,250,000

* As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2019 and 2020 equity awards. The target amount of $2,700,000 and $3,300,000 for his 2019 and 2020 annual equity grants have been reduced to $0. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

** Ms. Hakim and Mr. Zulueta were not named executive officers in 2018 or 2019.

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2020-2022 performance award included in the Summary Compensation Table, which will pay out in February 2023.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$3,750,000	$6,562,500
Mr. Smiley*	$0	$990,000	$1,732,500
Dr. Skovronsky	$0	$1,230,000	$2,152,500
Ms. Hakim	$0	$600,000	$1,050,000
Mr. Zulueta	$0	$675,000	$1,181,250

* As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2020-2022 performance award; therefore, Mr. Smiley will realize $0 from this award. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2020-2022 shareholder value award included in the Summary Compensation Table, which will pay out in February 2023.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,375,000	$7,656,250
Mr. Smiley*	$0	$1,155,000	$2,021,250
Dr. Skovronsky	$0	$1,435,000	$2,511,250
Ms. Hakim	$0	$700,000	$1,225,000
Mr. Zulueta	$0	$787,500	$1,378,125

* As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2020-2022 shareholder value award; therefore, Mr. Smiley will realize $0 from this award. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2020-2022 relative value award included in the Summary Compensation Table, which will pay out in February 2023.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,375,000	$7,656,250
Mr. Smiley*	$0	$1,155,000	$2,021,250
Dr. Skovronsky	$0	$1,435,000	$2,511,250
Ms. Hakim	$0	$700,000	$1,225,000
Mr. Zulueta	$0	$787,500	$1,378,125

* As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2020-2022 relative value award; therefore, Mr. Smiley will realize $0 from this award. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

[2] Payments under the Bonus Plan for performance in the years represented.

[3] The amounts in this column reflect the change in pension value for each individual, calculated by our actuary. The changes in pension values in 2020 were driven by additional credited service, pay changes, and actuarial assumptions. The design of the pension benefit plan did not change. See the Pension Benefits in 2020 table below for information about the standard actuarial assumptions used. No named executive officer received preferential or above-market earnings on deferred compensation.

[4] The amounts in this column are company matching contributions into each individual's 401(k) and nonqualified savings plan contributions. The company does not reimburse executives for taxes outside of the limited circumstance of taxes related to a domestic employee relocation or a prior international assignment. For Mr. Ricks, the amounts in this column reflect $88,308 of company matching contributions and nonqualified savings plan contributions and also reflect $40,064 of aggregate incremental cost for his personal use of corporate aircraft. The aggregate incremental costs for personal use of our aircraft is calculated based on our variable operating costs, which include crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs, fuel, trip-related maintenance, and other smaller variable costs. Because the vast majority of the use of corporate aircraft is for business purposes, fixed costs such as aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries are not included. For Ms. Hakim, the amounts in this column reflect $42,268 of company matching contributions and nonqualified savings plan contributions and also reflect $82,690 of moving expense reimbursements.

[5] Ms. Hakim joined Lilly in February 2020, and the table reflects compensation paid for the portion of the year for which she was employed.

[6] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee exercised its discretion to reduce his payout under the Bonus Plan for 2020 from $1,102,317 to $0. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

[7] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2019 and 2020 equity awards. Therefore, Mr. Smiley will realize $0 from these awards. In addition, the Compensation Committee exercised its discretion to reduce Mr. Smiley's 2018–2020 shareholder value award payout by 25 percent or $3,100,954. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Grants of Plan-Based Awards During 2020

The compensation plans under which the grants in the following table were made are described in the CD&A above and consist of the Bonus Plan (a non-equity incentive plan) and the Amended and Restated 2002 Lilly Stock Plan which provides for performance awards, shareholder value awards, and restricted stock units, among others.

To receive a payout under the performance award, the shareholder value award, the relative value award, or the restricted stock unit award, a participant must remain employed with the company through the end of the relevant award period (except in the case of death, disability, retirement, or plant closing or reduction in workforce). No dividends accrue on either performance awards, shareholder value awards, or relative value awards during the performance period. During the performance award 13-month service-vesting period and restricted stock unit award restriction period, non-preferential dividends accrue and are paid upon vesting.

Name	Award	Grant Date[2]	Compensation Committee Action Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1] Threshold ($)	Target ($)	Maximum ($)	Estimated Possible and Future Payouts Under Equity Incentive Plan Awards Threshold (# shares)	Target (# shares)	Maximum (# shares)	All Other Stock or Option Awards: Number of Shares of Stock, Options, or Units	Grant Date Fair Value of Equity Awards
Mr. Ricks		—	—	$556,250	$2,225,000	$4,450,000					
	2020-2022 PA[3]	2/12/2020	12/16/2019				13,653	27,306	47,786		$4,837,500
	2020-2022 SVA[4]	2/12/2020	12/16/2019				16,875	33,750	59,063		$4,375,000
	2020-2022 RVA[5]	2/12/2020	12/16/2019				12,160	24,319	42,558		$4,375,000
										—	
Mr. Smiley[7]		—	—	$233,542	$934,167	$1,868,333					
	2020-2022 PA[3]	2/12/2020	12/16/2019				3,605	7,209	12,616		$1,277,100
	2020-2022 SVA[4]	2/12/2020	12/16/2019				4,455	8,910	15,593		$1,155,000
	2020-2022 RVA[5]	2/12/2020	12/16/2019				3,210	6,420	11,235		$1,155,000
										—	
Dr. Skovronsky		—	—	$233,542	$934,167	$1,868,333					
	2020-2022 PA[3]	2/12/2020	12/16/2019				4,479	8,957	15,675		$1,586,700
	2020-2022 SVA[4]	2/12/2020	12/16/2019				5,535	11,070	19,373		$1,435,000
	2020-2022 RVA[5]	2/12/2020	12/16/2019				3,989	7,977	13,960		$1,435,000
										—	
Ms. Hakim		—	—	$142,083	$568,333	$1,136,667					
	2020-2022 PA[3]	2/12/2020	10/21/2019				2,185	4,369	7,646		$774,000
	2020-2022 SVA[4]	2/12/2020	10/21/2019				2,700	5,400	9,450		$700,000
	2020-2022 RVA[5]	2/12/2020	10/21/2019				1,946	3,891	6,809		$700,000
	RSU[6]	3/1/2020	10/21/2019							15,857	$2,000,043
Mr. Zulueta		—	—	$201,875	$807,500	$1,615,000					
	2020-2022 PA[3]	2/12/2020	12/16/2019				2,458	4,915	8,601		$870,750
	2020-2022 SVA[4]	2/12/2020	12/16/2019				3,038	6,075	10,631		$787,500
	2020-2022 RVA[5]	2/12/2020	12/16/2019				2,189	4,377	7,660		$787,500
										—	

[1] These columns show the threshold, target, and maximum payouts for performance under the Bonus Plan. Bonus payouts range from 0 to 200 percent of target. The Bonus Plan payment for 2020 performance was 118 percent of target. Actual payouts are shown in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."

[2] To assure grant timing is not manipulated for employee gain, the annual grant date is established in advance by the Compensation Committee.

[3] This row shows the possible payouts for the 2020-2022 performance awards ranging from 0 to 175 percent of target. This performance award will pay out in February 2023.

[4] This row shows the range of payouts for the 2020-2022 shareholder value awards. This shareholder value award will pay out in February 2023, with payouts ranging from 0 to 175 percent of target. We measure the fair value of the shareholder value award on the grant date using a Monte Carlo simulation model.

[5] This row shows the range of payouts for the 2020-2022 relative value awards. This relative value award will pay out in February 2023, with payouts ranging from 0 to 175 percent of target. We measure the fair value of the relative value award on the grant date using a Monte Carlo simulation model.

[6] This grant was made outside of the normal annual cycle in 2020, and 7,928 units will vest on March 1, 2021 and 7,929 units will vest on March 1, 2022.

[7] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, all of his 2020 plan-based awards were forfeited. Mr. Smiley will realize $0 from all grants disclosed in the Non-Equity Incentive Plan Awards and Equity Incentive Plan Awards columns. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Outstanding Equity Awards at December 31, 2020

The 2020 closing stock price used to calculate the values in the table below was $168.84.

		Stock Awards			
Name	Award	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Mr. Ricks	2020-2022 SVA			59,063 [1]	$9,972,197
	2019-2021 SVA			123,088 [2]	$20,782,178
	2020-2022 RVA			24,319 [3]	$4,106,020
	2020-2022 PA			47,786 [4]	$8,068,188
	2019-2021 PA	56,205 [5]	$9,489,652		
	2018-2020 PA	75,387 [6]	$12,728,341		
Mr. Smiley	2020-2022 SVA [8]			15,593 [1]	$2,632,722
	2019-2021 SVA [8]			31,651 [2]	$5,343,955
	2020-2022 RVA [8]			6,420 [3]	$1,083,953
	2020-2022 PA [8]			12,616 [4]	$2,130,085
	2019-2021 PA [8]	14,453 [5]	$2,440,245		
	2018-2020 PA	19,266 [6]	$3,252,871		
Dr. Skovronsky	2020-2022 SVA			19,373 [1]	$3,270,937
	2019-2021 SVA			41,029 [2]	$6,927,336
	2020-2022 RVA			7,977 [3]	$1,346,837
	2020-2022 PA			15,675 [4]	$2,646,567
	2019-2021 PA	18,735 [5]	$3,163,217		
Ms. Hakim	2020-2022 SVA			9,450 [1]	$1,595,538
	2020-2022 RVA			3,891 [3]	$656,956
	2020-2022 PA			7,646 [4]	$1,290,951
	RSU	15,857 [7]	$2,677,296		
Mr. Zulueta	2020-2022 SVA			10,631 [1]	$1,794,938
	2019-2021 SVA			23,445 [2]	$3,958,454
	2020-2022 RVA			7,660 [3]	$1,293,314
	2020-2022 PA			8,601 [4]	$1,452,193
	2019-2021 PA	10,706 [5]	$1,807,601		
	2018-2020 PA	16,754 [6]	$2,828,745		

[1] Shareholder value awards granted for the 2020-2022 performance period will vest on December 31, 2022. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2022 is over $187.17. Actual payouts may vary from 0 to 175 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2020, the payout would have been at 100 percent of target.

[2] Shareholder value awards granted for the 2019-2021 performance period will vest on December 31, 2021. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2021 is over $162.02. Actual payouts may vary from 0 to 180 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2020, the payout would have been 125 percent of target.

[3] Relative value awards granted for the 2020-2022 performance period will vest on December 31, 2022. The number of shares reported reflects the target payout, which will be paid if Lilly's absolute TSR is at or up to 5.9 percentage points above the actual peer median TSR. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2020, the payout would have been at 160 percent of target.

[4] This number represents the maximum value of performance award shares that could pay out for the 2020-2022 performance awards, provided performance goals are met. Once the combined cumulative EPS result and associated payout level are determined at the end of the 2020-2021 performance period, the associated number of shares will be granted as restricted stock units, vesting in February 2022. Actual payouts may vary from 0 to 175 percent of target. The number of shares recorded in the table reflects the payout if the combined cumulative EPS for 2020 and 2021 is at least $14.68 under the revised 2020-2022 performance award grid (see "Compensation Discussion and Analysis—Performance Goals for 2020 Incentive Programs—2020-2022 Performance Award").

[5] The performance period ended December 31, 2020, for the 2019-2021 performance award, resulting in the issuance of restricted stock units for 150 percent of target shares for Mr. Ricks, Dr. Skovronsky, and Mr. Zulueta. These restricted stock units will vest in February 2022. As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2019-2021 performance award. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

[6] Restricted stock units vested from the 2018-2020 performance award on February 1, 2021.

[7] This grant was made outside of the normal annual cycle in 2020. A total of 7,928 units will vest on March 1, 2021, and 7,929 units will vest on March 1, 2022.

[8] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled his 2019 and 2020 equity awards; therefore, Mr. Smiley will realize $0 from his 2020-2022 shareholder value award, 2019-2021 shareholder value award, 2020-2022 relative value award, 2020-2022 performance award, and 2019-2021 performance award. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Options Exercised and Stock Vested in 2020

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[1]
Mr. Ricks	0	$0	69,350 [2]	$9,684,034
			235,865 [3]	$48,533,941
Mr. Smiley	0	$0	45,207 [3]	$9,302,244
			7,947 [4]	$1,176,315
Dr. Skovronsky	0	$0	33,692 [3]	$6,932,803
Ms. Hakim[5]	0	$0	0	$0
Mr. Zulueta	0	$0	16,317 [2]	$2,278,506
			52,414 [3]	$10,785,229

[1] Amounts reflect the market value of Lilly stock on the day value is realized.

[2] Restricted stock units resulting from the 2017-2019 performance award that vested in February 2020.

[3] Payout of the 2018-2020 shareholder value award at 150 percent of target, adjusted by Lilly's three-year cumulative TSR (92.2 percent) relative to its peer companies' median cumulative TSR of 23.5 percent, resulting in a maximum TSR modifier of 20 percent and a final payout of 180 percent of target. Since Dr. Skovronsky was not an executive officer when the 2018-2020 shareholder value award was granted, his award was not subject to the TSR modifier. As a result, his payout multiple was 150 percent of target. As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee exercised its discretion to reduce his 2018–2020 shareholder value award payout by 25 percent. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

[4] This grant was made in 2010 before Mr. Smiley became an executive officer.

[5] Ms. Hakim joined Lilly in 2020 and had no option exercise or stock awards vest during 2020.

Retirement Benefits

We provide retirement income to eligible U.S. employees, including executive officers, through the following plans:

- The 401(k) Plan, a defined contribution plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Participants may elect to contribute a portion of their base salary to the plan, and the company provides matching contributions on employees' contributions up to 6 percent of base salary up to IRS limits. The employee contributions, company contributions, and earnings thereon are paid out in accordance with elections made by the participant. See the "All Other Compensation" column in the Summary Compensation Table for information about company contributions under the 401(k) Plan for the named executive officers.
- The Retirement Plan, a tax-qualified defined benefit plan that provides monthly benefits to retirees. See the Pension Benefits in 2020 table below for additional information about the value of these pension benefits.

Sections 401 and 415 of the Internal Revenue Code generally limit the amount of annual pension that can be paid from a tax-qualified plan ($230,000 in 2020 and 2021) as well as the amount of annual earnings that can be used to calculate a pension benefit ($285,000 in 2020 and $290,000 in 2021). However, since 1975 the company has maintained a nonqualified pension plan that pays eligible retirees the difference between the amount payable under the Retirement Plan and the amount they would have received without the Internal Revenue Code limits. The nonqualified pension plan is unfunded and subject to forfeiture in the event of bankruptcy. Likewise, the company maintains a nonqualified savings plan that allows participants to contribute up to 6 percent of base salary exceeding the IRS limit. The company matches these contributions in the same manner as described in the 401(k) Plan. For more information, see footnote 2 to the Nonqualified Deferred Compensation in 2020 table.

The following table shows benefits that the named executive officers have accrued under the Retirement Plan and the nonqualified pension plan.

Pension Benefits in 2020

Name	Plan	Number of Years of Credited Service	Present Value of Accumulated Benefit ($) [1]	Payments During Last Fiscal Year ($)
Mr. Ricks	retirement plan (pre-2010)	14	$823,571	
	retirement plan (post-2009)	11	$418,590	
	nonqualified plan (pre-2010)	14	$10,268,800	
	nonqualified plan (post-2009)	11	$5,131,598	
	total		$16,642,559	$0
Mr. Smiley	retirement plan (pre-2010)	14	$893,634	
	retirement plan (post-2009)	11	$384,747	
	retirement plan (post-2009)	14	$4,150,530	
	nonqualified plan (post-2009)	11	$1,763,977	
	total		$7,192,888	$0
Dr. Skovronsky	retirement plan (post-2009)	8	$267,910	
	nonqualified plan (post-2009)	8	$1,360,479	
	total		$1,628,389	$0
Ms. Hakim	retirement plan (post-2009)	1	$34,177	
	nonqualified plan (post-2009)	1	$53,671	
	total		$87,848	$0
Mr. Zulueta	retirement plan (pre-2010)	15	$1,178,491	
	retirement plan (post-2009)	10	$481,737	
	nonqualified plan (pre-2010)	15	$7,161,311	
	nonqualified plan (post-2009)	10	$2,060,636	
	total		$10,882,175	$0

[1] The following standard actuarial assumptions were used to calculate the present value of each individual's accumulated pension benefit:

Discount rate:	2.85 percent for the qualified plan and 2.57 percent for nonqualified plan
Mortality (post-retirement decrement only):	Private 2012 white collar table with generational projection using Scale MP-2020
Pre-2010 joint and survivor benefit (% of pension):	50 percent until age 62; 25 percent thereafter
Post-2009 benefit payment form:	Life annuity

The Retirement Plan benefits shown in the table are net present values. The benefits are not payable as a lump sum; they are generally paid as a monthly annuity for the life of the retiree and, if elected, any qualifying survivor. The annual benefit under the Retirement Plan is calculated using years of service and the average of the annual earnings (salary plus bonus) for the highest five out of the last 10 calendar years of service (final average earnings).

Post-2009 Plan Information: Following amendment of our Retirement Plan formulas, employees hired on or after February 1, 2008, have accrued retirement benefits only under the new plan formula. Employees hired before that date have accrued benefits under both the old and new plan formulas. All eligible employees, including those hired on or after February 1, 2008, can retire at age 65 with at least five years of service and receive an unreduced benefit. The annual benefit under the new plan formula is equal to 1.2 percent of final average earnings multiplied by years of service. Early retirement benefits under this plan formula are reduced six percent for each year under age 65. Transition benefits were afforded to employees with 50 points (age plus service) or more as of December 31, 2009. These benefits were intended to ease the transition to the new retirement formula for those employees who were closer to retirement or had been with the company longer at the time the plan was changed. For the transition group, early retirement benefits are reduced three percent for each year from age 65 to age 60 and six percent for each year under age 60. Mr. Ricks, Mr. Smiley, and Mr. Zulueta are in this transition group.

Pre-2010 Plan Information: Employees hired prior to February 1, 2008, accrued benefits under both plan formulas. For these employees, benefits that accrued before January 1, 2010, were calculated under the old plan formula. The amount of the benefit is calculated using actual years of service through December 31, 2009, while total years of service are used to determine eligibility and early retirement reductions. The benefit amount is increased (but not decreased) proportionately based on final average earnings at termination compared to final average earnings at December 31, 2009. Full retirement benefits are earned by employees with 90 or more points (the sum of his or her age plus years of service). Employees electing early retirement receive reduced benefits as described below:

- The benefit for employees with between 80 and 90 points is reduced by three percent for each year before the earlier of 90 points or age 62.
- The benefit for employees who have fewer than 80 points, but who reached age 55 and have at least 10 years of service, is reduced as described above and is further reduced by six percent for each year before the earlier of 80 points or age 65.

Nonqualified Deferred Compensation in 2020

Name	Plan	Executive Contributions in Last Fiscal Year ($)[1]	Registrant Contributions in Last Fiscal Year ($)[2]	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year End ($)[3]
Mr. Ricks	nonqualified savings	$71,208	$71,208	$402,166	$0	$1,845,546
	deferred compensation	$0	$0	$0	$0	$0
	total	$71,208	$71,208	$402,166	$0	$1,845,546
Mr. Smiley	nonqualified savings	$41,439	$41,439	$101,324	$0	$613,038
	deferred compensation	$0	$0	$0	$0	$0
	total	$41,439	$41,439	$101,324	$0	$613,038
Dr. Skovronsky	nonqualified savings	$41,439	$41,439	$110,789	$0	$660,582
	deferred compensation	$0	$0	$0	$0	$0
	total	$41,439	$41,439	$110,789	$0	$660,582
Ms. Hakim	nonqualified savings	$25,167	$25,167	$5,747	$0	$56,082
	deferred compensation	$0	$0	$0	$0	$0
	total	$25,167	$25,167	$5,747	$0	$56,082
Mr. Zulueta	nonqualified savings	$33,508	$33,508	$210,910	$0	$1,401,325
	deferred compensation	$729,417	$0	$235,347	$0	$9,815,851
	total	$762,924	$33,508	$446,257	$0	$11,217,176

[1] The amounts in this column are also included in the Summary Compensation Table in the "Salary" column (nonqualified savings) or the "Non-Equity Incentive Plan Compensation" column (deferred compensation).

[2] The amounts in this column are also included in the Summary Compensation Table in the "All Other Compensation" column as a portion of the savings plan match.

[3] Of the totals in this column, the following amounts have previously been reported in the Summary Compensation Table for this year and for previous years:

Name	2020 ($)	Previous Years ($)	Total ($)
Mr. Ricks	$142,415	$405,000	$547,415
Mr. Smiley	$82,877	$145,900	$228,777
Dr. Skovronsky	$82,877	$141,900	$224,777
Ms. Hakim	$50,335	N/A	$50,335
Mr. Zulueta	$796,432	N/A	$796,432

The Nonqualified Deferred Compensation in 2020 table above shows information about two company programs: the nonqualified savings plan and the Deferred Compensation Plan. The nonqualified savings plan is designed to allow each employee to contribute up to 6 percent of his or her base salary and receive a company match, beyond the contribution limits prescribed by the IRS with regards to 401(k) plans. This plan is administered in the same manner as the 401(k) Plan, with the same participation and investment elections. Executive officers and other U.S. executives may also defer receipt of all or part of their cash compensation under the Deferred Compensation Plan. Amounts deferred by executives under this plan are credited with interest at 120 percent of the applicable federal long-term rate as established the preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code with monthly compounding, which was 2.5 percent for 2020 and is 1.6 percent for 2021. Participants may elect to receive the funds in a lump sum or in up to 10 annual installments following termination of employment but may not make withdrawals while employed by the company, except in the event of hardship as approved by the Compensation Committee. All deferral elections and associated distribution schedules are irrevocable. Both plans are unfunded and subject to forfeiture in the event of company bankruptcy.

Payments Upon Termination or Change in Control (as of December 31, 2020)

The following table describes the potential payments and benefits under the company's compensation and benefit plans and arrangements to which the named executive officers would be entitled upon termination of employment. Except for certain terminations following a change in control of the company, as described below, there are no agreements, arrangements, or plans that entitle named executive officers to severance, perquisites, or other enhanced benefits upon termination of their employment. Any agreement to provide such payments or benefits to a terminating executive officer (other than following a change in control) would be at the discretion of the Compensation Committee.

Name	Cash Severance Payment [1]	Continuation of Medical / Welfare Benefits (present value) [2]	Acceleration and Continuation of Equity Awards as of 12/31/2020	Total Termination Benefits
Mr. Ricks				
• Involuntary retirement or termination	$0	$0	$22,217,993	$22,217,993
• Involuntary or good-reason termination after change in control	$7,500,000	$308,701	$59,872,504	$67,681,205
Mr. Smiley[3]				
• Involuntary retirement or termination	$0	$0	$5,693,032	$5,693,032
• Involuntary or good-reason termination after change in control	$3,900,000	$216,950	$15,515,087	$19,632,037
Dr. Skovronsky				
• Involuntary retirement or termination	$0	$0	$3,163,217	$3,163,217
• Involuntary or good-reason termination after change in control	$3,900,000	$42,860	$15,606,548	$19,549,408
Ms. Hakim				
• Involuntary retirement or termination	$0	$0	$2,677,296	$2,677,296
• Involuntary or good-reason termination after change in control	$2,790,000	$50,386	$5,931,071	$8,771,457
Mr. Zulueta				
• Involuntary retirement or termination	$0	$0	$4,636,262	$4,636,262
• Involuntary or good-reason termination after change in control	$3,315,000	$37,908	$11,595,332	$14,948,240

[1] See "Change-in-Control Severance Pay Plan—Cash Severance Payment" below.

[2] See "Accrued Pay and Regular Retirement Benefits" and "Change-in-Control Severance Pay Plan—Continuation of medical and welfare benefits" below.

[3] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee cancelled all of Mr. Smiley's unvested equity awards. See the discussion of Mr. Smiley's Separation Agreement under "Agreement with Former Chief Financial Officer".

Accrued Pay and Regular Retirement Benefits: The amounts shown in the table above do not include certain payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- accrued salary, vacation pay, and if applicable, equity payouts prorated for time worked in the performance period and adjusted for company performance
- regular pension benefits under the Retirement Plan and the nonqualified pension plan. See "Retirement Benefits" above
- welfare benefits provided to all U.S. retirees, including retiree medical and dental insurance. The amounts shown in the table above as "Continuation of Medical / Welfare Benefits" are explained below
- distributions of plan balances under the 401(k) Plan, the nonqualified savings plan, and the Deferred Compensation Plan. See the narrative following the Nonqualified Deferred Compensation in 2020 table for information about these plans.

Death and Disability: A termination of employment due to death or disability does not entitle named executive officers to any payments or benefits that are not available to U.S. salaried employees generally.

Termination for Cause: Executives terminated for cause receive no severance or enhanced benefits and forfeit any unvested equity grants.

Change-in-Control Severance Pay Plan: As described in the CD&A under "Other Compensation Practices and Information—Severance Benefits," the company maintains a change-in-control severance pay plan for nearly all employees, including the named executive officers. The change-in-control plan for executive officers defines a change in control very specifically, but generally the terms include the occurrence of one of the following: (i) acquisition of 20 percent or more of the company's stock; (ii) replacement by the shareholders of one half or more of the board; (iii) consummation of a merger, share exchange, or

consolidation of the company (other than a transaction that results in the Lilly shareholders prior to the transaction continuing to hold more than 60 percent of the voting stock of the combined entity); or (iv) liquidation of the company or sale or disposition of all or substantially all of its assets. The amounts shown in the table for "involuntary or good-reason termination after change in control" are based on the following assumptions and plan provisions:

- **Covered terminations.** The table assumes a termination of employment that is eligible for severance under the terms of the plan, based on the named executive officer's compensation, benefits, age, and service credit at December 31, 2020. Eligible terminations include an involuntary termination for reasons other than for cause or a voluntary termination by the executive for good reason, within two years following the change in control.
  - A termination of an executive officer by the company is for cause if it is for any of the following reasons: (i) the employee's willful and continued refusal to perform, without legal cause, his or her material duties, resulting in demonstrable economic harm to the company; (ii) any act of fraud, dishonesty, or gross misconduct resulting in significant economic harm or other significant harm to the business reputation of the company; or (iii) conviction of or the entering of a plea of guilty or *nolo contendere* to a felony.
  - A termination by the executive officer is for good reason if it results from: (i) a material diminution in the nature or status of the executive's position, title, reporting relationship, duties, responsibilities, or authority, or the assignment to him or her of additional responsibilities that materially increase his or her workload; (ii) any reduction in the executive's then-current base salary; (iii) a material reduction in the executive's opportunities to earn incentive bonuses below those in effect for the year prior to the change in control; (iv) a material reduction in the executive's employee benefits from the benefit levels in effect immediately prior to the change in control; (v) the failure to grant to the executive stock options, stock units, performance shares, or similar incentive rights during each 12-month period following the change in control on the basis of a number of shares or units and all other material terms at least as favorable to the executive as those rights granted to him or her on an annualized average basis for the three-year period immediately prior to the change in control; or (vi) relocation of the executive by more than 50 miles.

- **Cash severance payment.** The cash severance payment amounts to two times the executive officer's annual base salary plus two times the executive officer's bonus target for that year under the Bonus Plan.

- **Continuation of medical and welfare benefits.** This amount represents the present value of the change-in-control plan's provision, following a covered termination, of 18 months of continued coverage equivalent to the company's current active employee medical, dental, life, and long-term disability insurance. Similar actuarial assumptions to those used to calculate incremental pension benefits apply to the calculation for continuation of medical and welfare benefits, with the addition of actual COBRA rates based on current benefit elections.

- **Acceleration of equity awards.** Upon a covered termination, any unvested equity awards would convert into restricted stock units of the new company, with the number of shares earned under the awards based on accrued performance at the time of the transaction. The restricted stock units will continue to vest and pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the award. The amount in this column represents the value of the acceleration of unvested equity grants had a qualifying termination occurred on December 31, 2020.

- **Excise taxes.** Upon a change in control, employees may be subject to certain excise taxes under Section 280G of the Internal Revenue Code. The company does not reimburse the affected employees for those excise taxes or any income taxes payable by the employee. To reduce the employee's exposure to excise taxes, the employee's change-in-control benefit may be decreased to maximize the after-tax benefit to the individual.

Payments Upon Change in Control Alone: The change-in-control plan is a "double trigger" plan, meaning payments are made only if the employee suffers a covered termination of employment within two years following the change in control, or in the case of equity awards, if the successor entity does not assume, substitute, or otherwise replace the awards.

Agreement with Former Chief Financial Officer

On February 9, 2021, Joshua L. Smiley resigned as senior vice president and chief financial officer of the Company. Shortly before his resignation, the company was made aware of allegations of an inappropriate personal relationship between Mr. Smiley and a Lilly employee. Lilly immediately engaged external counsel to conduct a thorough, independent investigation. That investigation revealed consensual though inappropriate personal communications between Mr. Smiley and certain Lilly employees and behavior that Lilly leadership concluded exhibited poor judgment by Mr. Smiley. Lilly holds all employees accountable to its core values and strongly believes its executive officers carry an even higher burden in ensuring those values are upheld. Mr. Smiley did not meet that standard. Mr. Smiley's conduct in question was not related to financial controls, financial statements or any other business matters or judgments.

In connection with Mr. Smiley's resignation, he and the Company entered into a Separation Agreement (the "Separation Agreement"), which provides that Mr. Smiley immediately resign from his position as senior vice president and chief financial officer of the Company, as well as forego all of his earned 2020 cash bonus (which would have otherwise been $1,102,317 based on company performance), 25 percent of his earned 2018-2020 shareholder value award (representing a forfeiture of $3,100,954

in value based on the closing price per share of Lilly common stock on the date of settlement), and all other outstanding and previously approved but not yet granted equity incentive awards, totaling over $20 million at target value (calculated based on the closing price of the company's common stock on the day before Mr. Smiley's resignation). Mr. Smiley will be available to the company's chief executive officer and his successor as chief financial officer through July 2021 to facilitate the transition of his responsibilities, at reduced cash compensation of $9,000 every two weeks. The Separation Agreement includes customary provisions regarding confidentiality and a release of claims against the company, as well as a 24-month non-solicitation agreement and an 18-month non-competition agreement.

The table below reflects the compensation forfeited by Mr. Smiley in connection with the Separation Agreement. The value of the forgone equity awards were calculated using a price of $205.77, the closing price of the company's common stock on the day before Mr. Smiley's resignation, and assuming a payout at target (except for (i) the 2018-2020 SVA, which reflects the 25% reduction in the earned payout implemented by the Compensation Committee and (ii) the 2019-2021 PA, which reflects actual company performance through the performance period). The 2021 target bonus and equity award levels had been approved but the awards had not yet been granted as of Mr. Smiley's resignation.

Name	Compensation Element	Forfeited or Reduced Shares	Forfeited or Reduced Value	
Mr. Smiley	2020 Bonus	N/A	$1,102,317	[1]
	2018-2020 SVA	15,070	$3,100,954	[1]
	2019-2021 SVA	17,584	$3,618,260	[2]
	2019-2021 PA	14,453	$2,973,994	[3]
	2020-2022 SVA	8,910	$1,833,411	[2]
	2020-2022 RVA	6,420	$1,321,043	[2]
	2020-2022 PA	7,209	$1,483,396	[2]
	2021-2023 Equity Awards	N/A	$3,700,000	[2]
	2021 Bonus	N/A	$1,000,000	[4]
	Total		$20,133,375	

[1] Reflects the actual amount forfeited by Mr. Smiley in connection with the Separation Agreement.

[2] Represents the target amount forfeited by Mr. Smiley in connection with the Separation Agreement and the corresponding number of shares based on the closing price of the company's common stock on the day before Mr. Smiley's resignation. The actual amount and number of shares that will be awarded to participants who remain eligible for payout under these award programs may be above or below target based on company performance. With respect to Mr. Smiley's 2021-2023 equity awards, the value listed represents the target value approved by Compensation Committee in December 2020; this amount was cancelled by the Compensation Committee prior to any target shares being granted.

[3] Reflects the number of restricted stock units earned by Mr. Smiley after adjusting for company performance during the 2019-2020 performance period. The value forfeited is based on the closing price of the company's common stock on the day before Mr. Smiley's resignation. The Compensation Committee cancelled this award prior to its conversion to a 13-month service vesting restricted stock unit.

[4] Represents the 2021 target bonus amount forfeited by Mr. Smiley in connection with the Separation Agreement. The actual amount that will be awarded to participants who remain eligible for payout under the 2021 Bonus may be above or below target based on participant and company performance.

CEO Pay Ratio

Lilly's compensation and benefits philosophy across the organization is to encourage and reward all employees who contribute to our success. We strive to ensure the pay of every Lilly employee reflects the level of their job impact and responsibilities and is competitive within our peer group. Lilly's ongoing commitment to pay equity is critical to our success in supporting a diverse workforce with opportunities for all employees to grow, develop, and contribute.

Below is the 2020 annual total compensation of our CEO and our median employee and the ratio of the annual total compensation of our CEO to that of our median employee.

CEO Pay Ratio:	
CEO Annual Total Compensation*	$23,708,629
Median Employee Annual Total Compensation	$101,752
CEO to Median Employee Pay Ratio	233:1

*This annual total compensation is the "Summary Compensation Table" amount.

Methodology:

- **Measurement Date:** We identified the median employee using our employee population on October 31, 2020. On this date, Lilly employed approximately 36,500 people, with approximately 16,000 members of our workforce located in the U.S. and approximately 20,500 members of our workforce located outside of the U.S.

- **Identification of Median Employee:** In a manner consistent with SEC rules, we identified the median employee by use of a "consistently applied compensation measure," or CACM. Specifically, we identified the median employee by looking at annual base pay, bonus opportunity at target, and the grant date fair value for standard equity awards. We did not adjust the compensation paid to part-time employees to calculate what they would have been paid on a full-time basis.

- **De Minimis Exception:** Lilly has employees in 76 countries. In identifying the median employee, we excluded 340 workers in the following 8 countries, which represent approximately one percent of our workforce: Bahrain, Greece, Indonesia, Kuwait, Oman, Pakistan, Qatar, and United Arab Emirates. We excluded these employees because they are affiliated with joint ventures or third-party distributors, and Lilly does not set their compensation philosophy.

- **Calculated CEO Pay Ratio:** After applying our CACM and excluding the employees listed above, we identified the median employee. Once the median employee was identified, we calculated the median employee's total annual compensation in accordance with the requirements of the Summary Compensation Table.

Audit Matters

Item 3. Ratification of the Appointment of the Independent Auditor

Audit Committee Oversight of the Independent Auditor

The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor and oversees the process for reviewing and evaluating the lead audit partner. Further information regarding the committee's oversight of the independent auditor can be found in the Audit Committee charter, available online at lilly.com/leadership/governance.

In connection with the decision regarding whether to reappoint the independent auditor each year (subject to shareholder ratification), the committee assesses the independent auditor's performance. This assessment examines three primary criteria: (1) the independent auditor's qualifications and experience; (2) the communication and interactions with the auditor over the course of the year; and (3) the auditor's independence, objectivity, and professional skepticism. These criteria are assessed against an internal and an external scorecard and are discussed with management during a private session as well as in executive session. The committee also periodically considers whether a rotation of the company's independent auditor is advisable.

Ernst & Young LLP (EY) has served as the independent auditor for the company since 1940. Based on the Audit Committee's assessment of EY's performance during 2020, the Audit Committee believes that the continued retention of EY to serve as the company's independent auditor is in the best interests of the company and its shareholders and has therefore reappointed EY as the company's independent auditor for 2021. In addition to this year's favorable assessment of EY's performance, we recognize that there are several benefits of retaining a longer-tenured independent auditor. EY has gained institutional knowledge and expertise regarding the company's global operations, accounting policies and practices, and internal controls over financial reporting. Audit and other fees are also competitive with peer companies because of EY's familiarity with the company and its operations. In accordance with the bylaws, this appointment is being submitted to the shareholders for ratification.

Representatives of EY are expected to participate in the Annual Meeting and will be available to respond to questions. Those representatives will have the opportunity to make a statement if they wish to do so.

Board Recommendation on Item 3

The board recommends that you vote FOR ratifying the appointment of EY as the independent auditor for 2021.

Audit Committee Report

The Audit Committee reviews the company's financial reporting process on behalf of the board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and disclosure controls. In this context, the Audit Committee has met and held discussions with management and the independent auditor. Management represented to the Audit Committee that the company's consolidated financial statements for the year ended

December 31, 2020 were prepared in accordance with GAAP, and the Audit Committee has reviewed and discussed the audited financial statements and related disclosures with management and the independent auditor, including a review of the significant management judgments underlying the financial statements and disclosures.

The independent auditor reports directly to the Audit Committee, which has sole authority to appoint and to replace the independent auditor (subject to shareholder ratification).

The Audit Committee has discussed with the independent auditor the matters required to be discussed with the Audit Committee by the standards of the Public Company Accounting Oversight Board (PCAOB), the SEC, and the NYSE, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditor required by applicable PCAOB rules regarding communications with the Audit Committee concerning independence and has discussed with the independent auditor the auditor's independence from the company and its management. In concluding that the auditor is independent, the Audit Committee determined, among other things, that the non-audit services provided by EY (as described below) were compatible with its independence. Consistent with the requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the Audit Committee has adopted policies to ensure the independence of the independent auditor, such as prior committee approval of non-audit services and required audit partner rotation.

The Audit Committee discussed with the company's internal and independent auditors the overall scope and plans for their respective audits, including internal control testing under Section 404 of the Sarbanes-Oxley Act. The Audit Committee periodically meets with the internal and independent auditors, with and without management present, and in private sessions with members of senior management (such as the chief financial officer and the chief accounting officer) to discuss the results of their examinations, their evaluations of the company's internal controls, and the overall quality of the company's financial reporting. The Audit Committee also periodically meets in executive session.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the board (and the board subsequently approved the recommendation) that the audited consolidated financial statements be included in the company's Annual Report on Form 10-K for the year ended December 31, 2020, for filing with the SEC. The Audit Committee has also appointed EY as the company's independent auditor, subject to shareholder ratification, for 2021.

Audit Committee

Jamere Jackson, Chair
Ralph Alvarez
Michael L. Eskew
Gabrielle Sulzberger
Jackson P. Tai
Karen Walker

Services Performed by the Independent Auditor

The Audit Committee pre-approves all services performed by the independent auditor, in part to assess whether the provision of such services might impair the auditor's independence. The Audit Committee's policy and procedures are as follows:

- **Audit services:** The Audit Committee approves the annual audit services engagement and, if necessary, any changes in terms, conditions, and fees resulting from changes in audit scope, company structure, or other matters. Audit services include internal controls attestation work under Section 404 of the Sarbanes-Oxley Act. The Audit Committee may also pre-approve other audit services, which are those services that only the independent auditor reasonably can provide.

- **Audit-related services:** Audit-related services are assurance and related services that are reasonably related to the performance of the audit or reviews of the financial statements, and that are traditionally performed by the independent auditor. The Audit Committee believes that the provision of these services does not impair the independence of the auditor.

- **Tax services:** The Audit Committee believes that, in appropriate cases, the independent auditor can provide tax compliance services, tax planning, and tax advice without impairing the auditor's independence.

- **Other services:** The Audit Committee may approve other services to be provided by the independent auditor if (i) the services are permissible under SEC and PCAOB rules, (ii) the Audit Committee believes the provision of the services would not impair the independence of the auditor, and (iii) management believes that the auditor is the best choice to provide the services.

- **Approval process:** At the beginning of each audit year, management requests pre-approval from the Audit Committee of the annual audit, statutory audits, and quarterly reviews for the upcoming audit year as well as any other services known at that time. Management will also present at that time an estimate of all fees for the upcoming audit year and known services. As specific engagements are identified thereafter that were not initially approved, they are brought forward to the Audit

Committee for approval. To the extent approvals are required between regularly scheduled Audit Committee meetings, pre-approval authority is delegated to the committee chair.

For each engagement, management provides the Audit Committee with information about the services and fees, sufficiently detailed to allow the committee to make an informed judgment about the nature and scope of the services and the potential for the services to impair the independence of the auditor.

After the end of the audit year, management provides the committee with a summary of the actual fees incurred for the completed audit year.

Independent Auditor Fees

The following table shows the fees incurred for services rendered on a worldwide basis by EY in 2020 and 2019. All such services were pre-approved by the Audit Committee in accordance with the pre-approval policy.

	2020 ($ millions)	2019 ($ millions)
Audit Fees Annual audit of consolidated and subsidiary financial statements, including Sarbanes-Oxley 404 attestation Reviews of quarterly financial statements	$13.7	$14.2
Audit-Related Fees Primarily related to assurance and related services reasonably related to the performance of the audit or reviews of the financial statements primarily related to employee benefit plan and other ancillary audits, and due diligence services on potential acquisitions	$0.9	$0.7
Tax Fees Tax compliance services, tax planning, tax advice Primarily related to consulting and compliance services	$2.7	$2.7
Total	$17.3	$17.6

Numbers may not add due to rounding

Management Proposals

Item 4. Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure

The company's articles of incorporation provide that the board is divided into three classes, with each class elected every three years. The board, after review by its Directors and Corporate Governance Committee, has approved, and recommends that the shareholders approve, amendments to eliminate the classified board structure in order to provide for the annual election of all directors (the Declassification Amendments). From 2010 through 2012 and again from 2018 through 2020, the board submitted this management proposal to shareholders seeking approval to eliminate the company's classified board structure; however, under the company's articles of incorporation, the proposal requires the vote of 80 percent of the outstanding shares to be approved and on each prior occasion failed to receive the required vote.

If approved, the company would promptly make the required filings of the Declassification Amendments with the Secretary of State of Indiana, at which time the Declassification Amendments would become effective. Directors elected prior to the effectiveness of the Declassification Amendments would serve out their remaining three-year term and each Director elected after the Annual Meeting would serve a one-year term, ending at the next annual meeting of shareholders, and thereafter, the company's classified board structure would be fully eliminated starting with the 2024 annual meeting of shareholders. In the case of any vacancy on the board occurring after the Annual Meeting created by an increase in the number of directors, the vacancy would be filled through an appointment by the board, with the new director to serve a term ending at the next annual meeting of shareholders. Vacancies created by resignation, removal, or death would be filled by appointment by the board of a new director to serve until the end of the term of the director being replaced. This proposal would not change the present number of directors or the board's authority to change that number and to fill any vacancies or newly created directorships.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, taking into account the input of the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the classified board structure and eliminating the supermajority voting provisions in the company's articles of incorporation (see Item 5 below). The board

considered the view of certain shareholders who believe that classified boards have the effect of reducing the accountability of directors to shareholders because shareholders are unable to evaluate and consider all directors for election on an annual basis. The board gave considerable weight to the favorable votes of a strong majority of the outstanding shares for management's proposals in the previous three years.

The board also considered benefits of retaining the classified board structure. A classified structure may promote shareholder value by providing continuity and stability in the management of the business and affairs of the company, as a majority of the board always has prior experience as directors of the company. In addition, under certain circumstances, classified boards may enhance shareholder value by forcing an entity seeking control of the company to initiate discussions at arm's-length with the board of the company, because the entity cannot replace the majority of the board in a single election. The board also considered that even without a classified board (and without the supermajority voting requirements, which the board also recommends eliminating), the company has appropriate safeguards to protect the interests of all shareholders and discourage a would-be acquirer from proceeding with a proposal that undervalues the company or is opportunistic. These include other provisions of the company's articles of incorporation and bylaws, as well as certain provisions of Indiana corporation law.

After balancing these interests, the board has decided to resubmit this proposal to eliminate the classified board structure.

Text of the Amendments

Article 9(b) of the company's articles of incorporation contains the provisions that will be affected if this proposal is adopted. This article, set forth in Appendix B to this proxy statement, shows the proposed changes, with deletions indicated by strikeouts and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon the effectiveness of the amendments to the articles of incorporation.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to approve this proposal. Unless such vote is received, the present classification of the board will continue.

Board Recommendation on Item 4

The board recommends that you vote FOR amending the company's articles of incorporation to eliminate the classified board structure.

Item 5. Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions

The company's articles of incorporation provide nearly all matters submitted to a vote of shareholders can be adopted by a majority of the votes cast. However, the company's articles of incorporation require certain fundamental corporate actions to be approved by the holders of 80 percent of the outstanding shares of common stock. Those actions are:

- amending certain provisions of the articles of incorporation that relate to the number and terms of office of directors:
    - the company's classified board structure (as described under Item 4)
    - a provision that the number of directors shall be specified solely by resolution of the board
- removing directors prior to the end of their elected term
- entering into mergers, consolidations, recapitalizations, or certain other business combinations with a "related person"—a party who has acquired at least five percent of the company's stock (other than the Endowment or a company benefit plan) — without the prior approval of such action or transaction by the directors not affiliated with such shareholder
- modifying or eliminating any of the above supermajority voting requirements.

The board, after review by its Directors and Corporate Governance Committee, has approved, and recommends that the shareholders approve, amendments to eliminate the supermajority voting requirements. From 2010 through 2012 and again from 2018 through 2020, the board submitted this management proposal to shareholders seeking approval to eliminate these supermajority voting requirements; however, under the company's articles of incorporation the proposal requires the vote of 80 percent of the outstanding shares to be approved and on each prior occasion failed to receive the required vote.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, taking into account the input of the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the supermajority voting requirements. The board considered that under certain circumstances, supermajority voting requirements can provide benefits to the company and all its shareholders by making it more difficult for one or a few large shareholders to facilitate a takeover of the company or implement certain significant changes to the company without more widespread shareholder support.

The board also considered the potential adverse consequences of maintaining the supermajority voting requirements. The board believes it is important to maintain shareholder confidence by demonstrating that the board is responsive and accountable to shareholders and committed to strong corporate governance. This requires the board to carefully balance sometimes competing interests. In this regard, the board gave considerable weight to the favorable votes of a strong majority of the outstanding shares for management's proposal in the previous three years. Many shareholders believe that supermajority voting requirements impede accountability to shareholders and contribute to board and management entrenchment. The board also considered that, even without the supermajority vote (and without the classified board, which the board also recommends eliminating), the company has appropriate safeguards to protect the interests of all shareholders and to discourage a would-be acquirer from proceeding with a proposal that undervalues the company or is opportunistic and to assist the board in responding to such proposals. These include other provisions of the company's articles of incorporation and bylaws as well as certain provisions of Indiana corporation law.

After balancing these interests, the board has decided to resubmit this proposal to eliminate the supermajority voting requirements.

Text of Amendments

Articles 9(c), 9(d), and 13 of the company's articles of incorporation contain the provisions that will be affected if this proposal is adopted. These articles, set forth in Appendix B to this proxy statement, show the proposed changes with deletions indicated by strikeouts and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon the effectiveness of the amendments to the articles of incorporation.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to approve this proposal. Unless such vote is received, the supermajority voting requirements will continue to be in effect.

Board Recommendation on Item 5

The board recommends that you vote FOR amending the company's articles of incorporation to eliminate supermajority voting requirements.

Shareholder Proposals

Item 6. Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures

Service Employees International Union Pension Plans Master Trust, 1800 Massachusetts Ave NW, Suite 301, Washington DC 20036-1202, beneficial owner of 27,486 shares of our common stock as of November 13, 2020, has submitted the following proposal:

WHEREAS, we believe in full disclosure of Lilly's direct and indirect lobbying activities and expenditures to assess whether Lilly's lobbying is consistent with its expressed goals and in the best interests of shareholders.

RESOLVED, the shareholders of Lilly request the preparation of a report, updated annually, disclosing:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.

2. Payments by Lilly used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.

3. Lilly's membership in and payments to any tax-exempt organization that writes and endorses model legislation.

4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which Lilly is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.

The report shall be presented to the Public Policy and Compliance Committee and posted on Lilly's website.

Supporting Statement

Lilly spent $82,532,000 from 2010 - 2019 on federal lobbying. This does not include state lobbying in the 48 states where Lilly lobbies[1] but disclosure is uneven or absent. Lilly also lobbies abroad, spending between €700,000-799,000 on lobbying in Europe for 2019 and attracting scrutiny for "using shifty lobbying tactics to dodge regulations and get medicines approved" in Australia.[2]

Lilly sits on the board of the Pharmaceutical Research and Manufacturers of America (PhRMA) and belongs to the Chamber of Commerce, which together have spent over $2.0 billion on lobbying since 1998. Lilly does not disclose its payments to trade associations and social welfare organizations, or the amounts used for lobbying, including grassroots. Grassroots lobbying does not get reported at the federal level under the Lobbying Disclosure Act, and disclosure is uneven or absent in states.

We are concerned Lilly's payments to third party groups are potentially being used for undisclosed grassroots lobbying. For example, PhRMA, which brought in $459 million in revenue for 2018, has given millions to "dark money" social welfare groups which then "advocated policies favored by drugmakers.[3]

We are also concerned Lilly's lack of disclosure presents reputational risk when its lobbying contradicts company public positions. For example, Lilly states it works to makes medicine more affordable, yet funds PhRMA's opposition to lower drug price initiatives.[4] Lilly publicly supported COVID-19 efforts, but the Chamber directly lobbied against using the Defense Production Act for production of personal protective equipment for workers.[5] And Lilly's ALEC membership has drawn negative scrutiny.[6]

Statement in Opposition to the Shareholder Proposal to Disclose Direct and Indirect Lobbying Activities and Expenditures

The board, after review by its Directors and Corporate Governance Committee and Ethics and Compliance Committee, recommends a vote against this proposal.

Lilly already publishes a substantial amount of the information requested by the shareholder. Requiring us to prepare a separate report with this information would place an undue administrative burden on the company and would not provide meaningful additional information to shareholders, given our transparency with respect to lobbying activities and the governance and risk mitigation procedures we have in place regarding such activities. Moreover, Lilly's shareholders have decidedly rejected the substantially same proposal submitted at each of our last four annual meetings.

Since 2005, the company has published the following information, which is updated annually on our website (lilly.com/policies-reports/public-policy/transparency) for both direct company contributions and employee political action committee (PAC) contributions to support candidates for political office, political parties, officials, or committees in the U.S.:

- policies and procedures for company and PAC contributions;
- contributions to candidates, including information about the candidate's office (for example, state, local, or federal; House or Senate) and party affiliation; and
- contributions to political organizations and Section 527 organizations reported by state.

Moreover, detailed corporate contributions, PAC contribution data, and the company's direct lobbying expenses are available to the public on the Federal Election Committee website (fec.gov/data/) and through individual state agencies. The company's direct lobbying expenses are also available to the public on the Lobbying Disclosure page of the U.S. House website (disclosures.house.gov/ld/ldsearch) and through individual state agencies.

[1] https://publicintegrity.org/state-politics/amid-federal-gridlock-lobbying-rises-in-the-states/
[2] https://www.aap.com.au/hunt-calls-out-big-pharmas-dodgy-lobbying/.
[3] https://www.opensecrets.org/news/2019/11/big-pharma-bankrolled-conservative-groups-tax-returns-show/.
[4] https://www.cnn.com/2019/01/23/health/phrma-lobbying-costs-bn/index.html
[5] https://www.nytimes.com/2020/03/22/us/politics/coronavirus-trump-defense-production-act.html.
[6] https://www.commoncause.org/wp-content/uploads/2020/05/Eli-Lilly-ALEC-COVID-letter-FINAL.pdf.

In addition to direct political contributions, Lilly maintains memberships in certain 501(c)(6)s-trade associations that report lobbying activity to the U.S. government. We maintain memberships in trade associations and other tax-exempt organizations specific to business and pharmaceutical industry interests, such as PhRMA, BIO (Biotechnology Association), and the National Association of Manufacturers. We support organizations that champion public policies that contribute to pharmaceutical innovation, healthy patients, and a healthy business climate. Information relating to Lilly's memberships in trade associations to which we contribute $50,000 per year or more, and any such organizations where Lilly has a board seat can be found on our website (lilly.com/policies-reports/public-policy/transparency). These tax-exempt organizations are also required to disclose their lobbying expenditures under the Lobbying Act of 1995, under which they report their lobbying expenditures to the U.S. Senate. Because the company does not direct the lobbying of trade associations or other groups, attempting to quantify indirect lobbying would be difficult to estimate and potentially misleading to shareholders.

The board also exercises oversight of Lilly's political expenditures and lobbying activities to ensure that we fulfill our commitment to stewardship of corporate funds and risk minimization with respect to such activities.

We do not believe any potential value provided by the requested additional disclosures merits the resources required to provide the report requested by the proposal; for these reasons, we believe that the proposal is not in the best interests of the company and its shareholders.

Board Recommendation on Item 6

The board recommends that you vote AGAINST this proposal.

Item 7. Proposal to Amend the Bylaws to Require an Independent Board Chair

IBVM Foundation of Canada, Inc., 70 St. Mary Street Toronto, ON M5S 1J3 CANADA, beneficial owner of 400 shares of our common stock as of November 2, 2020, has submitted the following proposal:

RESOLVED, Eli Lilly ("Lilly" or the "Company") shareholders request the Board of Directors adopt as policy (the "Policy"), and amend the bylaws as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, be an independent member of the board. The Policy shall apply prospectively so as not to violate any contractual obligations. If the board determines that a Chair who was independent when selected is no longer independent, the board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy would be phased in for the next CEO transition.

Supporting Statement

In 2018, the Minnesota Attorney General sued three makers of synthetic insulin, including Lilly, alleging that the companies' publication of "deceptive and misleading" list prices for insulin violates federal and state law. According to the complaint, substantial list price increases for insulin have imposed financial burdens on patients because list prices are used to determine the amount some patients and institutional purchasers must pay. Congressional hearings have been held on the rising cost of insulin, and media attention continues to focus on the effects of high insulin prices, including patient deaths.

The risk of lawsuits, sustained public controversy and regulatory intervention, whether ultimately found to be justified or not, are strong arguments for the need for continuous, effective and unconflicted board oversight of corporate management. The board is responsible for this oversight, but conflicts of interest may arise when one person holds both the Chair and CEO positions. In our view, shareholders are best served by an independent board Chair who can provide a balance of power between the CEO and the board. We believe that Lilly's board should adopt best practice governance policies, including having an independent board chair.

We believe:

- The role of the CEO and management is to run the company;
- The role of the board is to provide independent oversight of management and the CEO;
- There is an inherent conflict of interest when the same person occupies both the role of CEO and Chair.

According to PWC's 2019 survey of over 700 directors, 57% of directors surveyed who sit on a board with a combined Chair/CEO say it is difficult to voice dissent—a 37% higher result than on boards with an independent Chair.

33% of companies in the S&P 500 have an independent Chair. Numerous institutional investors recommend such a move. For example, California's Retirement System CalPERS' Principles & Guidelines encourage separation, even with a lead director in place. The Council of Institutional Investors' corporate governance policies favor independent board chairs.

In order to ensure that our board can provide rigorous oversight for our Company and management with greater independence and accountability, we urge a vote FOR this shareholder proposal.

Statement in Opposition to the Shareholder Proposal to Amend the Bylaws to Require an Independent Board Chair

The board, after review by its Directors and Corporate Governance Committee and its Ethics and Compliance Committee, recommends a vote against this proposal.

If implemented, the proposal would lock in a mandatory board leadership structure that eliminates our board's flexibility to evaluate and adopt what it believes to be the most effective leadership structure for Lilly under the relevant facts and circumstances at any given point in time. Unlike the proponent, the board believes, whether in the present or after the next CEO transition, that there is no "one-size-fits-all" approach to board leadership and recognizes that two of its key responsibilities are to evaluate and implement the leadership structure best suited to achieve the company's objectives and to promote the long-term interests of its shareholders with due regard for all our stakeholders. In 2020, the board continued its ongoing assessment of its leadership structure in the context of our business, long-term strategy, and industry environment and developments in corporate governance, and believes that a combined chairman and CEO, coupled with a strong lead independent director position, continues to be in the best interest of the company and our shareholders.

Lilly's board leadership structure is consistent with market practice and our flexible approach was strongly endorsed by Lilly's shareholders last year.

There is no singular approach to independent board leadership across S&P 500 companies. As the proponent indicates, only 36 percent of the S&P 500 have independent chairs.[1] Notably, like Lilly, as of December 31, 2020, 57 percent of S&P 500 companies instead have lead independent directors,[2] and as of December 2, 2020, 61 of the S&P 100 companies[3] and seven of the eight U.S.-incorporated companies from our peer group (see P47 for a list of our peer group companies)[4] have a combined board chair and CEO. In addition, Lilly's shareholders decidedly rejected a similar proposal seeking to mandate an independent board chair at our 2020 annual meeting of shareholders, with approximately two-thirds of the votes cast against the proposal, thus endorsing our flexible approach.

Lilly's current board leadership structure and corporate governance practices provide effective, independent oversight of management.

Lilly has a strong independent board that operates under sound principles of corporate governance. (See P7–P8 and P32–P35 for a description of the board's governance principles.) Although the chairman and CEO roles are combined, we ensure independent oversight of the company through a counterbalancing governance structure, which we have had since 2006 through either a lead independent director or presiding director. Further bolstering independent oversight, each of our current board members other than the CEO is independent (14 out of 15 directors), and all standing board committees are made up solely of independent directors and led by independent committee chairs.

Lilly's lead independent director is appointed annually by the board, which conducts an assessment of his or her performance as part of the annual board assessment process. Our strong lead independent director is empowered with clearly defined responsibilities, including:

- leading the board's processes for selecting the CEO;
- overseeing the independent directors' annual performance evaluation of the chairman and CEO;
- serving as a liaison between the chairman and the independent directors;
- presiding at all meetings of the board at which the chairman is not present;
- presiding at executive sessions of the independent directors;
- calling meetings of the independent directors, as appropriate;
- approving meeting agendas and schedules and reviewing information to be provided to the board;
- being available for consultation and direct communication with shareholders, as appropriate;
- together with the chairman and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process;
- together with the Directors and Corporate Governance Committee, leading the director succession planning process; and
- retaining advisors for the independent directors, as appropriate.

Furthermore, the board has instituted a number of governance best practices to ensure effective independent oversight, including:

- executive sessions of the independent directors held after every regular board meeting that are presided over by our lead independent director;
- an annual performance evaluation of the chairman and CEO conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee and independent directors in establishing the CEO's compensation for the next year;

[1] Source: EY Center for Board Matters, Corporate Governance by the Numbers. December 31, 2020.
[2] Id.
[3] Source: ISS Corporate Solutions.
[4] Biogen Inc. has an independent board chair.

- independent director access to management whenever deemed necessary by the independent directors; and
- the ability of independent directors and all committees to retain their own independent advisors, at the company's expense, whenever they deem it desirable to do so.

Lilly's current governance structure provides effective, independent oversight over key matters that are important to our stakeholders, including drug pricing and access.

Our independent directors are deeply engaged in key matters important to Lilly and our stakeholders, including the oversight over the company's approach to drug pricing and access. Guided by this active oversight, Lilly already has taken numerous steps to address drug pricing and access concerns. For example, Lilly introduced two additional lower-priced versions of branded insulin in January 2020 and added the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which enables customers with commercial insurance or no insurance to purchase their monthly prescription of most Lilly insulins for $35. These examples, among others, demonstrate Lilly's commitment to providing effective oversight over drug pricing and access.

Our board of directors believes that our shareholders are best served by preserving the flexibility to determine the appropriate leadership structure for the company in light of the circumstances at the relevant time.

We believe the proposal would unnecessarily restrict the board's ability to exercise its fiduciary duty to determine the board leadership structure most appropriate for the company given the specific circumstances and leadership needs at any particular point in time. The company's robust governance framework ensures that board leadership is balanced with independent participation given the extensive involvement of the lead independent director and his oversight. Our independent directors also collectively bring to the board vast leadership experience, industry expertise, and other critical skills, and individually have demonstrated the willingness to think and act independently on behalf of shareholders. Therefore, adopting a proposal that would limit the board's ability to exercise decision making on the appropriate leadership is not in shareholders' best interests.

We believe independence is essential to strong corporate governance. The combination of a chairman who is also the CEO and a strong lead independent director achieves the delivery of multiple balanced inputs to the board. Having one individual serve as both chairman and CEO provides the board with deep insights to drive long-term strategy and execution and allows consistent communication throughout the company. This is vital to our innovative research and development business with prolonged product development cycles. Further, the lead independent director, currently a sitting CEO, drives an outside analysis of company decisions and performance and leads our independent directors in their important oversight function. This leadership structure has served our shareholders well.

Lilly's independent directors have determined that Mr. Ricks is eminently qualified to serve as both chairman and CEO, and the board believes that having him fill that combined role, complemented by Mr. Luciano, a strong lead independent director, strikes an appropriate balance between consistent leadership and independent and effective oversight that is optimal for the company and our shareholders. For additional information on the particular qualities of Mr. Ricks and why he is best suited to serve as chairman at this time, as well as information on the leadership provided by Mr. Luciano, the lead independent director, please see "Governance—Highlights of the Company's Corporate Governance—Leadership Structure; Oversight of Chairman, CEO, and Senior Management" on P34–P35.

For these reasons, we believe a policy requiring an independent board chair is not necessary and not in the best interests of the company and its shareholders.

Board Recommendation on Item 7

The board recommends that you vote AGAINST this proposal.

Item 8. Proposal to Implement a Bonus Deferral Policy

UAW Retiree Medical Benefits Trust, 777 East Eisenhower Parkway, Suite 800, Ann Arbor, Michigan, 48108, beneficial owner of shares of our common stock having a market value in excess of $2000, has submitted the following proposal:

RESOLVED that shareholders of Eli Lilly and Company ("Lilly") urge the Compensation Committee (the "Committee") of the board to take the steps necessary to provide that the Committee may decline to pay in full an award (a "Bonus") to a senior executive that is based on one or more financial measurements (a "Financial Metric") whose performance measurement period ("PMP") is one year or shorter for a period (the "Deferral Period") following the award, including developing a methodology for determining the length of the Deferral Period and adjusting the remainder of the Bonus over the Deferral Period.

The methodology referenced above should allow accurate assessment of risks taken during the PMP that could have affected performance on the Financial Metric(s) and facilitate Lilly's recoupment of Bonus compensation pursuant to its recoupment policy.

The changes should be implemented in a way that does not violate any existing contractual obligation or the terms of any compensation or benefit plan currently in effect.

Supporting Statement

As long-term shareholders, we support compensation policies that align senior executives' incentives with the company's long-term success. We are concerned that short-term incentive plans can encourage senior executives to take on excessive risk.

In our view, reliance on price increases and anticompetitive practices can create significant risks for pharmaceutical firms. Lilly has come under fire for repeated increases in the price of its insulin products: Congress has held hearings on insulin pricing, and media attention has focused on the impact on patient access. The Minnesota and Kentucky Attorneys General have sued Lilly, claiming that it published "deceptive and misleading" list prices for insulin in order to pay larger rebates to pharmacy benefit managers. Congressional committees and other states are investigating Lilly's insulin pricing and sale.

To foster a longer-term orientation, this proposal asks that the Committee take the steps necessary to authorize withholding some portion of Bonuses to allow adjustment of the unpaid portion during the Deferral Period. The Committee would have discretion to set the terms and mechanics of this process.

Bonus deferral is widely used in the banking industry, where overly risky behavior was widely viewed as contributing to the financial crisis. In 2009, the Financial Stability Board ("FSB"), which coordinates national financial authorities in developing strong financial sector policies, adopted Principles for Sound Compensation Practices and implementation standards for those principles, including bonus deferral. Deferral is "particularly important" because it allows "late-arriving information about risk-taking and outcomes" to alter payouts and reduces the need to claw back compensation already paid out, which may "fac[e] legal barriers," in the event of misconduct. Banking supervisors in 16 jurisdictions, including the US, have requirements or expectations regarding bonus deferral. (https://www.fsb.org/wp-content/uploads/P170619-1.pdf)

We urge shareholders to vote FOR this proposal.

Statement in Opposition to the Shareholder Proposal to Implement a Bonus Deferral Policy

The board, after review by its Directors and Corporate Governance Committee, Ethics and Compliance Committee and Compensation Committee, recommends a vote against this proposal.

Our Compensation Committee has structured Lilly's executive officer compensation with a view toward appropriately focusing its executive officers on making decisions that are in the long-term best interest of the company. A majority of each executive officer's compensation, which is reviewed annually by our Compensation Committee, is aligned to enhance shareholder value by promoting the delivery of sustainable business results and discouraging excessive risk-taking or other adverse behaviors. Notably, Lilly's chief executive officer, Mr. Ricks, has a total target pay mix of 77 percent long-term equity, 14 percent annual bonus, and 9 percent base pay and Lilly's remaining named executive officers have an average pay mix target of 63 percent long-term equity incentives, 18 percent annual bonus, and 19 percent base pay. All of Lilly's equity awards to its executive officers are subject to performance goals measured over multiple years and significant vesting periods of three years during which the awards remain subject to forfeiture. Furthermore, any equity earned under the majority of executive officer long-term equity incentives are subject to an additional one-year holding requirement, after the three-year performance period, during which time the executives cannot realize any value from the awards and remain aligned with Lilly shareholders. Additional risk is mitigated by the discretion afforded to our Compensation Committee to downward adjust award payouts on any basis it deems appropriate. Our robust stock ownership and retention guidelines for executive officers further align management with the long-term performance of the Company and discourage excessive risk-taking.

Further, the policy that the proposal requests is unnecessary as Lilly already has an effective and robust compensation recovery policy (otherwise referred to as our clawback policy) in place. Under our current clawback policy, the Compensation Committee is authorized to cancel any unpaid executive incentive compensation (including annual bonus payments and long-term equity incentive awards) and claw back any incentive compensation for up to three years following payment in the event of certain specified misconduct.

While the deferral of the annual bonus payment may appear to provide an easier mechanism to claw back bonus payments in the unlikely event it were to become necessary, as a practical matter, our existing clawback policy already provides an effective avenue for the company to claw back payments while at the same time maintaining a competitive executive compensation program that enables the company to recruit and retain talent.

Contrary to the assertions in the proposal's supporting statement, our board and management already effectively oversee the Company's approach to the pricing of and access to drugs. For example, Lilly is committed to making medicines accessible to patients and our management has taken steps to reduce access barriers imposed by drug prices, including introducing two additional lower-priced versions of branded insulin in January 2020 and adding the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which enables customers with commercial insurance or no insurance to purchase their monthly prescription of most Lilly insulins for $35.

For these reasons, we believe implementing a bonus deferral policy is not necessary and not in the best interests of the company and its shareholders.

Board Recommendation on Item 8

The board recommends that you vote AGAINST this proposal.

Item 9. Proposal to Disclose Clawbacks on Executive Incentive Compensation Due to Misconduct

Trinity Health, 766 Brady Avenue, Apt 635, Bronx, NY 10462, beneficial owner of 46,389 shares of our common stock as of November 16, 2020, has submitted the following proposal:

RESOLVED, that shareholders of Eli Lilly and Company ("Lilly") urge the board of directors ("Board") to adopt a policy (the "Policy") that Lilly will disclose annually whether it, in the previous fiscal year, recouped any incentive compensation from any senior executive or caused a senior executive to forfeit all or part of an incentive compensation award (each, a "clawback") as a result of applying Lilly's clawback provisions. "Senior executive" includes a former senior executive.

The Policy should provide that the general circumstances of the clawback will be described and that if no clawback of the kind described above occurred in the previous fiscal year, a statement to that effect will be made. The disclosure requested in this proposal is intended to supplement, not supplant, any disclosure required by law, regulation or agreement and the Policy should not apply if disclosure would violate any law, regulation or agreement.

Supporting Statement

As long-term shareholders, we believe compensation practices should promote sustainable value creation. Lilly has mechanisms in place to claw back incentive compensation from senior executives in the event of misconduct causing significant harm to Lilly, a supervisory failure to prevent such misconduct by others, and in the event of materially inaccurate financial statements or performance calculations.

Lilly's most recent 10-K discloses that its insulin pricing and sale are the subject of civil investigative demands from the Attorneys General of Washington, Colorado and New Mexico and information requests from the Attorneys General of five states and the District of Columbia. As well, Congressional committees have requested information about Lilly's insulin pricing.

In 2018, the Minnesota Attorney General accused Lilly of publishing "deceptive and misleading" list prices for insulin. The complaint urges that artificially high list prices were used to offer higher rebates to pharmacy benefit managers, increasing costs for patients whose out-of-pocket costs are based on the list price. Similar complaints have been filed by the Kentucky Attorney General and Harris County, Texas. Two cases have also been filed against Lilly for violating state consumer protection laws and the federal Racketeer Influenced and Corrupt Organizations Act.

Lilly has not made any proxy statement disclosure regarding the application of its clawback provisions. Such disclosure would allow shareholders to evaluate the Compensation Committee's use of those provisions and reinforce behavioral expectations. Disclosure of recoupment from senior executives below the named executive officer level, recoupment from whom is already required to be disclosed under SEC rules, would be useful for shareholders because these executives may have business unit responsibilities or otherwise be in a position to take substantial risk or affect company policies.

We are sensitive to privacy concerns and recommend that Policy provide for disclosure that does not violate privacy expectations (subject to laws requiring fuller disclosure).

We urge shareholders to vote for this proposal.

Statement in Opposition to the Shareholder Proposal to Disclose Clawbacks on Executive Incentive Compensation Due to Misconduct

The board, after review by its Directors and Corporate Governance Committee, Ethics and Compliance Committee and Compensation Committee, recommends a vote against this proposal.

The board believes that our current executive compensation structure, including our compensation recovery policy (otherwise referred to as our clawback policy) strikes an appropriate balance in motivating our executive officers to deliver long-term results for our shareholders, while simultaneously holding the senior leadership team accountable and discouraging unreasonable risk-taking. In addition, the board believes the broad disclosure requested by the proposal extends beyond what is required under existing legal requirements.

Our core values of integrity, excellence and respect for people guided the creation and implementation of the company's existing clawback policy, which was adopted in 2013. We hold all employees accountable to these core values, but we strongly believe that our executive officers carry an even higher burden in ensuring our values are upheld. To that end, all executives' incentive compensation is subject to the terms of our clawback policy. Executives may be subject to the forfeiture or clawback of cash or equity in the event of misconduct that results in causing significant harm to the company, disciplinary action, a material violation of law or company policy or financial restatement. The board believes that the company's current ability to recoup employee compensation for up to three years discourages unreasonable risk-taking and reflects our strong commitment to ethics and integrity.

Lilly is already subject to SEC requirements to disclose in its annual proxy statement when compensation has been recouped, and the amount recouped, from the chief executive officer, the chief financial officer, and other current and former named executive officers who served during the prior fiscal year. If necessary to understanding the company's executive compensation structure, the company is required to disclose in its annual proxy statement the reasons for recoupment and how the company determined the amount to be recovered. Thus, the board does not believe that expanding the disclosure requirements to all current and former "senior executives" is warranted.

Further, the recoupment of incentive compensation is not the only action that is available to address any potential misconduct of senior executives. In response to senior executive misconduct or violation of company policy, the company may institute reasonable and appropriate corrective actions to address misconduct, such as termination or change in job responsibility, further training, disciplinary action, or material alterations to compensation plans in future years. None of these actions would be disclosed in an annual report requested by the proposal. As a result, the annual report contemplated by the proposal could present a misleading picture of how instances of misconduct might be addressed by the company.

In summary, the board believes that adopting a policy requiring an annual report of compensation clawbacks is overly prescriptive and unnecessary given the company's existing clawback policy and the SEC's disclosure requirements discussed above; for these reasons, we believe the proposal is not necessary and not in the best interests of the company and its shareholders.

Board Recommendation on Item 9

The board recommends that you vote AGAINST this proposal.

Other Information

Meeting and Voting Logistics

Additional Items of Business

We do not expect any items of business to be submitted to shareholders at the Annual Meeting other than the proposals referred to in this proxy statement. Nonetheless, if necessary, the persons named on the proxy have discretionary authority to vote the shares represented thereby with respect to any other matters that might be brought before the meeting. Those persons intend to vote on any such matters in accordance with their best judgment.

Voting

Shareholders as of the close of business on February 22, 2021 (the record date) may vote or have their shares voted at the Annual Meeting. You have one vote for each share of common stock you held on the record date, including shares:

- held directly in your name as the shareholder of record;
- held for you in an account with a broker, bank, or other nominee; and
- attributed to your account in the company's 401(k) Plan.

We encourage you to vote by mail, by telephone, or online even if you plan to attend the Annual Meeting. Shareholders who hold their shares in the 401(k) Plan must vote by April 28, 2021 so the plan trustee can vote their shares accordingly. See "—Voting Shares Held in the Company 401(k) Plan" for more information.

Required Vote

Below are the vote requirements for the various proposals:

- The five nominees for director will be elected if the votes cast for the nominee exceed the votes cast against the nominee. Abstentions and broker non-votes will not count as votes cast either for or against a nominee.
- The following items of business will be approved if the votes cast for the proposal exceed the votes cast against the proposal:
    - an advisory approval of compensation paid to the named executive officers presented in this proxy statement;

- ratification of the appointment of the independent auditor; and
- four shareholder proposals.

Abstentions and broker non-votes will not be counted as votes cast either for or against these proposals. As discussed below in "Meeting and Voting Logistics — Voting Shares Held by a Broker," broker non-votes are not expected in connection with the ratification of the appointment of the independent auditor.

- The proposals to amend the articles of incorporation to eliminate the classified board structure and to eliminate supermajority voting provisions require the vote of 80 percent of the outstanding shares of our common stock. For these items, abstentions and broker non-votes have the same effect as a vote against the proposals.

Quorum

A majority of the outstanding shares entitled to vote, present or represented by proxy, constitutes a quorum for the Annual Meeting. As of February 22, 2021, 958,992,159 shares of company common stock were issued and outstanding.

Voting by Shareholders of Record

If you are a shareholder of record, you may vote by any one of the following methods:

Online. You may vote online at proxyvote.com. Follow the instructions on your proxy card or notice. If you received these materials electronically, follow the instructions in the email message that notified you of their availability.

By telephone. Call 1-800-690-6903 using a touch-tone phone and follow the instructions provided.

By mail. If you received or requested paper copies of your proxy materials, sign, date, and return each proxy card you receive in the prepaid envelope. Sign your name exactly as it appears. If you are signing in a representative capacity (for example, as an attorney-in-fact, executor, administrator, guardian, trustee, or the officer or agent of a corporation or partnership), please indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners. If you return your signed proxy but do not indicate your voting preferences, the proxy holder will vote on your behalf based upon the board's recommendations.

You may vote your shares prior to the Annual Meeting until 11:59 p.m. EDT on May 2, 2021 online or by telephone. If you are voting by mail, your marked, signed, and dated proxy card must be received by May 2, 2021. Shareholders of record may also opt to vote at the Annual Meeting, which will be held online via live webcast at virtualshareholdermeeting.com/LLY2021. See "— Attending the Annual Meeting" for more information on attending the meeting.

You have the right to change your vote or revoke your proxy before it is voted at the Annual Meeting by (i) timely notifying the General Counsel and Secretary in writing, (ii) timely delivering a later-dated proxy by mail, or (iii) timely casting a new vote online or by telephone. Shareholders of record may also revoke their proxies by voting at the Annual Meeting.

Voting Shares Held by a Broker

If your shares are held by a broker, the broker will ask you how you want your shares to be voted. You may instruct your broker or other nominee to vote your shares by following instructions that the broker or nominee provides to you. Most brokers offer voting by mail, by telephone, and online. You may submit new voting instructions by contacting your broker or other nominee or by voting at the Annual Meeting.

If you give the broker instructions, your shares will be voted as you direct. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a "broker non-vote." In these cases, the broker can register your shares as being present at the Annual Meeting for purposes of determining the presence of a quorum but will not be able to vote on those matters for which specific authorization is required under NYSE rules. If you are a beneficial owner whose shares are held of record by a broker, your broker has discretionary voting authority under NYSE rules to vote your shares on the ratification of EY as the independent auditor for 2021, even if the broker does not receive voting instructions from you. However, your broker does not have discretionary authority to vote on the election of directors, the advisory approval of executive compensation, or the shareholder or management proposals without instructions from you, in which case a broker non-vote will occur, and your shares will not be voted on these matters.

Voting Shares Held in the Company 401(k) Plan

You may instruct the plan trustee on how to vote your shares in the 401(k) Plan online, by mail, or by telephone as described above in "Meeting and Voting Logistics — Voting by Shareholders of Record," except that if you vote by mail, the card you use will be a voting instruction form rather than a proxy card.

In addition, unless you decline, your vote will apply to a proportionate number of other shares held by participants in the 401(k) Plan for which voting directions are not received (except for a small number of shares from a prior stock ownership plan, which can be voted only on the directions of the participants to whose accounts the shares are credited).

All participants are named fiduciaries under the terms of the 401(k) Plan and under the Employee Retirement Income Security Act (ERISA) for the limited purpose of voting shares credited to their accounts and the portion of undirected shares to which their vote applies. Under ERISA, fiduciaries are required to act prudently in making voting decisions.

If you do not want to have your vote applied to the undirected shares, you must so indicate when you vote. Otherwise, the trustee will automatically apply your voting preferences to the undirected shares proportionally with all other participants who elected to have their votes applied in this manner.

If you do not vote online or by telephone by 11:59 p.m. EDT on April 28, 2021, or if your mailed ballot is not received by April 28, 2021, your shares will be voted in accordance with instructions received from other plan participants who have elected to have their voting preferences applied proportionally to all shares for which voting instructions are not otherwise received. You will not be able to vote your shares personally at the Annual Meeting.

Multiple Notices, Proxy Materials, or Emails

If you received more than one notice, full set of proxy materials, or email related to proxy materials, you hold shares in more than one account. You will need to cast a vote for each notice, full set of proxy materials, or email you receive. If you do not receive a proxy card, you may have elected to receive your proxy statement electronically, in which case you should have received an email with directions on how to access this proxy statement and how to vote your shares. If you wish to request a paper copy of these materials and a proxy card, please call 1-800-579-1639 on or before April 19, 2021 to facilitate timely delivery.

Vote Tabulation

Votes are tabulated by an independent inspector of election, Broadridge Financial Solutions, Inc.

Attending the Annual Meeting

The Annual Meeting will be held on Monday, May 3, 2021, at 11:00 a.m. EDT, and all shareholders as of close of business on February 22, 2021, are entitled to participate.

Due to concerns regarding the ongoing COVID-19 pandemic and to support the health and well-being of our employees, board of directors, shareholders, and other meeting participants, the Annual Meeting will be held virtually via live webcast.

Although you will not be able to attend the Annual Meeting at a physical location, we have designed the Annual Meeting live webcast to provide shareholders the opportunity to participate virtually to facilitate shareholder attendance and provide a consistent experience to all shareholders, regardless of location.

The live webcast of the Annual Meeting can be accessed by shareholders on the day of the meeting at virtualshareholdermeeting.com/LLY2021 and will begin promptly at 11:00 a.m. EDT. To attend the Annual Meeting, you will need to log in to virtualshareholdermeeting.com/LLY2021 using the 16-digit control number found on the proxy card, voting instruction form, or notice you previously received. This website can be accessed on a computer, tablet, or phone with internet connection. Online access to the webcast will open 15 minutes prior to the start of the Annual Meeting to allow time to log in and test your device's audio system. We encourage you to access the meeting in advance of the designated start time.

To submit questions in advance of the Annual Meeting, visit proxyvote.com before May 3, 2021 and enter your 16-digit control number. During the meeting, if you wish to submit a question, log into the virtual meeting website at virtualshareholdermeeting.com/LLY2021, click on "Q&A", type your question into the "Submit a Question" field, and click "Submit." In order to provide an opportunity to as many shareholders as possible who wish to ask a question, each shareholder will be limited to one question. Shareholders may ask a second question if all other shareholders have had an opportunity to ask a question and if time allows. The Annual Meeting is scheduled to begin at 11:00 a.m. EDT and end at 11:45 a.m. EDT, and time remaining after agenda items are addressed will be available for shareholder questions. We will endeavor to answer as many questions submitted by shareholders as time permits. We reserve the right to edit profanity or other inappropriate language and to exclude questions regarding topics that are not pertinent to meeting matters or company business. If we receive substantially similar questions, we may group such questions together and provide a single response to avoid repetition. Responses to questions relevant to meeting matters that we do not have time to respond to during the meeting will be posted to our website following the meeting. Questions regarding topics that are not pertinent to meeting matters or company business will not be answered.

Support staff will be available should you experience any technical difficulties in accessing the virtual meeting. Instructions for requesting technical assistance will be available at virtualshareholdermeeting.com/LLY2021.

List of Shareholders of Record

A list of the names of shareholders entitled to vote at the Annual Meeting will be available to shareholders for five business days prior to the Annual Meeting for any purpose germane to the Annual Meeting. Please contact us at shareholderproposals@lilly.com if you wish to examine the list prior to the Annual Meeting. The shareholder list will also be available during the virtual Annual Meeting for examination by shareholders who access the Annual Meeting using their 16-digit control number at virtualshareholdermeeting.com/LLY2021.

The 2022 Annual Meeting

The company's 2022 annual meeting of shareholders is currently scheduled for May 2, 2022.

Other Matters

Notice and Access

We distribute proxy materials to many shareholders via the internet under the SEC's "Notice and Access" rules to reduce production and mailing costs and to help preserve environmental resources. Using this method of distribution, on or about March 19, 2021, we mailed the Notice Regarding the Availability of Proxy Materials that contains basic information about the Annual Meeting and instructions on how to view all proxy materials and vote. If you receive the notice and prefer to receive proxy materials by regular mail or email, follow the instructions in the notice for making this request, and the materials will be sent promptly to you via the preferred method. If you prefer to vote by phone rather than online, the website listed on the notice (proxyvote.com) has instructions for voting by phone.

Householding

We have adopted a procedure approved by the SEC called "householding." Under the householding procedure, certain shareholders, whether they own registered shares or shares in street name, who have the same address and who receive either notices or paper copies of the proxy materials in the mail will receive only one copy of our proxy materials, or a single notice, for all shareholders at that address, unless one or more of the shareholders at that address has previously notified us that they want to receive separate copies. Each 401(k) Plan participant will continue to receive a copy of all of the proxy materials. Regardless of how you own your shares, if you received a single set of proxy materials as a result of householding, and one or more shareholders at your address would like to have separate copies of these materials with respect to the Annual Meeting or in the future, or if you would like to request that only a single set of proxy materials be sent to the household, please contact Broadridge Financial Solutions, Inc., at 1-866-540-7095 or 51 Mercedes Way, Edgewood, NY 11717.

Other Information Regarding the Company's Proxy Solicitation

The board is soliciting proxies for the Annual Meeting. We will pay all expenses in connection with our solicitation of proxies. We will pay brokers, nominees, fiduciaries, or other custodians their reasonable expenses for sending proxy material to and obtaining instructions from persons for whom they hold stock of the company. We expect to solicit proxies primarily by mail and email, but directors, officers, and other employees of the company may also solicit in person or by telephone, fax, or email. We have retained Georgeson LLC to assist in the distribution and solicitation of proxies. Georgeson may solicit proxies by personal interview, telephone, fax, mail, and email. We expect that the fee for those services will not exceed $17,500 plus reimbursement of customary out-of-pocket expenses.

Corporate Governance Materials

The company's main corporate website address is lilly.com. We also make available through our investor relations website, free of charge, our company filings with the SEC as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. The website link to our SEC filings is investor.lilly.com/sec.cfm. This proxy statement and the annual report to shareholders are also available on our website at lilly.com/policies-reports/annual-report, and the articles of incorporation, bylaws, and all committee charters are available online at lilly.com/leadership/governance.

By order of the Board of Directors,

Ms. Anat Hakim
Senior Vice President, General Counsel and Secretary
March 19, 2021

Appendix A - Summary of Adjustments Related to the Annual Cash Bonus and Performance Award

Consistent with past practice, the Compensation Committee adjusted the reported financial results on which the 2020 annual cash bonus and the 2019-2021 performance awards were determined to eliminate the distorting effect of certain unusual items on incentive compensation performance measures. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items in the award year, and, where relevant, the previous (comparator) year
- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

To ensure the integrity of the adjustments, the Compensation Committee establishes adjustment guidelines in the first 90 days of the performance period. These guidelines are generally consistent with the company guidelines for reporting non-GAAP financial measures to the investment community, which are reviewed by the Audit Committee. The adjustments apply equally to income and expense items. The Compensation Committee reviews all adjustments and retains downward discretion, i.e., discretion to reduce compensation below the amounts that are yielded by the adjustment guidelines.

Adjustments for 2020 Bonus Plan

For 2020 bonus calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our external reporting of non-GAAP financial measures:

- Eliminated the impact of the charges recognized for acquired in-process research and development
- Eliminated the impact of amortization of intangible assets
- Eliminated the impact of asset impairments, restructuring, and other special charges

In addition to the adjustments consistent with our reporting of non-GAAP financial measures, the Compensation Committee made the following adjustments:

- When the Compensation Committee set 2020 bonus targets, the EPS goal was set assuming a lower amount of net gains on investments in equity securities than were recognized during 2020. The Compensation Committee neutralized the impact of the net gains on investments in equity securities on EPS results in an amount that significantly exceeded the expected net gains on investments originally included in the EPS goal.
- When the Compensation Committee set 2020 bonus targets, the revenue and EPS goal did not contemplate estimated savings from certain discrete and unplanned performance items. The Compensation Committee reduced revenue and non-GAAP EPS for the purposes of the bonus calculation to exclude the savings from these items.

A reconciliation of adjustments to our reported revenue is below:

	2020
Revenue as reported	$24,539.8
Adjustment for estimated savings from certain discrete and unplanned performance items	$(286.0)
Adjusted revenue	$24,253.8

A reconciliation of adjustments to our reported EPS is below:

	2020
EPS as reported	$6.79
Eliminate acquired in-process research and development charges	$0.64
Eliminate amortization of intangible assets	$0.36
Eliminate asset impairments, restructuring, and other special charges	$0.14
Non-GAAP EPS	$7.93
Net gains on investments in equity securities adjustment	$(0.98)
Adjustment for estimated savings from certain discrete and unplanned performance items	$(0.25)
Adjusted Non-GAAP EPS	$6.70

*Numbers may not add due to rounding

Adjustments for 2019-2021 Performance Award

For the 2019-2021 performance award payout calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our reporting of non-GAAP financial measures:

- 2019 and 2018: Eliminated Elanco discontinued operations
- 2020, 2019, and 2018: Eliminated the impact of charges recognized for acquired in-process research and development
- 2020, 2019, and 2018: Eliminated the impact of amortization of intangible assets
- 2020, 2019, and 2018: Eliminated the impact of asset impairments, restructuring, and other special charges
- 2019: Eliminated the impact of the gain on sale of the China antibiotics business
- 2019: Eliminated the charge related to the repurchase of debt
- 2019: Eliminated the impact of Lartruvo charges
- 2019 and 2018: Eliminated the impact of reduced shares outstanding from the Elanco exchange offer
- 2019 and 2018: Eliminated the impact of certain income tax items
- 2018: Eliminated the impact of other specified items

In addition to the adjustments consistent with our reporting of non-GAAP financial measures, the Compensation Committee made the following adjustments:

- When the Compensation Committee set 2019-2021 performance award targets, the goal was set assuming a lower amount of net gains on investments in equity securities. The Compensation Committee neutralized the impact of the net gains on investments in equity securities on EPS results in an amount that significantly exceeded the expected net gains on investments originally included in the EPS goal during 2020.
- When the Compensation Committee set 2019-2021 performance award targets, the Compensation Committee adjusted the 2018 base-year results, to which the expected industry growth rates are applied to derive the two-year cumulative EPS goals, to neutralize the expected EPS impact of the acquisition of Loxo Oncology, Inc. (Loxo), which occurred in February 2019.

A reconciliation of adjustments to our reported EPS is below:

	2020	2019	% Growth 2020 vs. 2019	2018	% Growth 2019 vs. 2018
EPS as reported	$6.79	$8.89	(23.6%)	$3.13	NM
Eliminate Elanco discontinued operations	—	$(3.93)		$(0.08)	
EPS as reported from continuing operations	$6.79	$4.96		$3.05	
Eliminate acquired in-process research and development charges	$0.64	$0.21		$1.96	
Eliminate amortization of intangible assets	$0.36	$0.18		$0.28	
Eliminate asset impairment, restructuring, and other special charges	$0.14	$0.58		$0.24	
Eliminate gain on sale of China antibiotics business	—	$(0.26)		—	
Eliminate charge related to repurchase of debt	—	$0.22		—	
Eliminate Lartruvo charges	—	$0.14		—	
Eliminate impact of reduced shares outstanding for non-GAAP reporting[a]	—	$0.07		$0.20	
Eliminate the impact of certain tax items[b]	—	$(0.05)		$(0.27)	
Eliminate other specified items	—	—		$(0.02)	
Non-GAAP EPS	$7.93	$6.04	31.3%	$5.44	11.0%
Net gains on investments in equity securities	$0.98	—		—	
Loxo acquisition adjustment	—	—		$(0.34)	
Adjusted Non-GAAP EPS	$6.95	$6.04	15.1%	$5.10	18.4%

*Numbers may not add due to rounding

[a] Non-GAAP EPS assume that the disposition of Elanco occurred at the beginning of 2019 and 2018 and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer.

[b] For 2019, amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock. For 2018, amounts relate to U.S. tax reform and tax expenses associated with the separation of Elanco.

Appendix B - Proposed Amendments to the Company's Articles of Incorporation

Proposed changes to the company's articles of incorporation are shown below related to Items 4 and 5, "Items of Business." The changes shown to Article 9(b) will be effective if Item 4, "Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure," receives the vote of at least 80 percent of the outstanding shares. The changes to Articles 9(c), 9(d), and 13 will be effective if Item 5, "Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions," receives the vote of at least 80 percent of the outstanding shares. Additions are indicated by underlining and deletions are indicated by strike-outs. The full text of the company's Articles of Incorporation can be found on our website at lilly.com/leadership/governance.

9. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(a) The number of directors of the Corporation, exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock pursuant to Article 7(b) (the "Preferred Stock Directors"), shall not be less than nine, the exact number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office.

(b) Prior to the 2022 annual meeting of directors, ~~T~~the Board of Directors (exclusive of Preferred Stock Directors) shall be divided into three classes, with the term of office of one class expiring each year. ~~At the annual meeting of shareholders in 1985, five directors of the first class shall be elected to hold office for a term expiring at the 1986 annual meeting, five directors of the second class shall be elected to hold office for a term expiring at the 1987 annual meeting, and six directors of the third class shall be elected to hold office for a term expiring at the 1988 annual meeting.~~ Commencing with the annual meeting of shareholders in ~~1986~~2022, each class of directors whose term shall then expire shall be elected to hold office for a ~~three~~one-year term expiring at the next annual meeting of shareholders. In the case of any vacancy on the Board ~~of Directors, including a vacancy created by an increase in the number~~ of D~~d~~irectors, the vacancy shall be filled by election of the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, ~~for the remainder of the term of the class to which the director has been assigned~~ until the next annual meeting of shareholders. All directors shall continue in office until the election and qualification of their respective successors in office. ~~When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible.~~ No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Election of directors need not be by written ballot unless the By-laws so provide.

(c) Any director or directors (exclusive of Preferred Stock Directors) may be removed from office at any time, but only for cause and only by the affirmative vote of at least ~~80%~~a majority of the votes ~~entitled to be~~ cast by holders of all the outstanding shares of Voting Stock (as defined in Article 13 hereof), voting together as a single class.

~~(d) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 9.~~

13. In addition to all other requirements imposed by law and these Amended Articles and except as otherwise expressly provided in paragraph (c) of this Article 13, none of the actions or transactions listed below shall be effected by the Corporation, or approved by the Corporation as a shareholder of any majority-owned subsidiary of the Corporation if, as of the record date for the determination of the shareholders entitled to vote thereon, any Related Person (as hereinafter defined) exists, unless the applicable requirements of paragraphs (b), (c), (d), (e), and (f) of this Article 13 are satisfied.

(a) The actions or transactions within the scope of this Article 13 are as follows:

(i) any merger or consolidation of ~~the Corporation or~~ any of ~~its~~ the Corporation's subsidiaries into or with such Related Person;

(ii) any sale, lease, exchange, or other disposition of all or any substantial part of the assets of ~~the Corporation or~~ any of ~~its~~the Corporation's majority-owned subsidiaries to or with such Related Person;

(iii) the issuance or delivery of any Voting Stock (as hereinafter defined) or of voting securities of any of the Corporation's majority-owned subsidiaries to such Related Person in exchange for cash, other assets or securities, or a combination thereof;

~~(iv) any voluntary dissolution or liquidation of the Corporation;~~

(iv) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries, or any other transaction (whether or not with or otherwise involving a Related Person) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of capital stock of the Corporation, or any securities convertible into capital stock of the Corporation or into equity securities of any subsidiary, that is beneficially owned by any Related Person; or

(v~~i~~) any agreement, contract, or other arrangement providing for any one or more of the actions specified in the foregoing clauses (i) through (iv).

(b) The actions and transactions described in paragraph (a) of this Article 13 shall have been authorized by the affirmative vote of ~~at least 80% of all~~ a majority of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class.

(c) Notwithstanding paragraph (b) of this Article 13, the ~~80% voting~~ special shareholder approval requirement set forth in paragraph (b) shall not be applicable if any action or transaction specified in paragraph (a) is approved by the Corporation's Board of Directors and by a majority of the Continuing Directors (as hereinafter defined).

(d) Unless approved by a majority of the Continuing Directors, after becoming a Related Person and prior to consummation of such action or transaction~~.~~:

(i) the Related Person shall not have acquired from the Corporation or any of its subsidiaries any newly issued or treasury shares of capital stock or any newly issued securities convertible into capital stock of the Corporation or any of its majority-owned subsidiaries, directly or indirectly (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata stock dividend or stock split or other distribution of stock to all shareholders pro rata);

(ii) such Related Person shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges, or other financial assistance or tax credits provided by the Corporation or any of its majority-owned subsidiaries, or made any major changes in the Corporation's or any of its majority-owned subsidiaries' businesses or capital structures or reduced the current rate of dividends payable on the Corporation's capital stock below the rate in effect immediately prior to the time such Related Person became a Related Person; and

(iii) such Related Person shall have taken all required actions within its power to ensure that the Corporation's Board of Directors included representation by Continuing Directors at least proportionate to the voting power of the shareholdings of Voting Stock of the Corporation's Remaining Public Shareholders (as hereinafter defined), with a Continuing Director to occupy an additional Board position if a fractional right to a director results and, in any event, with at least one Continuing Director to serve on the Board so long as there are any Remaining Public Shareholders.

(e) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, as amended, whether or not the Corporation is then subject to such requirements, shall be mailed to the shareholders of the Corporation for the purpose of soliciting shareholder approval of such action or transaction and shall contain at the front thereof, in a prominent place, any recommendations as to the advisability or inadvisability of the action or transaction which the Continuing Directors may choose to state and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the action or transaction from a financial point of view to the Remaining Public Shareholders, such investment banking firm to be paid a reasonable fee for its services by the Corporation. The requirements of this paragraph (e) shall not apply to any such action or transaction which is approved by a majority of the Continuing Directors.

(f) For the purpose of this Article 13:

(i) the term "Related Person" shall mean any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the outstanding shares of Voting Stock, and any Affiliate or Associate (as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934) of a Related Person; provided, however, that the term Related Person shall not include (a) the Corporation or any of its subsidiaries, (b) any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect

to any such plan when acting in such capacity, or (c) Lilly Endowment, Inc.; and further provided, that no corporation, person, or entity shall be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly Endowment, Inc.;

(ii) a Related Person shall be deemed to own or control, directly or indirectly, any outstanding shares of Voting Stock owned by it or any Affiliate or Associate of record or beneficially, including, without limitation, shares

a. which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants, or options, or otherwise; or

b. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause a. above), by any other corporation, person, or other entity with which it or its Affiliate or Associate has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Voting Stock, or which is its Affiliate (other than the Corporation) or Associate (other than the Corporation);

(iii) the term "Voting Stock" shall mean all shares of any class of capital stock of the Corporation which are entitled to vote generally in the election of directors;

(iv) the term "Continuing Director" shall mean a director who is not an Affiliate or Associate or representative of a Related Person and who was a member of the Board of Directors of the Corporation immediately prior to the time that any Related Person involved in the proposed action or transaction became a Related Person or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors; and

(v) the term "Remaining Public Shareholders" shall mean the holders of the Corporation's capital stock other than the Related Person.

(g) A majority of the Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article 13, on the basis of information then known to the Continuing Directors, whether (i) any Related Person exists or is an Affiliate or an Associate of another and (ii) any proposed sale, lease, exchange, or other disposition of part of the assets of the Corporation or any majority-owned subsidiary involves a substantial part of the assets of the Corporation or any of its subsidiaries. Any such determination by the Continuing Directors shall be conclusive and binding for all purposes.

(h) Nothing contained in this Article 13 shall be construed to relieve any Related Person or any Affiliate or Associate of any Related Person from any fiduciary obligation imposed by law.

(i) The fact that any action or transaction complies with the provisions of this Article 13 shall not be construed to waive or satisfy any other requirement of law or these Amended Articles of Incorporation or to impose any fiduciary duty, obligation, or responsibility on the Board of Directors or any member thereof, to approve such action or transaction or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit, or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such action or transaction. The Board of Directors of the Corporation, when evaluating any actions or transactions described in paragraph (a) of this Article 13, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including, without limitation, the social and economic effects on the employees, customers, suppliers, and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

~~(j) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of the holders of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 13.~~

Corporate Information

ANNUAL MEETING

The 2021 annual meeting of shareholders will be held **virtually via live webcast at virtualshareholdermeeting.com/LLY2021 on Monday, May 3, 2021, at 11:00 a.m. EDT.** For more information, see the proxy statement section of this report.

10-K AND 10-Q REPORTS

Paper copies of the company's annual report on Form 10-K and quarterly reports on Form 10-Q that are filed with the Securities and Exchange Commission are available without charge upon written request to:

ELI LILLY AND COMPANY
c/o General Counsel and Secretary
Lilly Corporate Center
Indianapolis, Indiana 46285

To access these reports more quickly, you can find all of our SEC filings online at: **investor.lilly.com/sec.cfm.**

STOCK LISTING

Eli Lilly and Company common stock is listed on the New York Stock Exchange under the ticker symbol: LLY.

TRANSFER AGENT AND REGISTRAR

EQ SHAREOWNER SERVICES

Mailing Address:

EQ SHAREOWNER SERVICES
P.O. Box 64854
St. Paul, Minnesota 55164-0854

Overnight Address:

EQ SHAREOWNER SERVICES
1110 Centre Pointe Curve, Suite 101
Mendota Heights, Minnesota 55120-4100

Telephone: 1-800-833-8699
E-mail: stocktransfer@equiniti.com
Internet: www.shareowneronline.com

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

EQ Shareowner Services administers the Shareowner Service Plus Plan, which allows registered shareholders to purchase additional shares of Lilly common stock through the automatic investment of dividends. The plan also allows registered shareholders and new investors to purchase shares with cash payments, either by check or by automatic deductions from checking or savings accounts. The minimum initial investment for new investors is $1,000. Subsequent investments must be at least $50. The maximum cash investment during any calendar year is $150,000. Please direct inquiries concerning the Shareowner Service Plus Plan to:

EQ SHAREOWNER SERVICES
P.O. Box 64856
St. Paul, Minnesota 55164-0856
Telephone: 1-800-833-8699

ONLINE DELIVERY OF PROXY MATERIALS

Shareholders who receive paper copies of our annual reports and proxy materials by mail may elect to receive these materials online via email. This reduces paper mailed to the shareholder's home and saves the company printing and mailing costs. To enroll, go to **investor.lilly.com/services.cfm** and follow the directions provided.

To view our 2020 Integrated Summary Report, visit lilly.com/2020report or scan the QR code.

Eli Lilly and Company

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