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ELI LILLY & CO

FORM 10-Q
(Quarterly Report)

Filed 07/28/17 for the Period Ending 06/30/17

Address	LILLY CORPORATE CTR DROP CODE 1094 INDIANAPOLIS, IN, 46285
Telephone	3172762000
CIK	0000059478
Symbol	LLY
SIC Code	2834 - Pharmaceutical Preparations
Industry	Pharmaceuticals
Sector	Healthcare
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTER ENDED JUNE 30, 2017

COMMISSION FILE NUMBER 001-6351

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 of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
	Emerging growth company ☐

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

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

Yes ☐ No ☒

The number of shares of common stock outstanding as of July 17, 2017 :

Class	Number of Shares Outstanding
Common	1,100,988,944

Eli Lilly and Company

Form 10-Q
For the Quarter Ended June 30, 2017

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Forward-Looking Statements

T his Quarterly Report on Form 10-Q includes 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). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “will,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” or similar expressions.

In particular, information appearing under “Management's Discussion and Analysis of Financial Condition and Results of Operations” includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we ("Lilly" or the "company") 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.

More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2016 , particularly under the captions “Forward-Looking Statements” and “Risk Factors.”

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

PART I. Financial Information

Item 1. Financial Statements

Consolidated Condensed Statements of Operations
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars and shares in millions, except per-share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenue	**$ 5,824.3**	$ 5,404.8	**$ 11,052.6**	$ 10,269.9
Costs, expenses, and other:				
Cost of sales	**1,551.6**	1,465.0	**2,879.3**	2,788.0
Research and development	**1,250.9**	1,335.9	**2,489.2**	2,556.9
Marketing, selling, and administrative	**1,707.4**	1,622.6	**3,252.1**	3,096.5
Acquired in-process research and development (Note 3)	**—**	—	**857.6**	—
Asset impairment, restructuring, and other special charges (Note 5)	**50.0**	58.0	**263.9**	189.4
Other–net, (income) expense (Note 12)	**3.9**	(21.2)	**(11.2)**	127.8
	4,563.8	4,460.3	**9,730.9**	8,758.6
Income before income taxes	**1,260.5**	944.5	**1,321.7**	1,511.3
Income taxes (Note 8)	**252.5**	196.8	**424.5**	323.5
Net income	**$ 1,008.0**	$ 747.7	**$ 897.2**	$ 1,187.8
Earnings per share:				
Basic	**$ 0.96**	$ 0.71	**$ 0.85**	$ 1.12
Diluted	**$ 0.95**	$ 0.71	**$ 0.85**	$ 1.12
Shares used in calculation of earnings per share:				
Basic	**1,055.0**	1,057.7	**1,055.6**	1,058.8
Diluted	**1,057.1**	1,060.1	**1,057.5**	1,061.0
Dividends paid per share	**$ 0.52**	$ 0.51	**$ 1.04**	$ 1.02

See notes to consolidated condensed financial statements.

Consolidated Condensed Statements of Comprehensive Income
(Unaudited)
ELI LILLY AND COMPANY AND SUBSIDIARIES
(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net income	**$ 1,008.0**	$ 747.7	**$ 897.2**	$ 1,187.8
Other comprehensive income (loss), net of tax (Note 11) [1]	**284.8**	(106.5)	**483.5**	209.5
Comprehensive income	**$ 1,292.8**	$ 641.2	**$ 1,380.7**	$ 1,397.3

[1] Other comprehensive income (loss) for the three and six months ended June 30, 2017 consisted of $289.4 million and $499.1 million of other comprehensive income attributable to controlling interest, respectively, and $(4.6) million and $(15.6) million of other comprehensive income (loss) attributable to non-controlling interest, respectively. Other comprehensive income (loss) for the three and six months ended June 30, 2016 attributable to non-controlling interest is immaterial.

See notes to consolidated condensed financial statements.

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

	June 30, 2017	December 31, 2016
Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents (Note 6)	**$ 3,069.9**	$ 4,582.1
Short-term investments (Note 6)	**2,364.2**	1,456.5
Accounts receivable, net of allowances of **$40.6 (2017)** and $40.3 (2016)	**4,349.9**	4,029.4
Other receivables	**606.2**	736.9
Inventories	**4,346.0**	3,561.9
Prepaid expenses and other	**1,010.3**	734.6
Total current assets	**15,746.5**	15,101.4
Other Assets		
Investments (Note 6)	**5,723.3**	5,207.5
Goodwill	**4,290.8**	3,972.7
Other intangibles	**4,542.6**	4,357.9
Sundry	**2,060.5**	1,913.8
Total other assets	**16,617.2**	15,451.9
Property and Equipment		
Land, buildings, equipment, and construction in progress	**17,533.0**	16,777.6
Accumulated depreciation	**(8,950.2)**	(8,525.0)
Property and equipment, net	**8,582.8**	8,252.6
Total assets	**$ 40,946.5**	$ 38,805.9
Liabilities and Equity		
Current Liabilities		
Short-term borrowings and current maturities of long-term debt	**$ 2,444.2**	$ 1,937.4
Accounts payable	**1,257.2**	1,349.3
Employee compensation	**668.4**	896.9
Sales rebates and discounts	**4,029.1**	3,914.9
Dividends payable	**547.5**	548.1
Income taxes payable	**236.0**	119.1
Other current liabilities	**2,112.1**	2,220.9
Total current liabilities	**11,294.5**	10,986.6
Other Liabilities		
Long-term debt	**9,867.9**	8,367.8
Accrued retirement benefits (Note 9)	**2,465.6**	2,453.9
Long-term income taxes payable	**705.0**	688.9
Other noncurrent liabilities	**2,443.8**	2,228.2
Total other liabilities	**15,482.3**	13,738.8
Commitments and Contingencies (Note 10)		
Eli Lilly and Company Shareholders' Equity (Note 7)		
Common stock	**688.5**	688.5
Additional paid-in capital	**5,686.1**	5,640.6
Retained earnings	**15,590.1**	16,046.3
Employee benefit trust	**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 11)	**(4,774.9)**	(5,274.0)
Cost of common stock in treasury	**(75.8)**	(80.5)
Total Eli Lilly and Company shareholders' equity	**14,100.8**	14,007.7
Noncontrolling interests	**68.9**	72.8
Total equity	**14,169.7**	14,080.5
Total liabilities and equity	**$ 40,946.5**	$ 38,805.9

See notes to consolidated condensed financial statements.

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

	Six Months Ended June 30,	
	2017	**2016**
Cash Flows from Operating Activities		
Net income	**$ 897.2**	$ 1,187.8
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and amortization	**782.5**	759.2
Change in deferred income taxes	**295.1**	168.6
Stock-based compensation expense	**139.2**	127.0
Acquired in-process research and development	**857.6**	—
Other changes in operating assets and liabilities, net of acquisitions	**(1,118.5)**	(1,296.5)
Other non-cash operating activities, net	**137.9**	236.7
Net Cash Provided by Operating Activities	**1,991.0**	1,182.8
Cash Flows from Investing Activities		
Net purchases of property and equipment	**(390.6)**	(399.7)
Proceeds from sales and maturities of short-term investments	**1,677.6**	925.4
Purchases of short-term investments	**(1,883.5)**	(265.3)
Proceeds from sales of noncurrent investments	**1,107.6**	919.3
Purchases of noncurrent investments	**(2,358.8)**	(2,269.2)
Cash paid for acquisitions, net of cash acquired (Note 3)	**(882.1)**	(45.0)
Purchase of in-process research and development (Note 3)	**(831.8)**	—
Other investing activities, net	**(116.9)**	(31.8)
Net Cash Used for Investing Activities	**(3,678.5)**	(1,166.3)
Cash Flows from Financing Activities		
Dividends paid	**(1,096.1)**	(1,079.5)
Net change in short-term borrowings	**125.7**	(1.4)
Proceeds from issuance of long-term debt	**2,232.0**	1,206.6
Repayments of long-term debt	**(630.5)**	(0.1)
Purchases of common stock	**(199.9)**	(300.1)
Other financing activities, net	**(247.0)**	(170.4)
Net Cash Provided by (Used for) Financing Activities	**184.2**	(344.9)
Effect of exchange rate changes on cash and cash equivalents	**(8.9)**	(100.0)
Net decrease in cash and cash equivalents	**(1,512.2)**	(428.4)
Cash and cash equivalents at January 1	**4,582.1**	3,666.4
Cash and Cash Equivalents at June 30	**$ 3,069.9**	$ 3,238.0

See notes to consolidated condensed financial statements.

Notes to Consolidated Condensed Financial Statements
(Tables present dollars in millions, except per-share data)

Note 1: Basis of Presentation

We have prepared the accompanying unaudited consolidated condensed financial statements in accordance with the requirements of Form 10-Q and, therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States (GAAP). In our opinion, the financial statements reflect all adjustments (including those that are normal and recurring) that are necessary for a fair presentation of the results of operations for the periods shown. In preparing financial statements in conformity with GAAP, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2016 . We issue our financial statements by filing with the Securities and Exchange Commission and have evaluated subsequent events up to the time of the filing.

Certain reclassifications have been made to prior periods in the consolidated condensed financial statements and accompanying notes to conform with the current presentation. These reclassifications include $107.9 million that increased net cash provided by operating activities and increased net cash used for financing activities on the consolidated condensed statements of cash flows as a result of our adoption in the fourth quarter of 2016 of Accounting Standards Update 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting* as discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis, that is, based on the weighted-average number of outstanding common shares plus the effect of incremental shares from our stock-based compensation programs.

Note 2: Implementation of New Financial Accounting Pronouncements

The following table provides a brief description of accounting standards that have not yet been adopted and could have a material effect on our financial statements:

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Accounting Standards Update 2014-09 and various other related updates, *Revenue from Contracts with Customers*	This standard will replace existing revenue recognition standards and will require 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. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. We currently plan to use the latter approach.	This standard is effective January 1, 2018, and we will adopt on that date.	We are in the process of evaluating the impact of the adoption of the standard. We have identified two revenue streams from our contracts with customers: 1) product sales, which represented 96 percent of our 2016 consolidated revenue and 2) licensing and other arrangements, which represented 4 percent of our 2016 consolidated revenue. Our evaluation of our contracts for product sales is substantially complete and, based upon the results of our work to date we currently do not expect the application of the new standard to these contracts to have a material impact to our consolidated statements of operations or balance sheets either at initial implementation or on an ongoing basis. While we have completed most of our reviews of arrangements in which we have licensed or sold intellectual property, we are not yet able to estimate the anticipated impact to our consolidated financial statements from the application of the new standard to these arrangements as we continue to interpret and apply the principles in the new standard to our arrangements. We are also evaluating the new disclosures required by the standard to determine what additional information will need to be disclosed.
Accounting Standards Update 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*	This standard will require 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). An entity should apply the new standard through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption.	This standard is effective January 1, 2018, and we will adopt on that date.	We are unable to estimate the impact of adopting this standard as the significance of the impact will depend upon our equity investments as of the date of adoption.

Standard	Description	Effective Date	Effect on the financial statements or other significant matters
Accounting Standards Update 2016-02, *Leases*	This standard was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities, including leases classified as operating leases under current GAAP, on the balance sheet and requiring additional disclosures about leasing arrangements. This standard requires a modified retrospective approach to adoption.	This standard is effective January 1, 2019, with early adoption permitted. We intend to adopt this standard on January 1, 2019.	We are in the process of determining the potential impact on our consolidated financial statements.
Accounting Standards Update 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*	This standard will require entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time of transfer. This standard requires a modified retrospective approach to adoption.	This standard is effective January 1, 2018, and we will adopt on that date.	We are continuing to assess the potential impact of this standard on our consolidated financial statements and currently estimate that the cumulative effect of initially applying the standard would result in an increase to deferred tax assets and the opening balance of retained earnings of approximately $2 billion on January 1, 2018. This estimate is subject to change based upon intra-entity transfers of assets other than inventory over the remainder of 2017 and ongoing assessments of the future deductibility and realizability of the deferred tax assets that would result from implementation.
Accounting Standards Update 2017-07, *Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*	This standard was issued to improve the transparency and comparability among organizations by requiring entities to separate their net periodic pension cost and net periodic postretirement benefit cost into a service cost component and other components. Currently, the costs of the other components along with the service cost component are classified based upon the function of the employee. This standard will require entities to classify the service cost component in the same financial statement line item or items as other compensation costs arising from services rendered by pertinent employees. The other components of net benefit cost will be presented separately from the line items that include the service cost component. When applicable, the service cost component will be the only component eligible for capitalization. An entity should apply the new standard retrospectively for the classification of the service cost and other components and prospectively for the capitalization of the service cost component.	This standard is effective January 1, 2018, with early adoption permitted. We intend to adopt this standard on January 1, 2018.	Upon adoption of this standard, pension and postretirement benefit cost components other than service costs will be presented in other–net, (income) expense. We do not expect the application of the new standard to have a material impact on consolidated net income either at initial implementation or on an ongoing basis.

Note 3: Acquisitions

On January 3, 2017, we completed the acquisition of Boehringer Ingelheim Vetmedica, Inc.'s United States (U.S.) feline, canine, and rabies vaccine portfolio and other related assets (BIVIVP). This transaction, as further discussed in this note below in Acquisition of a Business, was accounted for as a business combination under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of this acquisition are included in our consolidated condensed financial statements from the date of acquisition.

In March 2017, we acquired lasmiditan, an asset in development, as part of our acquisition of CoLucid Pharmaceuticals, Inc. (CoLucid) which is further discussed in this note below in Asset Acquisition. Upon acquisition, the acquired in-process research and development (IPR&D) charge of $857.6 million related to this product was immediately written off as an expense because the product had no alternative future use.

In June 2017, we entered into a collaboration agreement with KeyBioscience AG (KeyBioscience), which will provide us with access to KeyBioscience's Dual Amylin Calcitonin Receptor Agonists (DACRA) platform, a potential new class of treatments for metabolic disorders such as type 2 diabetes, along with multiple molecules including KBP-042, KBP-089, and KBP-056. Prior to entering into the agreement, KeyBioscience had initiated Phase II development of KBP-042. The other assets included in the collaboration range from pre-clinical to Phase I development. Under the terms of the agreement, we receive worldwide rights to develop and commercialize these molecules. This transaction closed in July 2017 after receiving clearance under the Hart-Scott-Rodino Antitrust Improvements Act. KeyBioscience will receive an initial payment of $55.0 million , which will be recorded as an acquired IPR&D charge in the third quarter of 2017. KeyBioscience will also be eligible to receive potential development, regulatory, and commercialization milestone payments based on the successful progress of the compounds through the development and regulatory process, as well as tiered royalty payments based on future sales.

In July 2017, we agreed to a collaboration with Nektar Therapeutics (Nektar) to co-develop NKTR-358, Nektar's Phase I immunological therapy, which has the potential to treat a number of autoimmune and other chronic inflammatory conditions. This transaction is subject to clearance under the Hart-Scott-Rodino Antitrust Improvements Act and other customary closing conditions. Subject to the closing of this transaction, which is expected by the end of 2017, Nektar will receive an initial payment of $150.0 million which will be recorded as an acquired IPR&D charge. Nektar will also be eligible to receive potential development and regulatory milestone payments, as well as tiered royalty payments based on future sales.

Acquisition of a Business

Boehringer Ingelheim Vetmedica, Inc. Vaccine Portfolio Acquisition

Overview of Transaction

We acquired BIVIVP in an all-cash transaction for $882.1 million . Under the terms of the agreement, we acquired a manufacturing and research and development site, a U.S. vaccine portfolio, including vaccines used for the treatment of bordetella, Lyme disease, rabies, and parvovirus, among others.

Assets Acquired and Liabilities Assumed

Our access to BIVIVP information was limited prior to the acquisition. As a consequence, we are in the process of determining the fair values and tax bases of a significant portion of the assets acquired and liabilities assumed, including the identification and valuation of intangible assets, inventory, property and equipment, accrued expenses, and tax exposures. The final determination of these amounts will be completed as soon as possible but no later than one year from the acquisition date. The final determination may result in asset and liability fair values and tax bases that differ from, and require changes to, the preliminary amounts recognized.

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

Estimated Fair Value at January 3, 2017		
Inventories	$	119.3
Acquired in-process research and development		6.0
Marketed products [1]		374.0
Property and equipment		149.8
Other assets and liabilities - net		(2.8)
Total identifiable net assets		646.3
Goodwill [2]		235.8
Total consideration transferred - net of cash acquired	$	882.1

[1] These intangible assets, 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 10 years .

[2] The goodwill recognized from this acquisition is attributable primarily to expected synergies from combining the operations of BIVIVP with our legacy animal health business, future unidentified projects and products, and the assembled workforce of BIVIVP. We anticipate that the goodwill associated with this acquisition will be deductible for tax purposes.

Our consolidated condensed statement of operations for the three and six months ended June 30, 2017 , includes BIVIVP revenue of $78.3 million and $119.0 million , respectively. BIVIVP has been integrated into our animal health products segment and, as a result of these integration efforts, certain parts of the animal health business were operating on a combined basis during these periods, and we could not distinguish the operations between BIVIVP and our legacy animal health products business.

Asset Acquisition

The following table and narrative summarizes our asset acquisition during the six months ended June 30, 2017 . There was no asset acquisition which resulted in acquired IPR&D expense during the six months ended June 30, 2016 .

Counterparty	Compound(s) or Therapy	Acquisition Month	Phase of Development [1]		Acquired IPR&D Expense
CoLucid	Oral therapy for the acute treatment of migraine - lasmiditan	March 2017	Phase III	$	857.6

[1] The phase of development presented is as of the date of the arrangement.

In March 2017, we acquired lasmiditan by acquiring CoLucid. Under the terms of the agreement, we acquired all shares of CoLucid for a cash purchase price of $831.8 million , net of cash acquired, plus net accrued liabilities assumed of $25.8 million . Substantially all of the value of CoLucid was related to lasmiditan, its only significant asset. The acquired IPR&D expense is not tax deductible.

Note 4: Collaborations and Other Arrangements

We often enter into collaborative and other similar arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These arrangements often require milestone and royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements or payments to the collaboration partner. Elements within a collaboration are separated into individual units of accounting if they have standalone value from other elements within the arrangement. In these situations, the arrangement consideration is allocated to the elements on a relative selling price basis. Revenue related to products we sell pursuant to these arrangements are included in net product revenue, while other sources of revenue (e.g., royalties and profit-sharing due from our partner) are included in collaboration and other revenue.

The following table summarizes our collaboration and other revenue, which is included in revenue in the consolidated condensed statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Collaboration and other revenue	**$ 294.5**	$ 208.5	**$ 534.9**	$ 390.8

The following table summarizes our aggregate amount of marketing, selling, and administrative expense associated with our commission and profit-sharing obligations for the collaborations and other arrangements described in this footnote:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Marketing, selling, and administrative	**$ 55.7**	$ 47.3	**$ 102.4**	$ 96.3

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 ®, and Synjardy ®, as well as our basal insulin: Basaglar ®.

The table below summarizes significant regulatory and commercialization events and milestones (received) paid for the compounds included in this collaboration:

	Product Status			Milestones (Deferred) Capitalized [1]	
Product Family	U.S.	Europe	Japan	Year	Amount
Trajenta [2]	Launched 2011	Launched 2011	Launched 2011	2017	$ —
				2016	—
				Cumulative [4]	446.4
Jardiance [3]	Launched 2014	Launched 2014	Launched 2015	2017	—
				2016	—
				Cumulative [4]	299.5
Basaglar	Launched 2016	Launched 2015	Launched 2015	2017	—
				2016	(187.5)
				Cumulative [4]	(250.0)

[1] In connection with the regulatory approvals of Basaglar in the U.S., Europe, and Japan, milestone payments received were recorded as deferred revenue 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.

[2] Jentadueto is included in the Trajenta family of product results.

[3] Glyxambi and Synjardy are included in the Jardiance family of product results.

[4] The cumulative amount represents the total initial amounts that were (deferred)/capitalized from the start of this collaboration through the end of the reporting period.

In the most significant markets, we and Boehringer Ingelheim share equally the ongoing development costs, commercialization costs and agreed upon gross margin for any product resulting from the collaboration. We record our portion of the gross margin associated with Boehringer Ingelheim's compounds as collaboration and other revenue. We record 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 record our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. Each company is entitled to potential performance payments depending on the sales of the molecules it contributes to the collaboration. These performance payments result 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 be reduced by any performance payments we make related to these products. Similarly, performance payments we may receive related to Basaglar effectively reduce Boehringer Ingelheim's share of the gross margin, which reduces our cost of sales.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Trajenta	**$ 141.9**	$ 121.0	**$ 254.9**	$ 215.4
Jardiance	**103.2**	40.1	**177.1**	78.3
Basaglar	**86.6**	16.3	**132.6**	27.2

Erbitux ®

We have several collaborations with respect to Erbitux. The most significant collaborations are or, where applicable, were in Japan, and prior to the transfer of commercialization rights in the fourth quarter of 2015, the U.S. and Canada (Bristol-Myers Squibb Company); and worldwide except the U.S. and Canada (Merck KGaA). Certain rights to Erbitux outside the U.S. and Canada (collectively, North America) will remain with Merck KGaA (Merck) upon expiration of that agreement.

The following table summarizes our revenue recognized with respect to Erbitux:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net product revenue	**$ 134.4**	$ 158.4	**$ 265.7**	$ 299.9
Collaboration and other revenue	**24.7**	22.2	**47.8**	48.7
Revenue	**$ 159.1**	$ 180.6	**$ 313.5**	$ 348.6

Bristol-Myers Squibb Company

Pursuant to commercial agreements with Bristol-Myers Squibb Company and E.R. Squibb (collectively, BMS), we had been co-developing Erbitux in North America with BMS exclusively. On October 1, 2015, BMS transferred their commercialization rights to us with respect to Erbitux in North America pursuant to a modification of our existing arrangement, and we began selling Erbitux at that time. This modification did not affect our rights with respect to Erbitux in other jurisdictions. In connection with the modification of terms, we provide consideration to BMS based upon a tiered percentage of net sales of Erbitux in North America estimated to average 38 percent through September 2018. The transfer of the commercialization rights was accounted for as an acquisition of a business. The consideration to be paid to BMS was accounted for as contingent consideration liability. See Note 6 for discussion regarding the estimation of this liability.

Merck KGaA

A development and license agreement grants Merck exclusive rights to market Erbitux outside of North America until December 2018. A separate agreement grants co-exclusive rights among Merck, BMS, and us in Japan and expires in 2032. This agreement was amended in 2015 to grant Merck exclusive commercialization rights in Japan but did not result in any changes to our rights.

Merck manufactures Erbitux for supply in its territory as well as for Japan. We receive a royalty on the sales of Erbitux outside of North America, which is included in collaboration and other revenue as earned. Royalties due to third parties are recorded as a reduction of collaboration and other revenue, net of any royalty reimbursements due from third parties.

Effient ®

We are in a collaborative arrangement with Daiichi Sankyo Co., Ltd. (Daiichi Sankyo) to develop, market, and promote Effient. Marketing rights for major territories are shown below. We and Daiichi Sankyo each have exclusive marketing rights in certain other territories.

Territory	Marketing Rights	Selling Party
U.S.	Co-promotion	Lilly
Major European markets	Co-promotion	Pre-January 1, 2016, Lilly Post-January 1, 2016, Daiichi Sankyo
Japan	Exclusive	Daiichi Sankyo

Beginning January 1, 2016, while major European markets continue to be a co-promotion territory under the terms of our arrangement, Daiichi Sankyo exclusively promotes Effient in these markets. The economic results for the major European markets continue to be shared in the same proportion as they were previously.

The parties share approximately 50 /50 in the profits, as well as in the costs of development and marketing in the co-promotion territories. A third party manufactures bulk product, and we continue to produce the finished product for our exclusive and co-promotion territories, including the major European markets.

We record net product revenue in our exclusive and co-promotion territories where we are the selling party. Profit-share payments due to Daiichi Sankyo for co-promotion countries where we are the selling party are recorded as marketing, selling, and administrative expenses. Beginning January 1, 2016, any profit-share payments due to us from Daiichi Sankyo for the major European markets are recorded as collaboration and other revenue. We also record our share of the expenses in these co-promotion territories as marketing, selling, and administrative expenses. In our exclusive territories, we pay Daiichi Sankyo a royalty specific to these territories. All royalties due to Daiichi Sankyo and the third-party manufacturer are recorded in cost of sales.

The following table summarizes our revenue recognized with respect to Effient:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	**$ 142.9**	$ 135.1	**$ 270.7**	$ 266.6

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 inhibitor compound, now known as baricitinib (trade name Olumiant), and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double-digit royalty payments on future global sales with rates ranging up to 20 percent if the product is successfully commercialized. The agreement provides Incyte with options to co-develop these compounds on an indication-by-indication basis by funding 30 percent of the associated development costs from the initiation of a Phase IIb trial through regulatory approval in exchange for increased tiered royalties ranging up to percentages in the high twenties. Incyte exercised its option to co-develop Olumiant in rheumatoid arthritis and psoriatic arthritis in 2010 and 2017, respectively. The agreement calls for payments by us to Incyte associated with certain development, success-based regulatory, and sales-based milestones. In the first quarter of 2016, we incurred milestone-related expenses of $55.0 million in connection with regulatory submissions in the U.S. and Europe, which were recorded as research and development expense. In the first quarter of 2017, we capitalized as an intangible asset a $65.0 million milestone in connection with the regulatory approval in Europe, which is being amortized to cost of sales over the term of the collaboration. In the third quarter of 2017, in connection with the regulatory approval in Japan, we will capitalize as an intangible asset a $15.0 million milestone which, upon product launch in this territory, will be amortized to cost of sales over the term of the collaboration. After receipt of this milestone payment, Incyte will be eligible to receive up to $280.0 million of additional payments from us contingent upon certain development and success-based regulatory milestones, of which $100.0 million relates to the U.S. regulatory decision for a first indication. Incyte is also eligible to receive up to $150.0 million of potential sales-based milestones.

Tanezumab

We have a collaboration agreement with Pfizer Inc. (Pfizer) to jointly develop and globally commercialize tanezumab for the treatment of osteoarthritis pain, chronic low back pain and cancer pain. Under the agreement, the companies share equally the ongoing development costs and, if successful, in gross margins and certain commercialization expenses. Following the U.S. Food and Drug Administration's (FDA's) decision in March 2015 to lift the partial clinical hold on tanezumab, certain Phase III trials resumed in July 2015. Upon the FDA's lifting of the partial clinical hold and the decision to continue the collaboration with Pfizer, we paid an upfront fee of $200.0 million , which was expensed as acquired IPR&D. As of June 30, 2017 , Pfizer is eligible to receive up to $350.0 million in success-based regulatory milestones and up to $1.23 billion in a series of sales-based milestones, contingent upon the commercial success of tanezumab.

Lanabecestat

In September 2014, we entered into a collaboration agreement with AstraZeneca for the worldwide co-development and co-commercialization of AstraZeneca's lanabecestat, an oral beta-secretase cleaving enzyme (BACE) inhibitor being investigated for the potential treatment of Alzheimer's disease. We are responsible for leading development efforts, while AstraZeneca will be responsible for manufacturing efforts. If successful, both parties will take joint responsibility for commercialization. Under the agreement, both parties share equally in the ongoing development costs and, if successful, in gross margins and certain other costs associated with commercialization of the molecule. As a result of the molecule moving into Phase III testing in April 2016, we incurred a $100.0 million developmental milestone, which was recorded as research and development expense in the second quarter of 2016. In July 2017, as a result of the outcome of an interim analysis, we incurred a $50.0 million developmental milestone, which will be recorded as research and development expense in the third quarter of 2017. After receipt of this milestone payment, AstraZeneca will be eligible to receive up to $300.0 million of additional payments from us contingent upon the achievement of certain development and success-based regulatory milestones.

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 condensed statements of operations are described below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Severance:				
Human pharmaceutical products	**$ (1.7)**	$ —	**$ 111.3**	$ —
Animal health products	**0.7**	19.2	**56.3**	28.7
Total severance	**(1.0)**	19.2	**167.6**	28.7
Asset impairment and other special charges:				
Animal health products	**51.0**	38.8	**96.3**	160.7
Total asset impairment, restructuring, and other special charges	**$ 50.0**	$ 58.0	**$ 263.9**	$ 189.4

Severance costs recognized during the three and six months ended June 30, 2017 were incurred as a result of actions taken to reduce our cost structure, as well as the integration of Novartis Animal Health (Novartis AH). Severance costs recognized during the three and six months ended June 30, 2016 related primarily to the integration of Novartis AH. Severance costs recognized during the six months ended June 30, 2016 also related to our decision to close an animal health manufacturing plant in Ireland. Substantially all of the severance costs incurred during the three and six months ended June 30, 2017 are expected to be paid in the next 12 months.

Asset impairment and other special charges recognized during the three and six months ended June 30, 2017 resulted primarily from integration costs of Novartis AH, as well as asset impairments due to site closures. Asset impairment and other special charges recognized during the three months ended June 30, 2016 related primarily to integration costs related to our acquisition of Novartis AH. Asset impairment and other special charges recognized during the six months ended June 30, 2016 resulted primarily from $87.2 million of asset impairment and other charges related to our decision to close an animal health manufacturing plant in Ireland. The manufacturing plant was written down to its estimated fair value, which was based primarily on recent sales of similar assets. The remaining asset impairment and other special charges recognized during the six months ended June 30, 2016 consisted of integration costs related to our acquisition of Novartis AH.

Note 6: 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. The risk associated with this concentration is mitigated by our ongoing credit-review procedures and insurance. A large portion of our cash is held by a few major financial institutions. We monitor our exposures with these institutions and do not expect any of these institutions to fail to meet their obligations. Major financial institutions represent the largest component of our investments in corporate debt securities. In accordance with documented corporate risk-management policies, we monitor the amount of credit exposure to any one financial institution or corporate issuer. We are exposed to credit-related losses in the event of nonperformance by counterparties to risk-management instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and 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, the effective portion of gains and losses is 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 effective portion of foreign currency translation gains or losses due to spot rate fluctuations are reported as a component of accumulated other comprehensive loss. Hedge ineffectiveness is immediately recognized in earnings. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in current 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 June 30, 2017 , we had outstanding foreign currency forward commitments to purchase 1.34 billion U.S. dollars and sell 1.19 billion euro, commitments to purchase 1.24 billion euro and sell 1.39 billion U.S. dollars, commitments to purchase 540.2 million U.S. dollars and sell 60.29 billion Japanese yen, commitments to purchase 283.9 million British pounds and sell 324.2 million euro, and commitments to purchase 267.2 million U.S. dollars and sell 208.8 million British pounds, which will all settle 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 $3.61 billion and $3.34 billion as of June 30, 2017 and December 31, 2016 , respectively, and have been designated as, and are effective as, economic hedges of net investments in certain of our euro-denominated and Swiss franc-denominated foreign operations. Our cross-currency interest rate swaps that convert a portion of our U.S. dollar-denominated floating rate debt to euro-denominated floating rate debt have also been designated as, and are effective as, economic hedges of net investments in certain of our euro-denominated foreign operations.

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 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 condensed statements of cash flows. At June 30, 2017 , substantially all of our total long-term debt is at a fixed rate. We have converted approximately 30 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps.

We may enter into forward contracts and designate them as cash flow hedges to limit the potential volatility of earnings and cash flow associated with forecasted sales of available-for-sale securities.

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. Upon completion of a debt issuance and termination of the swap, the change in fair value of these instruments is recorded as part of other comprehensive income (loss) and is amortized to interest expense over the life of the underlying debt.

In May 2017, we issued $750.0 million of 2.35 percent fixed-rate notes due in May 2022, $750.0 million of 3.10 percent fixed-rate notes due in May 2027, and $750.0 million of 3.95 percent fixed-rate notes due in May 2047, with interest to be paid semi-annually. We expect to use the net proceeds of $2.23 billion from the sale of these notes for general corporate purposes, including to repay at maturity notes due in 2018 and 2019. Prior to such uses, we may temporarily invest the net proceeds in investment securities.

In May 2016, we issued Swiss franc-denominated notes consisting of Fr.200.0 million of 0.00 percent fixed-rate notes due in May 2018, Fr.600.0 million of 0.15 percent fixed-rate notes due in May 2024, and Fr.400.0 million of 0.45 percent fixed-rate notes due in May 2028, with interest to be paid annually. We are using the net cash proceeds of the offering of $1.21 billion for general corporate purposes, which included the repayment at maturity of certain of our U.S. dollar denominated fixed-rate notes due March 2017.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Fair value hedges:				
Effect from hedged fixed-rate debt	**$ 15.0**	$ 35.8	**$ 7.5**	$ 111.1
Effect from interest rate contracts	**(15.0)**	(35.8)	**(7.5)**	(111.1)
Cash flow hedges:				
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**3.7**	3.7	**7.4**	7.4
Net losses on foreign currency exchange contracts not designated as hedging instruments	**25.8**	90.9	**62.9**	104.2

During the six months ended June 30, 2017 and 2016 , net losses related to ineffectiveness, as well as net losses related to the portion of our risk-management hedging instruments, fair value hedges, and cash flow hedges that were excluded from the assessment of effectiveness, were not material.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net investment hedges:				
Foreign currency-denominated notes	**$ (194.4)**	$ 34.8	**$ (273.3)**	$ (43.0)
Cross-currency interest rate swaps	**(51.5)**	7.5	**(57.6)**	6.3
Foreign currency exchange contracts	**—**	31.9	**—**	31.9
Cash flow hedges:				
Forward-starting interest rate swaps	**13.0**	(3.4)	**13.0**	(3.4)

During the next 12 months, we expect to reclassify $14.7 million of pretax net losses on cash flow hedges from accumulated other comprehensive loss to other–net, (income) expense.

Fair Value of Financial Instruments

The following tables summarize certain fair value information at June 30, 2017 and December 31, 2016 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:

			Fair Value Measurements Using			
	Carrying Amount	Cost [1]	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
June 30, 2017						
Cash equivalents	**$ 1,667.4**	**$ 1,667.4**	**$ 1,146.4**	**$ 521.0**	**$ —**	**$ 1,667.4**
Short-term investments:						
U.S. government and agency securities	**$ 671.6**	**$ 672.0**	**$ 671.6**	**$ —**	**$ —**	**$ 671.6**
Corporate debt securities	**1,688.4**	**1,688.1**	**—**	**1,688.4**	**—**	**1,688.4**
Asset-backed securities	**2.0**	**2.0**	**—**	**2.0**	**—**	**2.0**
Other securities	**2.2**	**2.2**	**—**	**2.2**	**—**	**2.2**
Short-term investments	**$ 2,364.2**					
Noncurrent investments:						
U.S. government and agency securities	**$ 365.1**	**$ 368.1**	**$ 365.1**	**$ —**	**$ —**	**$ 365.1**
Corporate debt securities	**3,493.6**	**3,488.3**	**—**	**3,493.6**	**—**	**3,493.6**
Mortgage-backed securities	**152.2**	**153.4**	**—**	**152.2**	**—**	**152.2**
Asset-backed securities	**678.9**	**679.4**	**—**	**678.9**	**—**	**678.9**
Other securities	**173.6**	**81.3**	**—**	**—**	**173.6**	**173.6**
Marketable equity securities	**326.7**	**122.4**	**326.7**	**—**	**—**	**326.7**
Cost and equity method investments [2]	**533.2**					
Noncurrent investments	**$ 5,723.3**					
December 31, 2016						
Cash equivalents	$ 2,986.8	$ 2,986.8	$ 2,699.4	$ 287.4	$ —	$ 2,986.8
Short-term investments:						
U.S. government and agency securities	$ 232.5	$ 232.6	$ 232.5	$ —	$ —	$ 232.5
Corporate debt securities	1,219.2	1,219.1	—	1,219.2	—	1,219.2
Asset-backed securities	4.3	4.3	—	4.3	—	4.3
Other securities	0.5	0.5	—	0.5	—	0.5
Short-term investments	$ 1,456.5					
Noncurrent investments:						
U.S. government and agency securities	$ 318.9	$ 323.8	$ 318.9	$ —	$ —	$ 318.9
Corporate debt securities	3,062.2	3,074.3	—	3,062.2	—	3,062.2
Mortgage-backed securities	183.1	185.4	—	183.1	—	183.1
Asset-backed securities	502.7	503.5	—	502.7	—	502.7
Other securities	153.7	77.6	—	—	153.7	153.7
Marketable equity securities	418.2	91.9	418.2	—	—	418.2
Cost and equity method investments [2]	568.7					
Noncurrent investments	$ 5,207.5					

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

[2] Fair value disclosures are not applicable for cost method and equity method investments.

	Carrying Amount	Fair Value Measurements Using			Fair Value
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Short-term commercial paper borrowings					
June 30, 2017	**$ (1,425.0)**	**$ —**	**$ (1,423.7)**	**$ —**	**$ (1,423.7)**
December 31, 2016	(1,299.3)	—	(1,299.3)	—	(1,299.3)
Long-term debt, including current portion					
June 30, 2017	**$ (10,887.1)**	**$ —**	**$ (11,318.1)**	**$ —**	**$ (11,318.1)**
December 31, 2016	(9,005.9)	—	(9,419.1)	—	(9,419.1)

	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
June 30, 2017					
Risk-management instruments:					
Interest rate contracts designated as fair value hedges:					
Other receivables	$ 3.2	$ —	$ 3.2	$ —	$ 3.2
Sundry	44.6	—	44.6	—	44.6
Other current liabilities	(3.0)	—	(3.0)	—	(3.0)
Other noncurrent liabilities	(0.6)	—	(0.6)	—	(0.6)
Cross-currency interest rate contracts designated as net investment hedges:					
Other current liabilities	(12.4)	—	(12.4)	—	(12.4)
Other noncurrent liabilities	(12.9)	—	(12.9)	—	(12.9)
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	28.1	—	28.1	—	28.1
Other current liabilities	(21.7)	—	(21.7)	—	(21.7)
Contingent consideration liabilities [1]:					
Other current liabilities	(212.5)	—	—	(212.5)	(212.5)
Other noncurrent liabilities	(138.1)	—	—	(138.1)	(138.1)
December 31, 2016					
Risk-management instruments:					
Interest rate contracts designated as fair value hedges:					
Other receivables	$ 2.4	$ —	$ 2.4	$ —	$ 2.4
Sundry	37.0	—	37.0	—	37.0
Other noncurrent liabilities	(0.5)	—	(0.5)	—	(0.5)
Cross-currency interest rate contracts designated as net investment hedges:					
Sundry	31.4	—	31.4	—	31.4
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	31.8	—	31.8	—	31.8
Other current liabilities	(21.7)	—	(21.7)	—	(21.7)
Contingent consideration liabilities [1]:					
Other current liabilities	(215.9)	—	—	(215.9)	(215.9)
Other noncurrent liabilities	(242.6)	—	—	(242.6)	(242.6)

[1] Contingent consideration liabilities primarily relate to the Erbitux arrangement with BMS discussed in Note 4.

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 an enforceable master netting arrangement 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 cost and equity method investments are not readily available.

Contingent consideration liabilities primarily include contingent consideration related to Erbitux, for which the fair value was estimated using a discounted cash flow analysis and Level 3 inputs, including projections representative of a market participant view for net sales in North America through September 2018 and an estimated discount rate. The amount to be paid is calculated as a tiered percentage of net sales (see Note 4) and will, therefore, vary directly with increases and decreases in net sales of Erbitux in North America. There is no cap on the amount that may be paid pursuant to this arrangement. The decrease in the fair value of the contingent consideration liabilities during the six months ended June 30, 2017 was due primarily to cash payments of $100.0 million related to Erbitux. The change in the fair value of the contingent consideration liabilities recognized in earnings during the three and six months ended June 30, 2017 and 2016 due to changes in time value of money was not material.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of June 30, 2017 :

	Maturities by Period				
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 7,051.6	$ 2,361.9	$ 4,378.2	$ 118.1	$ 193.4

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 (pretax) in accumulated other comprehensive loss follows:

	June 30, 2017	December 31, 2016
Unrealized gross gains	**$ 247.5**	$ 352.6
Unrealized gross losses	**29.2**	34.1
Fair value of securities in an unrealized gain position	**2,573.3**	1,869.7
Fair value of securities in an unrealized loss position	**3,981.8**	3,262.3

We periodically assess our investment securities for other-than-temporary impairment losses. There were no other-than-temporary impairment losses in the three and six months ended June 30, 2017 . Other-than-temporary impairment losses recognized during the three and six months ended June 30, 2016 were $15.9 million and $41.6 million , respectively.

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

For equity securities, factors considered in assessing other-than-temporary impairment losses include the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, our intent and ability to retain the securities for a period of time sufficient to allow for recovery in fair value, and general market conditions and industry specific factors.

As of June 30, 2017 , the 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 95 percent of the fixed-rate debt securities in a loss position are investment-grade debt securities. As of June 30, 2017 , we do not intend to sell, and it is not more likely than not that we will be required to sell the securities in a loss position before the market values recover or the underlying cash flows have been received, and there is no indication of default on interest or principal payments for any of our debt securities.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Proceeds from sales	**$ 959.0**	$ 850.7	**$ 2,051.5**	$ 1,577.1
Realized gross gains on sales	**22.2**	3.4	**73.9**	5.2
Realized gross losses on sales	**1.1**	3.1	**2.4**	10.4

Realized gains and losses on sales of 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 $687.7 million and $661.6 million of accounts receivable as of June 30, 2017 and December 31, 2016 , respectively, under these factoring arrangements. The cost of factoring such accounts receivable on our consolidated condensed results of operations for the six months ended June 30, 2017 and 2016 was not material.

Note 7: Shareholders' Equity

During the six months ended June 30, 2017 and 2016 , we repurchased $259.9 million and $300.1 million of shares, respectively, associated with our $5.00 billion share repurchase program announced in October 2013. A payment of $60.0 million was made in the fourth quarter of 2016 for shares repurchased in 2017. As of June 30, 2017 , there were $2.15 billion of shares remaining in that program.

Note 8: Income Taxes

The effective tax rate was 32.1 percent for the six months ended June 30, 2017 , compared with 21.4 percent for the six months ended June 30, 2016 . The increase in the effective tax rate for the first six months of 2017 is primarily due to the impact from the non-deductible $857.6 million acquired IPR&D charge related to the acquisition of CoLucid.

During the first quarter of 2016, we completed and effectively settled the U.S. examination of tax years 2010 - 2012 . As a result of this resolution, our gross uncertain tax positions were reduced by approximately $140 million , and our consolidated condensed results of operations benefited from an immaterial reduction in income tax expense. During 2016, we made cash payments of approximately $150 million related to tax years 2010 - 2012 after application of available tax credit carryforwards and carrybacks. The U.S. examination of tax years 2013 - 2015 began in 2016. Because the examination of years 2013 - 2015 remains in the information and document gathering phase, the resolution of matters in this audit period will likely extend beyond the next 12 months.

Note 9: Retirement Benefits

Net pension and retiree health benefit (income) cost included the following components:

	Defined Benefit Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Components of net periodic benefit cost:				
Service cost	**$ 86.7**	$ 70.6	**$ 165.6**	$ 142.0
Interest cost	**103.2**	105.1	**205.6**	210.2
Expected return on plan assets	**(195.3)**	(189.6)	**(389.3)**	(379.1)
Amortization of prior service (benefit) cost	**1.5**	(0.2)	**2.9**	5.7
Recognized actuarial loss	**70.4**	74.0	**143.1**	142.4
Net periodic benefit cost	**$ 66.5**	$ 59.9	**$ 127.9**	$ 121.2

	Retiree Health Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Components of net periodic benefit income:				
Service cost	**$ 12.0**	$ 10.3	**$ 23.2**	$ 19.6
Interest cost	**13.4**	13.2	**26.4**	26.0
Expected return on plan assets	**(40.1)**	(37.6)	**(80.4)**	(75.1)
Amortization of prior service benefit	**(22.5)**	(21.5)	**(45.0)**	(42.8)
Recognized actuarial loss	**5.1**	5.2	**9.2**	10.3
Net periodic benefit income	**$ (32.1)**	$ (30.4)	**$ (66.6)**	$ (62.0)

We have contributed approximately $20 million required to satisfy minimum funding requirements to our defined benefit pension and retiree health benefit plans during the six months ended June 30, 2017 . Additional discretionary funding in the aggregate was not material during the six months ended June 30, 2017 . During the remainder of 2017 , we expect to make contributions to our defined benefit pension and retiree health benefit plans of approximately $20 million to satisfy minimum funding requirements. Additional discretionary funding for the remainder of 2017 is not expected to be material.

Note 10: Contingencies

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

Alimta Patent Litigation and Administrative Proceedings

A number of generic manufacturers are seeking approvals in various countries 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 could have a material adverse impact on our future consolidated results of operations, liquidity, and financial position. We expect that a loss of exclusivity for Alimta would result in a rapid and severe decline in future revenue for the product in the relevant market.

U.S. Patent Litigation and Administrative Proceedings

We are engaged in various U.S. patent litigation matters involving Alimta brought pursuant to procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). More than 10 Abbreviated New Drug Applications (ANDAs) seeking approval to market generic versions of Alimta prior to the expiration of our vitamin regimen patent (expiring in 2021 plus pediatric exclusivity expiring in 2022) have been filed by a number of companies, including Teva Parenteral Medicines, Inc. (Teva) and APP Pharmaceuticals, LLC (APP). These companies have also alleged the patent is invalid.

In October 2010, we filed a lawsuit in the U.S. District Court for the Southern District of Indiana against Teva, APP and two other defendants seeking rulings that the U.S. vitamin regimen patent is valid and infringed (the Teva/APP litigation). A trial occurred in August 2013; the sole issue before the district court at that time was to determine patent validity. In March 2014, the court ruled that the asserted claims of the vitamin regimen patent are valid. The U.S. District Court for the Southern District of Indiana held a hearing on the issue of infringement in May 2015. In September 2015, the district court ruled that the vitamin regimen patent would be infringed by the generic challengers' proposed products. Teva and APP appealed all of the district court's substantive decisions. In January 2017, the U.S. Court of Appeals for the Federal Circuit affirmed the district court's decisions concerning validity and infringement. The defendants did not file for writ of certiorari with the U.S. Supreme Court, making the Court of Appeal's decision final.

From 2012 through 2017, we filed similar lawsuits against other ANDA defendants seeking a ruling that our patents are valid and infringed. As a result of the completion of the Teva/APP litigation, the U.S. District Court for the Southern District of Indiana has entered a judgment against three companies; we have asked the court to enter a judgment against two additional companies.

We have also filed lawsuits in the U.S. District Court for the Southern District of Indiana alleging infringement against Dr. Reddy's Laboratories, Hospira, Inc. (Hospira), and Actavis LLC in response to their alternative forms of pemetrexed products.

In June 2016, the U.S. Patent and Trademark Office (USPTO) granted petitions by Neptune Generics, LLC and Sandoz Inc. seeking *inter partes* review (IPR) of our vitamin regimen patent. Several additional generic companies have filed petitions and joined these proceedings. The final written IPR decisions are expected later this year.

European Patent Litigation and Administrative Proceedings

In the United Kingdom (U.K.), Actavis Group ehf and other Actavis companies (collectively, Actavis) filed litigation asking for a declaratory judgment that commercialization of certain salt forms of pemetrexed (the active ingredient in Alimta) would not infringe the vitamin regimen patents for Alimta in the U.K., Italy, France, and Spain. In trial court and court of appeal decisions, the alternative salt forms were found to indirectly infringe the Alimta vitamin regimen patent when reconstituted in saline, but not to directly infringe the patents as an equivalent. We appealed. In July 2017, the U.K. Supreme Court ruled that Actavis's products directly infringe our vitamin regimen patents in the U.K., Italy, France, and Spain. The U.K. Supreme Court also affirmed an earlier finding by the U.K. Court of Appeal that the Alimta vitamin regimen patent would be indirectly infringed by commercialization of Actavis's products diluted in saline. We intend to pursue Actavis and others that launched-at-risk for damages.

Actavis sought a declaration of non-infringement from the U.K. High Court for a different proposed product diluted in dextrose solution. In February 2016, the trial court ruled that Actavis' commercialization of this product would not infringe the patent in the U.K., Italy, France, and Spain. We are still seeking to appeal this ruling for procedural purposes, although it has now been superseded by the U.K. Supreme Court's recent decision.

We commenced separate infringement proceedings against certain Actavis companies in Germany. In April 2014, the German trial court ruled in our favor. The defendants appealed and the German Court of Appeal overturned the trial court and ruled that our vitamin regimen patent in Germany would not be infringed by a dipotassium salt form of pemetrexed. In June 2016, the German Federal Supreme Court granted our appeal, vacating the prior decision denying infringement, and returned the case to the Court of Appeal to reconsider issues relating to infringement.

In separate proceedings, in May 2016 and June 2016, the German courts confirmed preliminary injunctions against Hexal AG (Hexal), which had stated its intention to launch a generic disodium salt product diluted in saline solution in Germany, and ratiopharm GmbH (ratiopharm), a subsidiary of Teva, which had stated its intention to launch a proposed alternative salt form of pemetrexed product diluted in dextrose solution. The German Court of Appeal affirmed the preliminary injunction against ratiopharm in May 2017. The preliminary injunctions against both Hexal and ratiopharm will remain in place pending the outcome of the cases on the merits.

In late 2016, the German courts issued preliminary injunctions against two other companies that had stated their intentions to launch a proposed alternative salt form of pemetrexed product diluted in dextrose solution.

Hexal and Stada Arzneimittel AG (Stada) have separately challenged the validity of our vitamin regimen patent before the German Federal Patent court. The hearing will take place in late 2018.

We do not anticipate any generic entry into the German market at least until the Court of Appeal considers the issues remanded by the German Federal Supreme Court in the proceedings against Actavis, or if the injunctions are lifted.

Additional legal proceedings are ongoing in various national courts of other European countries. We are aware that generic competitors have received approval to market generic versions of pemetrexed in major European markets, and that generic products are currently on the market in France and the U.K. In view of the U.K. Supreme Court judgment finding infringement in the U.K., France, Italy and Spain, we expect that Actavis will withdraw or terminate plans to market its generic product in these markets, and we will seek to remove any generic pemetrexed products launched-at-risk in other European markets.

Japanese Administrative Proceedings

Three separate sets of demands for invalidation of our two vitamin regimen patents, involving several companies, have been filed with the Japanese Patent Office (JPO). In November 2015, the JPO issued written decisions in the invalidation trial initiated by Sawai Pharmaceutical Co., Ltd. (Sawai), which had been joined by three other companies, upholding both vitamin regimen patents. In February 2017, the Japan Intellectual Property High Court confirmed the decisions of the JPO and ruled in our favor in the invalidation trials initiated by Sawai. The Japan Intellectual Property High Court's decision regarding the demand initiated by Sawai is now final. In May 2017, the JPO resumed one of the two remaining sets of demands, brought by Nipro Corporation. The other set of demands, brought by Hospira, remains suspended. If upheld through all challenges, these patents provide intellectual property protection for Alimta until June 2021.

Notwithstanding our patents, generic versions of Alimta were approved in Japan starting in February 2016. We do not currently anticipate that generic versions of Alimta will proceed to pricing approval.

Effient Patent Litigation and Administrative Proceedings

We, along with Daiichi Sankyo, Daiichi Sankyo, Inc., and Ube Industries (Ube) are engaged in U.S. patent litigation involving Effient brought pursuant to procedures set out in the Hatch-Waxman Act. More than 10 different companies have submitted ANDAs seeking approval to market generic versions of Effient prior to the expiration of Daiichi Sankyo's and Ube's patents (expiring in 2023) covering methods of using Effient with aspirin, and alleging the patents are invalid. One of these ANDAs also alleged that the compound patent for Effient (which expired in April 2017) was invalid. We have entered into a settlement relating to the compound patent litigation and anticipate that a generic version could launch as early as mid-August 2017.

Beginning in March 2014, we filed lawsuits in the U.S. District Court for the Southern District of Indiana against these companies, seeking a ruling that the patents are valid and infringed. These cases have been consolidated.

In 2015, several generic pharmaceutical companies filed petitions with the USPTO, requesting IPR of the method-of-use patents. In September 2016, the USPTO determined that the method-of-use patents are invalid. Daiichi Sankyo and Ube have appealed these decisions to the U.S. Court of Appeals for the Federal Circuit. We expect a final decision in late 2017. The consolidated lawsuit is currently stayed with respect to all parties pending the outcome of this appeal.

We believe the Effient method-of-use patents are valid and enforceable against these generic manufacturers. However, it is not possible to determine the outcome of the proceedings, and accordingly, we can provide no assurance that we will prevail. We expect a loss of exclusivity for Effient would result in a rapid and severe decline in future revenue for the product in the relevant market.

Actos ® Product Liability Litigation

We were named along with Takeda Chemical Industries, Ltd. and Takeda affiliates (collectively, Takeda) as a defendant in approximately 6,700 product liability cases in the U.S. related to the diabetes medication Actos, which we co-promoted with Takeda in the U.S. from 1999 until 2006. In general, plaintiffs in these actions alleged that Actos caused or contributed to their bladder cancer. Almost all of these cases were included as part of a resolution program announced by Takeda in April 2015 in which Takeda agreed to pay approximately $2.4 billion to resolve the vast majority of the U.S. product liability lawsuits involving Actos. Although the vast majority of U.S. product liability lawsuits involving Actos are included in the resolution program, there may be additional cases pending against Takeda and us following completion of the resolution program.

We are also named along with Takeda as a defendant in three purported product liability class actions in Canada related to Actos, including one in Ontario (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al. and Carrier et al. v. Eli Lilly et al.*), one in Quebec (*Whyte et al. v. Eli Lilly et al.*), and one in Alberta (*Epp v. Takeda Canada et al.*). We promoted Actos in Canada until 2009.

We believe these lawsuits are without merit, and we and Takeda are prepared to defend against them vigorously.

Cymbalta ® Product Liability Litigation

In October 2012, we were named as a defendant in a purported class-action lawsuit in the U.S. District Court for the Central District of California (now called *Strafford et al. v. Eli Lilly and Company*) involving Cymbalta. The plaintiffs, purporting to represent a class of all persons within the U.S. who purchased and/or paid for Cymbalta, asserted claims under the consumer protection statutes of four states, California, Massachusetts, Missouri, and New York, and sought declaratory, injunctive, and monetary relief for various alleged economic injuries arising from discontinuing treatment with Cymbalta. In December 2014, the district court denied the plaintiffs' motion for class certification. Plaintiffs filed a petition with the U.S. Court of Appeals for the Ninth Circuit requesting permission to file an interlocutory appeal of the denial of class certification, which was denied. Plaintiffs filed a second motion for certification under the consumer protection acts of New York and Massachusetts. The district court denied that motion for class certification in July 2015. The district court dismissed the suit and plaintiffs are appealing to the U.S. Court of Appeals for the Ninth Circuit. Oral argument is expected in late 2017. In June 2017, we moved to dismiss the appeal for lack of jurisdiction based on the U.S. Supreme Court's recent decision in *Microsoft v. Baker* .

We are named in approximately 140 lawsuits involving approximately 1,470 plaintiffs filed in various federal and state courts alleging injuries arising from discontinuation of treatment with Cymbalta. These include approximately 40 individual and multi-plaintiff cases filed in California state court, centralized in a California Judicial Counsel Coordination Proceeding pending in Los Angeles. The first individual product liability cases were tried in August 2015 and resulted in defense verdicts against four plaintiffs. We believe all these Cymbalta lawsuits and claims are without merit.

We have reached a settlement framework which provides for a comprehensive resolution of nearly all of these personal injury claims, filed or unfiled, alleging injuries from discontinuing treatment with Cymbalta. There can be no assurances, however, that a final settlement will be reached.

Brazil–Employee Litigation

Our subsidiary in Brazil, Eli Lilly do Brasil Limitada (Lilly Brasil), is named in a lawsuit brought by the Labor Attorney for 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 manufacturing facility in Cosmopolis, Brazil, operated by the company between 1977 and 2003. The plaintiffs allege that some employees at the facility were exposed to benzene and heavy metals; however, Lilly Brasil maintains that these alleged contaminants were never used in the facility. In May 2014, the labor court judge ruled against Lilly Brasil. The judge's ruling orders Lilly Brasil to undertake several actions of unspecified financial impact, including paying lifetime medical insurance 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. While we cannot currently estimate the range of reasonably possible financial losses that could arise in the event we do not ultimately prevail in the litigation, the judge has estimated the total financial impact of the ruling to be approximately 1.0 billion Brazilian real (approximately $305 million as of June 30, 2017) plus interest. We strongly disagree with the decision and filed an appeal in May 2014. We expect a ruling on this appeal before the end of the year.

We are also named in approximately 30 lawsuits filed in the same court by individual former employees making similar claims.

We are also aware that Lilly Brasil and Elanco Quimica Ltda. have been named in a lawsuit involving approximately 305 individuals alleging that the companies failed to provide warnings regarding exposure to heavy metals or proper equipment at the former Cosmopolis facility, and that this alleged failure could result in possible harm to employees, former employees, and their dependents. In June 2017, the court denied the plaintiffs' request for a preliminary injunction.

We believe all of these lawsuits are without merit and are prepared to defend against them vigorously.

Product Liability Insurance

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of 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 marketed products.

Note 11: Other Comprehensive Income (Loss)

The following tables summarize the activity related to each component of other comprehensive income (loss) during the three months ended June 30, 2017 and 2016 :

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at April 1, 2017	**$ (1,648.7)**	**$ 179.4**	**$ (3,349.4)**	**$ (208.4)**	**$ (5,027.1)**
Other comprehensive income (loss) before reclassifications	**299.3**	**(12.5)**	**(37.7)**	**8.4**	**257.5**
Net amount reclassified from accumulated other comprehensive loss	**—**	**(13.7)**	**38.6**	**2.4**	**27.3**
Net other comprehensive income (loss)	**299.3**	**(26.2)**	**0.9**	**10.8**	**284.8**
Balance at June 30, 2017 [(2)]	**$ (1,349.4)**	**$ 153.2**	**$ (3,348.5)**	**$ (197.6)**	**$ (4,742.3)**

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at April 1, 2016	$ (1,085.4)	$ 17.9	$ (2,981.1)	$ (216.1)	$ (4,264.7)
Other comprehensive income (loss) before reclassifications	(187.6)	8.8	24.6	(2.2)	(156.4)
Net amount reclassified from accumulated other comprehensive loss	—	10.1	37.4	2.4	49.9
Net other comprehensive income (loss)	(187.6)	18.9	62.0	0.2	(106.5)
Balance at June 30, 2016 [(2)]	$ (1,273.0)	$ 36.8	$ (2,919.1)	$ (215.9)	$ (4,371.2)

The following tables summarize the activity related to each component of other comprehensive income (loss) during the six months ended June 30, 2017 and 2016 :

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2017 [1]	**$ (1,867.3)**	**$ 224.0**	**$ (3,371.6)**	**$ (210.9)**	**$ (5,225.8)**
Other comprehensive income (loss) before reclassifications	**517.9**	**(24.3)**	**(54.6)**	**8.4**	**447.4**
Net amount reclassified from accumulated other comprehensive loss	**—**	**(46.5)**	**77.7**	**4.9**	**36.1**
Net other comprehensive income (loss)	**517.9**	**(70.8)**	**23.1**	**13.3**	**483.5**
Balance at June 30, 2017 [2]	**$ (1,349.4)**	**$ 153.2**	**$ (3,348.5)**	**$ (197.6)**	**$ (4,742.3)**

(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance at January 1, 2016 [1]	$ (1,360.2)	$ 10.1	$ (3,012.1)	$ (218.5)	$ (4,580.7)
Other comprehensive income (loss) before reclassifications	12.7	13.0	20.5	(2.2)	44.0
Net amount reclassified from accumulated other comprehensive loss	74.5	13.7	72.5	4.8	165.5
Net other comprehensive income	87.2	26.7	93.0	2.6	209.5
Balance at June 30, 2016 [2]	$ (1,273.0)	$ 36.8	$ (2,919.1)	$ (215.9)	$ (4,371.2)

[1] Accumulated other comprehensive loss as of January 1, 2017 consists of $5,274.0 million of accumulated other comprehensive loss attributable to controlling interest and $48.2 million of accumulated other comprehensive income attributable to non-controlling interest. The accumulated other comprehensive loss attributable to non-controlling interest as of January 1, 2016 is immaterial.

[2] Accumulated other comprehensive loss as of June 30, 2017 consists of $4,774.9 million of accumulated other comprehensive loss attributable to controlling interest and $32.6 million of accumulated other comprehensive income attributable to non-controlling interest. The accumulated other comprehensive loss attributable to non-controlling interest as of June 30, 2016 is immaterial.

The tax effects on the net activity related to each component of other comprehensive income (loss) were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Tax benefit (expense)	2017	2016	2017	2016
Foreign currency translation gains/losses	**$ 86.1**	$ (26.0)	**$ 115.8**	$ 1.7
Unrealized net gains/losses on securities	**11.5**	(10.2)	**29.6**	(14.4)
Defined benefit pension and retiree health benefit plans	**(6.1)**	(21.8)	**(14.6)**	(47.5)
Effective portion of cash flow hedges	**(5.8)**	(0.1)	**(7.1)**	(1.4)
Benefit/(provision) for income taxes allocated to other comprehensive income (loss) items	**$ 85.7**	$ (58.1)	**$ 123.7**	$ (61.6)

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 6), 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 condensed statements of operations.

Reclassifications out of accumulated other comprehensive loss were as follows:

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Affected Line Item in the Consolidated Condensed Statements of Operations
Amortization of retirement benefit items:					
Prior service benefits, net	**$ (21.0)**	$ (21.7)	**$ (42.1)**	$ (37.1)	[1]
Actuarial losses, net	**75.5**	79.2	**152.3**	152.7	[1]
Total before tax	**54.5**	57.5	**110.2**	115.6	
Tax benefit	**(15.9)**	(20.1)	**(32.5)**	(43.1)	Income taxes
Net of tax	**38.6**	37.4	**77.7**	72.5	
Unrealized gains/losses on available-for-sale securities:					
Realized (gains) losses, net before tax	**(21.1)**	(0.3)	**(71.5)**	5.2	Other–net, (income) expense
Impairment losses	**—**	15.9	**—**	15.9	Other–net, (income) expense
Total before tax	**(21.1)**	15.6	**(71.5)**	21.1	
Tax (benefit) expense	**7.4**	(5.5)	**25.0**	(7.4)	Income taxes
Net of tax	**(13.7)**	10.1	**(46.5)**	13.7	
Other, net of tax [2]	**2.4**	2.4	**4.9**	79.3	Other–net, (income) expense
Total reclassifications for the period (net of tax)	**$ 27.3**	$ 49.9	**$ 36.1**	$ 165.5	

[1] These accumulated other comprehensive loss components are included in the computation of net periodic benefit (income) cost (see Note 9).

[2] Amount for the six months ended June 30, 2016 included primarily $74.5 million of foreign currency translation losses.

Note 12: Other–Net, (Income) Expense

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Interest expense	**$ 53.6**	$ 43.2	**$ 100.2**	$ 86.6
Interest income	**(36.9)**	(23.5)	**(69.5)**	(47.7)
Venezuela charge	**—**	—	**—**	203.9
Other income	**(12.8)**	(40.9)	**(41.9)**	(115.0)
Other–net, (income) expense	**$ 3.9**	$ (21.2)	**$ (11.2)**	$ 127.8

Due to the financial crisis in Venezuela and the significant deterioration of the bolívar, we changed the exchange rate used to translate the assets and liabilities of our subsidiaries in Venezuela which resulted in a first quarter of 2016 charge of $203.9 million . Prior to this change, we used the Supplementary Foreign Currency Administration System (SICAD) rate; however, this official rate was discontinued in the first quarter of 2016. After considering several factors, including the future uncertainty of the Venezuelan economy, published exchange rates, and the limited amount of foreign currency exchanged, we changed to the Divisa Complementaria (DICOM) rate.

Note 13: Segment Information

We have two operating segments—human pharmaceutical products and animal health products. Our operating segments are distinguished by the ultimate end user of the product—humans or animals. Performance is evaluated based on profit or loss from operations before income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Segment revenue—to unaffiliated customers:				
Human pharmaceutical products:				
Endocrinology:				
Humalog ®	**$ 678.4**	$ 701.9	**$ 1,386.8**	$ 1,308.2
Trulicity ®	**480.2**	201.3	**853.1**	344.9
Forteo ®	**446.7**	367.6	**794.2**	686.3
Humulin ®	**357.8**	332.3	**672.3**	688.7
Trajenta	**141.9**	121.0	**254.9**	215.4
Other Endocrinology	**386.3**	234.3	**653.0**	471.6
Total Endocrinology	**2,491.3**	1,958.4	**4,614.3**	3,715.1
Oncology:				
Alimta	**532.9**	607.1	**1,022.8**	1,171.3
Cyramza ®	**186.3**	147.0	**357.6**	278.0
Erbitux	**159.1**	180.6	**313.5**	348.6
Other Oncology	**77.6**	35.8	**149.0**	67.1
Total Oncology	**955.9**	970.5	**1,842.9**	1,865.0
Cardiovascular:				
Cialis ®	**627.3**	630.5	**1,160.9**	1,207.2
Effient	**142.9**	135.1	**270.7**	266.6
Other Cardiovascular	**42.2**	61.7	**78.0**	107.6
Total Cardiovascular	**812.4**	827.3	**1,509.6**	1,581.4
Neuroscience:				
Strattera ®	**186.6**	224.6	**382.8**	412.7
Cymbalta	**206.6**	236.5	**381.2**	435.2
Zyprexa ®	**140.8**	210.7	**288.3**	423.4
Other Neuroscience	**52.7**	45.9	**113.7**	90.0
Total Neuroscience	**586.7**	717.7	**1,166.0**	1,361.3
Immunology:				
Taltz ®	**138.7**	19.3	**235.4**	19.3
Other Immunology	**4.8**	—	**6.6**	—
Total Immunology	**143.5**	19.3	**242.0**	19.3
Other pharmaceuticals	**49.6**	51.8	**123.6**	113.4
Total human pharmaceutical products	**5,039.4**	4,545.0	**9,498.4**	8,655.5
Animal health products	**784.8**	859.8	**1,554.2**	1,614.4
Revenue	**$ 5,824.3**	$ 5,404.8	**$ 11,052.6**	$ 10,269.9

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Segment profits:				
Human pharmaceutical products	**$ 1,352.3**	$ 959.4	**$ 2,523.2**	$ 1,886.3
Animal health products	**152.4**	211.7	**300.7**	359.4
Total segment profits	**$ 1,504.7**	$ 1,171.1	**$ 2,823.9**	$ 2,245.7
Reconciliation of total segment profits to consolidated income before taxes:				
Segment profits	**$ 1,504.7**	$ 1,171.1	**$ 2,823.9**	$ 2,245.7
Other profits (losses):				
Acquired in-process research and development (Note 3)	**—**	—	**(857.6)**	—
Amortization of intangible assets	**(178.1)**	(168.6)	**(354.2)**	(341.1)
Asset impairment, restructuring, and other special charges (Note 5)	**(50.0)**	(58.0)	**(263.9)**	(189.4)
Inventory fair value adjustment related to BIVIVP (Note 3)	**(16.1)**	—	**(26.5)**	—
Venezuela charge (Note 12)	**—**	—	**—**	(203.9)
Consolidated income before taxes	**$ 1,260.5**	$ 944.5	**$ 1,321.7**	$ 1,511.3

Numbers may not add due to rounding.

For internal management reporting presented to the chief operating decision maker, certain costs are fully allocated to our human pharmaceutical products segment and therefore are not reflected in the animal health segment's profit. Such items include costs associated with treasury-related financing, global administrative services, certain acquisition-related transaction costs, and certain manufacturing costs.

Item 2. 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 condensed financial statements and accompanying footnotes in Item 1 of Part I of this Quarterly Report on Form 10-Q. Certain statements in this Item 2 of Part I of this Quarterly Report on Form 10-Q constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors," of Part I of our Annual Report on Form 10-K for the year ended December 31, 2016 may cause our actual results 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.

Financial Results

The following table summarizes our key operating results:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
Revenue	**$ 5,824.3**	$ 5,404.8	8	**$ 11,052.6**	$ 10,269.9	8
Gross margin	**4,272.7**	3,939.8	8	**8,173.3**	7,481.9	9
Gross margin as a percent of revenue	**73.4%**	72.9%		**73.9%**	72.9%	
Operating expense [1]	**$ 2,958.3**	$ 2,958.5	—	**$ 5,741.3**	$ 5,653.4	2
Acquired in-process research and development	**—**	—	NM	**857.6**	—	NM
Asset impairment, restructuring, and other special charges	**50.0**	58.0	(14)	**263.9**	189.4	39
Net income	**1,008.0**	747.7	35	**897.2**	1,187.8	(24)
Earnings per share	**0.95**	0.71	34	**0.85**	1.12	(24)

[1] Operating expense consists of research and development and marketing, selling, and administrative expenses.

NM - not meaningful

Revenue increased for the three and six months ended June 30, 2017 primarily driven by increased volume for Trulicity ®, Taltz ®, and other new pharmaceutical products. Operating expense remained flat for the three months ended June 30, 2017 . Operating expense increased for the six months ended June 30, 2017 driven by an increase in marketing, selling, and administrative expense partially offset by a decrease in research and development expense. The following highlighted items also affect comparisons of our financial results for the three and six months ended June 30, 2017 and 2016 :

2017

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

- We recognized no acquired IPR&D charges for the three months ended June 30 and a charge of $857.6 million, or $0.81 per share, for the six months ended June 30 associated with the acquisition of CoLucid Pharmaceuticals, Inc. (CoLucid). This charge was not tax-deductible.

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

- We recognized charges of $50.0 million (pretax), or $0.03 per share, and $263.9 million (pretax), or $0.19 per share, for the three and six months ended June 30 , respectively. The charges for the three months ended June 30 were primarily due to integration costs related to the acquisition of Novartis Animal Health (Novartis AH) as well as asset impairments related to animal health assets. The charges for the six months ended June 30 were primarily due to severance costs incurred as a result of actions taken to reduce our cost structure, integration costs, and asset impairments related to animal health assets, as well as exit fees due to site closures.

2016

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

- We recognized charges of $58.0 million (pretax), or $0.04 per share, and $189.4 million (pretax), or $0.16 per share, for the three and six months ended June 30, respectively, related to the integration costs for our acquisition of Novartis AH, severance costs, and asset impairments. The charges for the six months ended June 30 also included charges related to the closure of an animal health manufacturing facility in Ireland.

Other–Net, (Income) Expense (Note 12 to the consolidated condensed financial statements)

- We recognized charges of $203.9 million (pretax), or $0.19 per share, in the first quarter related to the impact of the Venezuelan financial crisis, including the significant deterioration of the bolívar.

The increases in net income and EPS for the second quarter of 2017 were due to a higher gross margin, partially offset by higher income taxes. The decreases in net income and EPS for the six months ended June 30, 2017 , were due to the acquired IPR&D charge associated with the acquisition of CoLucid and, to a lesser extent, higher income taxes, higher operating expenses, and higher asset impairment, restructuring, and other special charges, partially offset by a higher gross margin and the 2016 charges related to the Venezuelan financial crisis, including the significant deterioration of the bolívar.

Late-Stage Pipeline

Our long-term success depends to a great extent on our ability to continue to discover and develop innovative pharmaceutical products and acquire or collaborate on molecules currently in development by other biotechnology or pharmaceutical companies. We currently have approximately 55 potential new drugs in human testing or under regulatory review, and a larger number of projects in preclinical research.

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

Baricitinib (Olumiant ®) (Q1 2017) —a Janus tyrosine kinase inhibitor for the treatment of moderate-to-severe active rheumatoid arthritis (in collaboration with Incyte Corporation).

Olaratumab* (Lartruvo ™) (Q4 2016) —a human IgG1 monoclonal antibody for the treatment of advanced soft tissue sarcoma.

The following NME has been submitted for regulatory review in at least one of the major geographies for potential use in the disease described. The quarter in which the NME initially was submitted in any major geography for any indication is shown in parentheses:

Abemaciclib (Q2 2017) —a small molecule cell-cycle inhibitor, selective for cyclin-dependent kinases 4 and 6 for the treatment of metastatic breast cancer. In the United States (U.S.), abemaciclib is protected by a compound patent (2029, not including possible patent extension).

The following NMEs and diagnostic agent are currently in Phase III clinical trial testing for potential use in the diseases described. The quarter in which each NME and diagnostic agent initially entered Phase III for any indication is shown in parentheses:

Flortaucipir (Q3 2015)** —a positron emission tomography (PET) tracer intended to image tau (or neurofibrillary) tangles in the brain, which are an indicator of Alzheimer's disease.

Galcanezumab* (Q2 2015) —a once-monthly subcutaneously injected calcitonin gene-related peptide (CGRP) antibody for the treatment of migraine prevention and cluster headache.

Lanabecestat (Q2 2016) —an oral beta-secretase cleaving enzyme (BACE) inhibitor for the treatment of early and mild Alzheimer's disease (in collaboration with AstraZeneca).

Lasmiditan (Q2 2015) —an oral 5-HT $_{1F}$ agonist for the acute treatment of migraine.

Nasal glucagon* (Q3 2013) —a glucagon nasal powder formulation for the treatment of severe hypoglycemia in patients with diabetes treated with insulin.

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

Tanezumab* (Q3 2008) —an anti-nerve growth factor monoclonal antibody for the treatment of osteoarthritis pain, chronic low back pain, and cancer pain (in collaboration with Pfizer Inc.).

* Biologic molecule subject to the U.S. Biologics Price Competition and Innovation Act

** Diagnostic agent

The following table reflects the status of each NME and diagnostic agent within our late-stage pipeline and recently approved products including developments since January 1, 2017 :

Compound	Indication	U.S.	Europe	Japan	Developments
Endocrinology					
Nasal glucagon	Severe hypoglycemia	Phase III			Development of commercial manufacturing process is ongoing.
Immunology					
Olumiant	Rheumatoid arthritis	See Developments	Launched	Approved	Approved and launched in Europe in first quarter of 2017. Received complete response letter from the U.S. Food and Drug Administration (FDA) in second quarter of 2017. Evaluating options for resubmission, including the potential for an additional clinical study, as requested by the FDA. Timing of a resubmission in the U.S. will be based on further discussions with FDA and the option pursued. Resubmission in the U.S. will not occur in 2017 and is anticipated to be a minimum of 18 months. Approved in Japan in third quarter of 2017.
Neuroscience					
Flortaucipir	Alzheimer's disease	Phase III			Phase III trial is ongoing.
Galcanezumab	Cluster headache	Phase III			Phase III trials are ongoing.
	Migraine prevention	Phase III			Three Phase III trials met primary endpoints. First submission to FDA expected in second half of 2017.
Lanabecestat	Early and mild Alzheimer's disease	Phase III			Phase III trials are ongoing.
Lasmiditan	Migraine	Phase III			Acquired with CoLucid in first quarter of 2017. Phase III trials are ongoing. See Note 3 to the consolidated condensed financial statements for information on the acquisition.
Solanezumab	Preclinical Alzheimer's disease	Phase III			Phase III trial is ongoing.
Tanezumab	Osteoarthritis pain	Phase III			Granted Fast Track designation [(1)] from the FDA in second quarter of 2017.
	Chronic low back pain	Phase III			
	Cancer pain	Phase III			Phase III trial is ongoing.

Compound	Indication	U.S.	Europe	Japan	Developments
Oncology					
Abemaciclib	Metastatic breast cancer	Submitted	Phase III		Two Phase III trials met primary endpoints. Submitted Phase II trial and Phase III trial to FDA in second quarter of 2017. Granted Priority Review [2] from FDA in third quarter of 2017.
	Non-small cell lung cancer	Phase III			Phase III trial is ongoing.
Lartruvo	Soft tissue sarcoma	Launched		Phase III	Granted accelerated approval [3] by the FDA in fourth quarter of 2016 based on phase II data. Launched in the U.S. in the fourth quarter of 2016. Granted conditional approval [4] and launched in Europe in fourth quarter of 2016. Phase III trial is ongoing.

[1] The FDA's fast track program is designed to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.

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

[3] Continued approval for this indication may be contingent on verification and description of clinical benefit in a confirmatory Phase III trial.

[4] As part of a conditional marketing authorization, results from an ongoing Phase III study will need to be provided. This study is fully enrolled. Until availability of the full data, the Committee for Medicinal Products for Human Use will review the benefits and risks of Lartruvo annually to determine whether the conditional marketing authorization can be maintained.

Other Matters

Patent Matters

We depend on patents or other forms of intellectual-property protection for most of our revenue, cash flows, and earnings. We lost patent exclusivity for the schizophrenia and bipolar mania indications for Zyprexa ® in Japan in December 2015 and April 2016, respectively. Generic versions of Zyprexa were launched in Japan in June 2016. The loss of exclusivity for Zyprexa in Japan has caused a rapid and severe decline in revenue for the product.

We lost our patent exclusivity for Strattera ® in the U.S. in May 2017, and generic versions of Strattera were approved in the same month. The entry of generic competition has caused a rapid and severe decline in revenue, which will have a material adverse effect on our consolidated results of operations and cash flows.

We will lose our compound patent protection for Cialis ® (tadalafil) and Adcirca ® (tadalafil) in major European markets in November 2017. We will also lose compound patent protection for Cialis and Adcirca in the U.S. in November 2017; however, we now expect U.S. exclusivity for Cialis to end at the earliest in late September 2018. Refer to Item 1, "Legal Proceedings" for additional information on our U.S. exclusivity for Cialis. We will also lose exclusivity for Effient ® in the U.S. in October 2017, and we have authorized one generic manufacturer to enter the market as early as mid-August 2017. We expect that the entry of generic competition into these markets following the loss of exclusivity will cause a rapid and severe decline in revenue for the affected products, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows.

Additionally, as described in Note 10 to the consolidated condensed financial statements, the Alimta ® vitamin regimen patents, which 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. Our vitamin regimen patents have also been challenged in other smaller European jurisdictions. Our compound patent for Alimta expired in the U.S. in January 2017, and expired in major European countries and Japan in December 2015. We expect that the entry of generic competition for Alimta following the loss of effective patent protection will cause a rapid and severe decline in revenue for the product, which will, in the aggregate, have a material adverse effect on our consolidated results of operations and cash flows. While the U.S. Court of Appeals recently ruled in our favor regarding the validity and infringement of the vitamin regimen patent, that patent remains the subject of *inter partes* review challenges as further described in Note 10 to the consolidated condensed financial statements. We are aware that generic competitors have received approval to market generic versions of pemetrexed in major European markets, and that generic products are currently on the market in France and the U.K. In view of the U.K. Supreme Court judgment finding infringement in the U.K., France, Italy and Spain, we expect that Actavis will withdraw or terminate plans to market its generic product in these markets, and we will seek to remove any generic pemetrexed products launched-at-risk in other European markets. Notwithstanding our patents, generic versions of Alimta were also approved in Japan starting in February 2016. As described in Note 10 to the consolidated condensed financial statements, we do not currently anticipate that generic versions of Alimta will proceed to pricing approval.

The compound patent for Humalog ® (insulin lispro) has expired in major markets. Thus far, the loss of compound patent protection for Humalog has not resulted in a rapid and severe decline in revenue. Global regulators have different legal pathways to approve similar versions of insulin lispro and to date none have been approved in the U.S. Other manufacturers have efforts underway to bring to market a similar version of insulin lispro in the U.S. and Europe. We are aware that a competitor's insulin lispro product has been approved by the European Commission. It is difficult to estimate the severity of the impact of this product or other similar insulin lispro products entering the market.

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, Japanese yen, and British pound; and the British pound against the euro. While we manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a substantial impact, either positive or negative, on our revenue, cost of sales, and operating expenses. Over the past two years, we have seen significant foreign currency rate fluctuations between the U.S. dollar and several other foreign currencies, including the euro, British pound, and Japanese yen. While there is uncertainty in the future movements in foreign exchange rates, these fluctuations could negatively impact our future consolidated results of operations and cash flows.

The impact of the Venezuelan financial crisis, including the significant deterioration of the bolívar, resulted in a charge of $203.9 million in the first quarter of 2016. See Note 12 to the consolidated condensed financial statements for additional information related to the charge. As of June 30, 2017 , our Venezuelan subsidiaries represented a *de minimis* portion of our consolidated assets and liabilities. We continue to monitor other deteriorating economies and it is possible that additional charges may be recorded in the future. Any additional charges are not expected to have a material adverse effect on our future consolidated results of operations.

Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

United States

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 federal and state measures may be enacted. Key health policy proposals affecting biopharmaceuticals include a reduction in biologic data exclusivity, modifications to Medicare Parts B and D, language that would allow the Department of Health and Human Services to negotiate prices for biologics and drugs in Medicare, proposals that would require biopharmaceutical manufacturers to disclose proprietary drug pricing information, and state-level proposals to reduce the cost of pharmaceuticals purchased by government health care programs. Savings projected under these proposals are targeted as a means to fund both health care expenditures and non-health care initiatives, or to manage federal and state budgets.

In the private sector, consolidation and integration among healthcare providers is also a major factor in the competitive marketplace for human pharmaceuticals. Health plans, pharmaceutical benefit managers, wholesalers, and other supply chain stakeholders have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance. Payers typically maintain formularies which specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer). Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations which result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels and higher deductibles. Consequently, pharmaceutical companies compete for formulary placement not only on the basis of product attributes such as greater efficacy, fewer side effects, or greater patient ease of use, but also by providing rebates. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. These downward pricing pressures could negatively affect future consolidated results of operations and cash flows.

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, driven in part by ACA changes such as the 2020 implementation of the excise tax on employer-sponsored health care coverage for which there is an excess benefit (the so-called "Cadillac tax"), continue to evaluate strategies such as private exchanges and wider use of consumer-driven health plans to reduce their healthcare liabilities over time. Repealing and replacing the ACA remains a top priority for President Trump and Congress. Provisions included in final legislation 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. In addition, governments in many emerging markets are becoming increasingly active in expanding health care system offerings. Given the budget challenges of increasing health care coverage for citizens, policies may be proposed that promote generics and biosimilars only and reduce current and future access to branded human pharmaceutical products.

Tax Matters

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Changes in the relevant tax laws, regulations, administrative practices, principles, and interpretations could adversely affect our future effective tax rates. The U.S. and a number of other countries are actively considering or enacting changes in this regard. For example, the Trump administration has stated that one of its top priorities is comprehensive tax reform. The tax rates and the manner in which U.S. companies are taxed could be altered by any such potential tax reform and could have a material adverse effect on our consolidated results of operations and cash flows. Additionally, the Organisation for Economic Co-operation and Development issued its final recommendations of international tax reform proposals to influence international tax policy in major countries in which we operate. Other institutions have also become more active regarding tax-related matters, including the European Commission, the United Nations, the Group of Twenty, and the European Parliament. While outcomes of these initiatives continue to develop and remain uncertain, changes to key elements of the U.S. or international tax framework could have a material adverse effect on our consolidated results of operations and cash flows.

Acquisitions

See Note 3 to the consolidated condensed financial statements for discussion regarding the following acquisitions:

- Our acquisition of Boehringer Ingelheim Vetmedica, Inc.'s U.S. feline, canine, and rabies vaccine portfolio and other related assets (BIVIVP), completed on January 3, 2017, in an all-cash transaction for $882.1 million .
- Our acquisition of CoLucid, completed on March 1, 2017, for a cash purchase price of $831.8 million , net of cash acquired.

Legal Matters

Information regarding contingencies relating to certain legal proceedings can be found in Note 10 to the consolidated condensed financial statements and is incorporated here by reference.

Revenue

The following tables summarize our revenue activity by region:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Percent Change	2017	2016	Percent Change
U.S. [1]	**$ 3,323.9**	$ 2,889.9	15	**$ 6,257.5**	$ 5,445.5	15
Outside U.S.	**2,500.3**	2,514.9	(1)	**4,795.1**	4,824.4	(1)
Revenue	**$ 5,824.3**	$ 5,404.8	8	**$ 11,052.6**	$ 10,269.9	8

Numbers may not add due to rounding.

[1] U.S. revenue includes revenue in Puerto Rico.

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

	Three Months Ended June 30, 2017 vs. 2016			Six Months Ended June 30, 2017 vs. 2016		
	U.S.	Outside U.S.	Consolidated	U.S.	Outside U.S.	Consolidated
Volume	7%	3 %	5 %	9%	3 %	6 %
Price	8%	(2)%	4 %	6%	(2)%	2 %
Foreign exchange rates	—%	(2)%	(1)%	—%	(2)%	(1)%
Percent change	15%	(1)%	8 %	15%	(1)%	8 %

Numbers may not add due to rounding

In the U.S., for the three and six months ended June 30, 2017 , the volume increase was due to new pharmaceutical products, primarily driven by Trulicity, Taltz, Basaglar ®, and Lartruvo, partially offset by decreased volume for several established pharmaceutical products, including Cialis. The U.S. increase in realized prices for the three and six months ended June 30, 2017 was driven by several pharmaceutical products, primarily Cialis and Forteo ®. For the six months ended June 30, 2017 , the higher realized prices were also driven by Humalog, which had unfavorable changes to rebates and discounts in the first quarter of 2016 that did not recur in the first six months of 2017.

Outside the U.S., for the three and six months ended June 30, 2017 , the volume increase was driven by sales of several newly launched pharmaceutical products including Trulicity and Cyramza ®, partially offset by the loss of exclusivity for several established products, including Zyprexa in Japan, Cymbalta ® in Canada and Europe, and Alimta in several countries. For the three and six months ended June 30, 2017 , revenue decreased for both food and companion animal health products.

The following tables summarize our revenue activity by product:

	Three Months Ended June 30,				
	2017			2016	
Product	**U.S. (1)**	**Outside U.S.**	**Total**	**Total**	**Percent Change**
Humalog	**$ 390.4**	**$ 288.0**	**$ 678.4**	$ 701.9	(3)
Cialis	**381.0**	**246.3**	**627.3**	630.5	—
Alimta	**274.3**	**258.6**	**532.9**	607.1	(12)
Trulicity	**380.9**	**99.3**	**480.2**	201.3	139
Forteo	**249.8**	**196.9**	**446.7**	367.6	22
Humulin ®	**226.5**	**131.3**	**357.8**	332.3	8
Cymbalta	**47.1**	**159.6**	**206.6**	236.5	(13)
Strattera	**101.5**	**85.1**	**186.6**	224.6	(17)
Cyramza	**68.7**	**117.6**	**186.3**	147.0	27
Erbitux ®	**133.0**	**26.1**	**159.1**	180.6	(12)
Effient	**131.0**	**11.9**	**142.9**	135.1	6
Trajenta ™ (2)	**60.4**	**81.5**	**141.9**	121.0	17
Zyprexa	**13.0**	**127.8**	**140.8**	210.7	(33)
Taltz	**124.4**	**14.3**	**138.7**	19.3	NM
Other human pharmaceutical products	**335.4**	**277.7**	**613.3**	429.5	43
Animal health products	**406.5**	**378.3**	**784.8**	859.8	(9)
Revenue	**$ 3,323.9**	**$ 2,500.3**	**$ 5,824.3**	$ 5,404.8	8

	Six Months Ended June 30,				
	2017			2016	
Product	U.S. [1]	Outside U.S.	Total	Total	Percent Change
Humalog	$ 839.4	$ 547.3	$ 1,386.8	$ 1,308.2	6
Cialis	677.7	483.2	1,160.9	1,207.2	(4)
Alimta	501.6	521.2	1,022.8	1,171.3	(13)
Trulicity	677.2	176.0	853.1	344.9	147
Forteo	427.4	366.7	794.2	686.3	16
Humulin	431.9	240.4	672.3	688.7	(2)
Strattera	223.9	158.9	382.8	412.7	(7)
Cymbalta	81.2	300.0	381.2	435.2	(12)
Cyramza	134.9	222.7	357.6	278.0	29
Erbitux	262.2	51.3	313.5	348.6	(10)
Zyprexa	36.7	251.6	288.3	423.4	(32)
Effient	248.0	22.7	270.7	266.6	2
Trajenta [2]	105.8	149.1	254.9	215.4	18
Taltz	212.3	23.1	235.4	19.3	NM
Other human pharmaceutical products	577.0	547.1	1,123.9	849.7	32
Animal health products	820.3	733.8	1,554.2	1,614.4	(4)
Revenue	$ 6,257.5	$ 4,795.1	$ 11,052.6	$ 10,269.9	8

Numbers may not add due to rounding.

NM - not meaningful

[1] U.S. revenue includes revenue in Puerto Rico.

[2] Trajenta revenue includes Jentadueto ®.

Revenue of Humalog, our injectable human insulin analog for the treatment of diabetes, decreased 7 percent in the U.S. during the second quarter of 2017 , due to lower realized prices and, to a lesser extent, decreased volume. For the first six months of 2017 , revenue increased 7 percent in the U.S., driven by decreased revenue in the first quarter of 2016 resulting from changes in estimates for rebates and discounts. Revenue outside the U.S. increased 2 percent and 4 percent during the three and six months ended June 30, 2017 , respectively, driven by increased volume and, to a lesser extent, higher realized prices, partially offset by the unfavorable impact of foreign exchange rates.

Revenue of Cialis, a treatment for erectile dysfunction and benign prostatic hyperplasia, decreased 1 percent and 4 percent in the U.S. during the three and six months ended June 30, 2017 , respectively, driven by decreased demand, partially offset by higher realized prices. Revenue outside the U.S. remained relatively flat in the second quarter of 2017 , driven by the unfavorable impact of foreign exchange rates and decreased volume, almost entirely offset by higher realized prices. For the first six months of 2017 , revenue outside the U.S. decreased 3 percent , driven by decreased volume and, to a lesser extent, the unfavorable impact of foreign exchange rates, partially offset by higher realized prices. We will lose our compound patent protection for Cialis in major European markets in November 2017 and now expect U.S. exclusivity for Cialis to end at the earliest in late September 2018. See "Other Matters—Patent Matters" for more information regarding our U.S. exclusivity. In addition to potential competition from generic tadalafil, we also currently face competition from generic sildenafil, which we expect to accelerate during 2018. We expect that the entry of generic competition following the loss of exclusivity will cause a rapid and severe decline in revenue.

Revenue of Alimta, a treatment for various cancers, decreased 6 percent and 9 percent in the U.S. during the three and six months ended June 30, 2017 , respectively, driven by decreased demand due to competitive pressure, partially offset by higher realized prices. Revenue outside the U.S. decreased 18 percent and 16 percent during the three and six months ended June 30, 2017 , respectively, driven by lower realized prices, increased competition, the loss of exclusivity in several countries and, to a lesser extent, the unfavorable impact of foreign exchange rates. We have faced and remain exposed to generic entry in multiple countries that has eroded revenue and is likely to continue to erode revenue from current levels.

Revenue of Trulicity, a treatment for type 2 diabetes, in the U.S. during the three and six months ended June 30, 2017 , was driven by growth in the GLP-1 market and increased share of market for Trulicity. Revenue outside the U.S. during the three and six months ended June 30, 2017 , was primarily driven by uptake in Europe and Japan.

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, increased 34 percent and 28 percent in the U.S. during the three and six months ended June 30, 2017 , respectively, driven by higher realized prices and, to a lesser extent, increased volume. Revenue outside the U.S. increased 9 percent during the second quarter of 2017 , driven by increased volume and, to a lesser extent, higher realized prices, partially offset by the unfavorable impact of foreign exchange rates. For the first six months of 2017 , revenue outside the U.S. increased 4 percent , driven by increased volume, partially offset by lower realized prices and, to a lesser extent the unfavorable impact of foreign exchange rates.

Revenue of Humulin, an injectable human insulin for the treatment of diabetes, increased 11 percent in the U.S. during the second quarter of 2017 , driven by higher realized prices and, to a lesser extent, increased volume. For the first six months of 2017 , revenue decreased 3 percent in the U.S., primarily driven by a change in estimate in the first quarter of 2016 for a government rebate, which increased revenue in that period and, to a lesser extent, decreased volume. Revenue outside the U.S. increased 3 percent during the second quarter of 2017 , driven by increased volume, partially offset by lower realized prices and, to a lesser extent, the unfavorable impact of foreign exchange rates. For the first six months of 2017 , revenue decreased 2 percent outside the U.S., driven by lower realized prices and, to a lesser extent, the unfavorable impact of foreign exchange rates, partially offset by increased volume.

Revenue of Strattera, a treatment for attention-deficit hyperactivity disorder, decreased 29 percent and 14 percent in the U.S. during the three and six months ended June 30, 2017 , respectively, driven by the loss of exclusivity in the second quarter of 2017, partially offset by higher realized prices. We lost our patent protection for Strattera in the U.S. in May 2017. The entry of generic competition following the loss of effective patent protection has caused a rapid and severe decline in revenue. Revenue outside the U.S. increased 5 percent and 4 percent during the three and six months ended June 30, 2017 , respectively, driven by increased volume in Japan, partially offset by lower realized prices and the unfavorable impact of foreign exchange rates.

Revenue of Cymbalta, a product for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, and for the treatment of chronic musculoskeletal pain and the management of fibromyalgia, was $47.1 million and $81.2 million in the U.S. during the three and six months ended June 30, 2017 , respectively, compared to $60.5 million and $83.8 million during the three and six months ended June 30, 2016 , respectively. Cymbalta revenue decreased 9 percent and 15 percent outside the U.S. during the three and six months ended June 30, 2017 , respectively, primarily driven by the loss of exclusivity in Canada and Europe.

Revenue of Cyramza, a treatment for various cancers, increased 1 percent in the U.S. during the second quarter of 2017 , driven by higher realized prices, partially offset by decreased demand due to competitive pressure. For the first six months of 2017 , revenue decreased 3 percent in the U.S., driven by decreased demand due to competitive pressure and lower realized prices. Revenue outside the U.S. increased 49 percent and 61 percent during the three and six months ended June 30, 2017 , respectively, primarily due to strong volume growth in Japan, partially offset by lower realized prices.

Revenue of Erbitux, a treatment for various cancers, decreased 15 percent and 12 percent in the U.S. during the second quarter and first six months of 2017 , respectively, due to competitive pressure from immuno-oncology products.

Worldwide food animal revenue decreased 14 percent and 9 percent during the three and six months ended June 30, 2017 , respectively, driven by market access pressure and competitive pressure in cattle and swine. Worldwide companion animal revenue increased 1 percent and 6 percent during the three and six months ended June 30, 2017 , respectively, driven by the inclusion of $78.3 million and $119.0 million in revenue from the BIVIVP acquisition during the three and six months ended June 30, 2017 , respectively, partially offset by wholesale buying patterns in the second quarter of 2016 and worldwide competitive pressure. We expect these pressures to continue, to a lesser extent, for the balance of 2017, and expect both market and competitive pressures to continue in the longer term for food animal products.

Gross Margin, Costs, and Expenses

Gross margin as a percent of revenue increased 0.5 percentage points to 73.4 percent and increased 1.0 percentage points to 73.9 percent for the three and six months ended June 30, 2017 , respectively. The increase in gross margin percent for the three and six months ended June 30, 2017 was primarily due to manufacturing efficiencies and higher realized prices, partially offset by higher expenses to support new pharmaceutical products and negative product mix.

Research and development expenses decreased 6 percent to $1.25 billion and 3 percent to $2.49 billion for the three and six months ended June 30, 2017 , respectively. The decreases were driven primarily by a $100.0 million charge in the second quarter of 2016 related to a development milestone for lanabecestat, currently in development with AstraZeneca. See Note 4 to the consolidated condensed financial statements for additional information.

Marketing, selling, and administrative expenses increased 5 percent to $1.71 billion and increased 5 percent to $3.25 billion for the three and six months ended June 30, 2017 , respectively, due to increased expenses related to new pharmaceutical products, partially offset by decreased expenses related to late life-cycle products.

We recognized no acquired IPR&D charges in the second quarter of 2017 or the three and six months ended June 30, 2016 . For the the first six months of 2017 , we recognized $857.6 million in acquired IPR&D charges associated with the acquisition of CoLucid. See Note 3 to the consolidated condensed financial statements for additional information.

We recognized asset impairment, restructuring, and other special charges of $50.0 million and $263.9 million for the three and six months ended June 30, 2017 , respectively, compared with charges of $58.0 million and $189.4 million for the three and six months ended June 30, 2016 , respectively. The charges for the second quarter of 2017 were primarily due to integration costs related to the acquisition of Novartis AH, as well as asset impairments primarily related to animal health assets. The charges for the first six months of 2017 were due to severance costs incurred as a result of actions taken to reduce our cost structure, integration costs related to the acquisition of Novartis AH, and asset impairments related to animal health assets, as well as exit fees due to site closures. The charges for the first six months of 2016 were associated with asset impairments related to the closure of an animal health manufacturing facility in Ireland as well as integration and severance costs related to the acquisition of Novartis AH. See Note 5 to the consolidated condensed financial statements for additional information.

Other–net, (income) expense was expense of $3.9 million and income of $11.2 million for the second quarter and first six months of 2017 , respectively, compared with income of $21.2 million and expense of $127.8 million for the second quarter and first six months of 2016 . Other expense during the first six months of 2016 was driven by a $203.9 million charge related to the impact of the Venezuelan financial crisis, including the significant deterioration of the bolívar. See Note 12 to the consolidated condensed financial statements for additional information.

The effective tax rates were 20.0 percent and 32.1 percent for the three and six months ended June 30, 2017 , respectively, compared with 20.8 percent and 21.4 percent for the same respective periods of 2016 . The increase in the effective tax rate for the first six months of 2017 is primarily due to the impact from the nondeductible $857.6 million acquired IPR&D charge for the acquisition of CoLucid.

Financial Condition

Cash and cash equivalents decreased to $3.07 billion as of June 30, 2017 , compared with $4.58 billion as of December 31, 2016 . Refer to the consolidated condensed statements of cash flows for additional details on the significant sources and uses of cash for the six months ended June 30, 2017 and 2016 .

In addition to our cash and cash equivalents, we held total investments of $8.09 billion and $6.66 billion as of June 30, 2017 and December 31, 2016 , respectively. See Note 6 to the consolidated condensed financial statements for additional details.

Total debt increased to $12.31 billion as of June 30, 2017 , compared with $10.31 billion as of December 31, 2016 . The increase was primarily due to the cash proceeds of $2.23 billion from the issuance of fixed-rate notes and, to a lesser extent, the net increase in the balance of commercial paper outstanding of $125.7 million , partially offset by the repayment of $630.5 million of long term debt. See Note 6 to the consolidated condensed financial statements for additional details regarding the May 2017 debt issuance. At June 30, 2017 , we had a total of $5.17 billion of committed bank credit facilities, $5.00 billion of which is available to support our commercial paper program. We believe that amounts accessible through existing commercial paper markets should be adequate to fund short-term borrowings.

During the six months ended June 30, 2017 , we repurchased $259.9 million of shares associated with our previously announced $5.00 billion share repurchase program.

We believe that cash generated from operations, along with available cash and cash equivalents, will be sufficient to fund our normal operating needs, including dividends, share repurchases, and capital expenditures.

See "Other Matters—Patent Matters" for information regarding recent and upcoming losses of patent protection for Zyprexa (Japan), Alimta (U.S., Europe, and Japan), Strattera (U.S.), Effient (U.S.), Cialis (U.S. and Europe), and Adcirca (U.S. and Europe).

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; various international government funding levels; and changes in foreign currency exchange rates (see "Other Matters—Foreign Currency Exchange Rates").

Financial Expectations

Full-year 2017 EPS is now anticipated to be in the range of $2.51 to $2.61. We now expect 2017 revenue of between $22.0 billion and $22.5 billion. Excluding the impact of foreign exchange rates, we expect revenue growth from new pharmaceutical products including Trulicity, Taltz, Basaglar, Cyramza, Jardiance, and Lartruvo, as well as a number of established pharmaceutical products including Trajenta, Forteo, and Humalog.

Gross margin as a percent of revenue is now expected to be approximately 72.5 percent. Research and development expenses are now expected to be in the range of $5.0 billion to $5.2 billion. Marketing, selling, and administrative expenses are still expected to be in the range of $6.4 billion to $6.6 billion. Other—net, (income) expense is still expected to be income of up to $100 million.

The 2017 tax rate is now expected to be approximately 23.5 percent.

Capital expenditures are now expected to be approximately $1.1 billion.

Available Information on our Website

We make available through our company website, free of charge, our company filings with the Securities and Exchange Commission (SEC) as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. 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 **http://investor.lilly.com/sec.cfm** .

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures* . Under applicable 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 of a reporting company 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-Q) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of David A. Ricks, chairman, president, and chief executive officer, and Derica W. Rice, executive vice president, global services, and chief financial officer, evaluated our disclosure controls and procedures as of June 30, 2017 , and concluded that they are effective.

(b) *Changes in Internal Controls* . During the second quarter of 2017 , 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.

PART II. Other Information

Item 1. Legal Proceedings

See "Notes to Consolidated Condensed Financial Statements—Note 10, Contingencies" for information on various legal proceedings, including but not limited to:

- The patent litigation and administrative proceedings involving Alimta and Effient.
- The product liability litigation involving Actos ® and Cymbalta.
- The employee litigation in Brazil.

That information is incorporated into this Item by reference.

This Item should be read in conjunction with the Legal Proceedings disclosures in our Annual Report on Form 10-K for the year ended December 31, 2016 (Part I, Item 3) and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 (Part II, Item 1).

Other Product Liability Litigation

We are named as a defendant in approximately 495 Byetta ® product liability lawsuits in the U.S. involving approximately 760 plaintiffs. Approximately 60 of these lawsuits, covering about 320 plaintiffs, are filed in California state court and coordinated in a Los Angeles Superior Court. Approximately 435 lawsuits, covering about 440 plaintiffs, are filed in federal court, the majority of which are coordinated in a multidistrict litigation (MDL) in the U.S. District Court for the Southern District of California. The remaining three lawsuits, representing four plaintiffs, are in various other state courts. Approximately 485 of the lawsuits, involving approximately 720 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer); most others allege Byetta caused or contributed to pancreatitis. The federal and state trial courts granted summary judgment in favor of us and co-defendants on the claims alleging pancreatic cancer; those rulings are being appealed by the plaintiffs. We are aware of approximately 20 additional claimants who have not yet filed suit. These additional claims allege damages for pancreatic cancer or thyroid cancer. We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

We are named as a defendant in approximately 540 Axiron ® product liability lawsuits in the U.S. involving approximately 540 plaintiffs. In about one-third of the cases, other manufacturers of testosterone are named as co-defendants. Nearly all of these lawsuits have been consolidated in a federal MDL in the U.S. District Court for the Northern District of Illinois. A small number of lawsuits have been filed in state courts. The cases generally allege cardiovascular and related injuries. Medical Mutual of Ohio has filed a class action complaint against multiple manufacturers of testosterone products in the Northern District of Illinois, on behalf of third party payers who paid for those products. The complainant is seeking damages under various state consumer protection laws and the federal Racketeer Influenced and Corrupt Organizations Act (the federal RICO Act). We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

We are named as a defendant in approximately 110 Cialis product liability lawsuits in the U.S. These cases, 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 the filed cases and an unspecified number of future cases coordinated into a federal MDL in the U.S. District Court for the Northern District of California, alongside an existing coordinated proceeding involving Viagra ® . The JPML ordered the transfer of the existing cases to the now-renamed MDL *In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation* . We believe these lawsuits and claims are without merit and are prepared to defend against them vigorously.

Other Patent Litigation

Boehringer Ingelheim, our partner in marketing and development of Trajenta, is engaged in various U.S. patent litigation matters involving Trajenta/Jentadueto in accordance with the procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984. Eleven groups of companies submitted Abbreviated New Drug Applications seeking approval to market generic versions of Trajenta prior to the expiration of Trajenta/Jentadueto patents, alleging certain patents, including in some allegations the compound patent, are invalid or would not be infringed. Trial is currently scheduled for the second quarter of 2018.

In July 2017, we entered into a settlement agreement with eleven generic companies to resolve pending patent litigation in the U.S. District Court for the Eastern District of Virginia (*Eli Lilly and Company and Icos Corporation v. Actavis Laboratories UT, Inc, et.,)* regarding the Cialis (tadalafil) unit dose patent. This patent was previously set to expire on April 26, 2020. As part of the agreement, Cialis exclusivity is now expected to end at the earliest in late September 2018.

Other Matters

We have received a civil investigative demand from the State of Minnesota's Office of the Attorney General relating to the pricing and sale of our insulin products. We are cooperating with this investigation.

The Offices of Attorneys General in California and Florida have requested information relating to the pricing of our insulin products. We are cooperating with these requests.

We, along with Novo Nordisk and various pharmacy benefit managers, are named as defendants in a lawsuit seeking class action status in the U.S. District Court of the Western District of Washington relating to Glucagon pricing. The complainants are seeking damages under various state consumer protection laws, the federal RICO Act, the Sherman Act, and other state and federal laws. We believe this lawsuit and these claims are without merit and are prepared to defend against them vigorously.

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

Item 1A. Risk Factors

Our material risk factors are disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 . There have been no material changes from the risk factors previously disclosed in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the activity related to repurchases of our equity securities during the three months ended June 30, 2017 :

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 (in millions)
April 2017	—	$ —	—	$ 2,350.4
May 2017	1,247.7	80.07	1,247.7	2,250.5
June 2017	1,197.4	83.51	1,197.4	2,150.5
Total	2,445.0	81.76	2,445.0	

Numbers may not add due to rounding

During the three months ended June 30, 2017 , we repurchased $199.9 million of shares associated with our $5.00 billion share repurchase program announced in October 2013.

Item 6. Exhibits

The following documents are filed as exhibits to this Report:

EXHIBIT 3.1	Amended Articles of Incorporation
EXHIBIT 3.2	By-laws, as amended
EXHIBIT 10.	The Lilly Directors' Deferral Plan, as amended and restated effective January 1, 2017 [(1)]
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Derica W. Rice, Executive Vice President, Global Services and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 101.	Interactive Data Files

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

Signatures

Pursuant to the requirements 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
(Registrant)

Date: July 28, 2017 /s/Bronwen L. Mantlo
Bronwen L. Mantlo
Corporate Secretary

Date: July 28, 2017 /s/Donald A. Zakrowski
Donald A. Zakrowski
Vice President, Finance and Chief Accounting Officer

Index to Exhibits

The following documents are filed as a part of this Report:

Exhibit	
EXHIBIT 3.1	Amended Articles of Incorporation are incorporated by reference to Exhibit 3.1 to the Company's Report on Form 10-K for the year ended December 31, 2013.
EXHIBIT 3.2	By-laws, as amended, are incorporated by reference to Exhibit 99.1 to the Company's Report on Form 8-K filed February 27, 2012.
EXHIBIT 10.	The Lilly Directors' Deferral Plan, as amended and restated effective January 1, 2017
EXHIBIT 12.	Statement re: Computation of Ratio of Earnings to Fixed Charges
EXHIBIT 31.1	Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer
EXHIBIT 31.2	Rule 13a-14(a) Certification of Derica W. Rice, Executive Vice President, Global Services and Chief Financial Officer
EXHIBIT 32.	Section 1350 Certification
EXHIBIT 101.	Interactive Data Files

ELI LILLY AND COMPANY

THE LILLY DIRECTORS' DEFERRAL PLAN
(as Amended and Restated Effective January 1, 2017)

Preamble

The Lilly Directors' Deferral Plan has been established by the Company for the purpose of providing an opportunity for Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. Subject to adjustment as provided in Section 5(f), and contingent upon receiving approval of the Company's shareholders, effective January 1, 2017, the aggregate number of shares of Eli Lilly and Company common stock that may be issued or transferred under this Plan is 1,500,000. For the period beginning April 29, 2003, and ending December 31, 2016, the aggregate number of authorized shares was 750,000. Shares issued under the Plan may be authorized and unissued shares or treasury shares.

The Plan constitutes a plan of unfunded deferred compensation and is intended to comply with the requirements of Section 409A. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

For the rules that apply to the distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A, see Appendix A.

This amendment and restatement of the Plan is effective January 1, 2017, contingent upon approval of the Company's shareholders at the Company's 2017 annual meeting.

Section 1. Definition of Terms

The following terms used in the Plan shall have the meanings set forth below:

(a) " Account " means one or more deferred compensation accounts maintained for each Participant under the Plan. A Participant's Account shall consist of a Deferred Compensation Account and the Deferred Stock Account as described in Section 5 hereof.

(b) " Annual Allocation Date " means the date as of which the annual allocation of Shares described in Section 5(c) is credited to the Deferred Stock Account, which shall be as

soon as administratively feasible after the Annual Valuation Date, but in no event later than the last Business Day in November of the applicable Plan Year.

(c) " Annual Valuation Date " means the Valuation Date in November of each Plan Year, on which the annual allocation of Shares referenced in Section 5(c) is valued.

(d) " Beneficiary " means the person or persons who are designated by the Participant or are otherwise entitled to receive benefits under the Plan in the event of the Participant's death, as provided in Section 6(d) hereof.

(e) " Board " means the Board of Directors of the Company.

(f) " Business Day " means a day on which the Company's corporate headquarters are open for regular business.

(g) " Code " means the Internal Revenue Code of 1986, as amended.

(h) " Company " means Eli Lilly and Company, an Indiana corporation.

(i) " Deferral Amount " means the amount of a Participant's Monthly Compensation that is elected by a Participant for deferral under the Plan.

(j) " Deferred Compensation Account " means the bookkeeping account described in Section 5(a)(i). A sub-account shall be established within the Deferred Compensation Account for each Plan Year in which a Deferred Stock Participant elects to defer compensation into the Deferred Compensation Account in accordance with Section 4(a).

(k) " Deferred Stock Account " means the bookkeeping account described in Section 5(a)(ii). A sub-account shall be established within the Deferred Stock Account for each Plan Year in which a Deferred Stock Participant elects to defer compensation into the Deferred Stock Account in accordance with Section 4(a) or receives allocations of Shares under Section 5, to hold the Shares allocated during such Plan Year.

(l) " Deferred Stock Participant " means a Director who is not a salaried employee of the Company.

(m) " Director " means a member of the Board of Directors of the Company.

(n) " Dividend Payment Date " means the date as of which the Company pays a cash dividend on Shares.

(o) " Dividend Record Date " means the date established by the Board of Directors as the record date for determining shareholders entitled to the dividend with respect to any Dividend Payment Date.

(p) " Election Form " means the written or electronic form or forms approved by the Plan Administrator and completed by the Participant specifying the Participant's election to

defer Monthly Compensation pursuant to Section 4 and setting forth the Participant's Beneficiary designation and the terms of distribution of the Participant's Deferred Compensation Account and/or Deferred Stock Account pursuant to Section 6.

(q) " Monthly Compensation " means the monthly retainer and the aggregate of all other fees and retainers, including, but not limited to, meeting fees, committee fees and committee chairperson fees to which a Director is entitled for services rendered to the Company as a Director during the month, as established from time to time by resolution of the Board of Directors. For avoidance of doubt, Monthly Compensation does not include stock options granted to Directors or the Shares allocated pursuant to Section 5 of this Plan.

(r) " Monthly Deferral Participant " means a Director who is not a salaried employee of the Company and who elects to defer all or part of his or her Monthly Compensation pursuant to the Plan in accordance with Section 4 hereof.

(s) " Participant " means any current or former Director with an outstanding Account balance in the Plan.

(t) " Plan " means The Lilly Directors' Deferral Plan, as amended and restated herein.

(u) " Plan Administrator " means the Directors and Corporate Governance Committee of the Board of Directors, or any successor committee of the Board of Directors that is charged with matters relating to the compensation of non-employee directors. Except with respect to Section 5(f) of this Plan, the Plan Administrator may at its discretion delegate any of its responsibilities to one or more individuals provided that such delegation is in accordance with applicable laws.

(v) " Plan Year " means the calendar year from January 1 through December 31 with respect to which compensation eligible for deferral under the Plan is earned.

(w) " Section 409A " means section 409A of the Code and the Treasury regulations and other official guidance promulgated thereunder.

(a) " Separation from Service " means a "separation from service" within the meaning of Section 409A.

(b) " Share " means a share of common stock of the Company.

(c) " Unforeseeable Emergency " means a severe financial hardship of a Participant resulting from an illness or accident of such Participant or Beneficiary, such Participant's spouse or a dependent (as defined in section 152(a) of the Code) of such Participant, loss of such Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of such Participant, each as determined in the manner consistent with Section 409A, and any other event or circumstance within the meaning of the term "unforeseeable emergency" under Section 409A.

(d) " Valuation Date " means for any month, the third Monday of the month, or if Shares are not traded on the New York Stock Exchange on such third Monday, the next day on which Shares are traded on the New York Stock Exchange.

Section 2.Plan Administrator

(a) Authority . The Plan Administrator shall have full authority to administer the Plan in accordance with its terms and to exercise all responsibilities and authorities as provided herein, including the discretionary authorities to determine the terms and conditions of deferrals of compensation under the Plan, to determine the terms and conditions of crediting to and distributing from Accounts under the terms of the Plan, and to adopt such rules and regulations for administering the Plan as it may deem necessary or appropriate. The Plan Administrator has the discretionary authority to interpret and construe all provisions of the Plan, to remedy possible ambiguities, inconsistencies, or omissions under the Plan, and to resolve all questions of fact arising under the Plan. The decisions of the Plan Administrator shall be final, binding and conclusive on all parties. No member of the Board, the Plan Administrator nor any officers of the Company shall have any liability for any action or determination taken under the Plan.

(b) Delegation; Expenses . The appropriate officer(s) of the Company as designated by the Plan Administrator are authorized to act on behalf of the Plan Administrator for the day-to-day administration of the Plan, subject to the authority of the Plan Administrator. Expenses of the administration of the Plan may be borne by the Company or may be deducted from Participants' Accounts at the sole discretion of the Plan Administrator.

Section 3.Participation

The Plan Administrator may require a Participant to comply with such terms and conditions as the Plan Administrator may specify in order for the Participant to participate in the Plan.

Section 4.Elections to Participate

(a) Deferral Elections . A Monthly Deferral Participant in the Plan may file an Election Form with the Plan Administrator on or before the date specified in accordance with Section 4(c) hereof. The Election Form shall permit the Monthly Deferral Participant to specify the Deferral Amount, subject to a minimum annual Deferral Amount of five thousand dollars ($5,000), for the deferral of Monthly Compensation, or such amounts as may be specified by the Plan Administrator in its sole discretion, and whether such Deferral Amount shall be credited in cash to his or her Deferred Compensation Account or in Shares to his or her Deferred Stock Account, pursuant to Section 5(a) hereof. The Election Form shall also set forth the terms of distribution of the Participant's Account in accordance with Section 6 hereof and the Participant's Beneficiary designation. All elections to defer compensation under the Plan are irrevocable, and no changes to any Election Form delivered to the Plan Administrator shall be permitted, except as specifically provided under the terms of the Plan.

(b) Maximum Deferrals . A Monthly Deferral Participant may elect a Deferral Amount of up to 100% of the Participant's Monthly Compensation for a Plan Year. One hundred percent (100%) of any annual allocation of Shares earned pursuant to Section 5(c) will be automatically credited to a Deferred Stock Participant's Deferred Stock Account.

(c) Timing and Effect of Elections . Unless otherwise specified by the Plan Administrator in accordance with the requirements of Section 409A, deferral elections on an Election Form shall be made:

(i) In the case of Monthly Compensation or an annual Share allocation not qualifying as "performance-based compensation" within the meaning of Section 409A, prior to the beginning of the Plan Year with respect to which the compensation is earned; and

(ii) In the case of Monthly Compensation or an annual Share allocation which the Plan Administrator has determined qualifies as "performance-based compensation" within the meaning of Section 409A, no later than June 30th of the applicable Plan Year with respect to which the compensation is earned.

Deferral elections shall apply to Monthly Compensation and annual Share allocations with respect to the Plan Year for which the elections are made. Participants will be required to make deferral elections for future Plan Years at such times to be specified by the Plan Administrator in accordance with the foregoing. If a Participant does not file an Election Form with the Plan Administrator on or before the deadline established by the Plan Administrator for deferral elections for a Plan Year, a Participant will be deemed not to have elected to defer Monthly Compensation for such Plan Year, as applicable. Notwithstanding the foregoing, in the first year in which an individual who is newly elected or appointed to serve as a Director becomes eligible to participate in the Plan, such individual may, not later than thirty (30) days after the date he or she becomes eligible to participate in the Plan, elect in accordance with the preceding provisions of this Section 4, to defer the receipt of Monthly Compensation and set forth the terms of distribution of the individual's Account with respect to services to be performed after the filing of the election with the Company.

Section 5.Accounts and Interest Credits

(a) Participant Accounts . Accounts shall be maintained for each Participant under the Plan:

(i) Deferred Compensation Account – The Company shall maintain a Deferred Compensation Account in the name of each Monthly Deferral Participant who elects to have a Deferral Amount credited in cash pursuant to Section 4 hereof for a given Plan Year. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. For each month, Deferral Amounts allocated to a Deferred Compensation Account shall be credited to the Deferred Compensation Account as of the last Business Day of the month.

(ii) Deferred Stock Account – The Company shall maintain a Deferred Stock Account for each Deferred Stock Participant and for each Monthly Deferral Participant who elects to have a Deferral Amount credited in Shares. The Deferred Stock Account shall be denominated in Shares and maintained in fractions rounded to three (3) decimal places. Deferral Amounts intended to be allocated to a Deferred Stock Account shall be credited on a monthly basis, as soon as administratively feasible following the Valuation Date for the applicable month, but in no event later than the last Business Day of such month. The annual allocations of Shares for Deferred Stock Participants described in section (c) below shall be credited to the applicable Deferred Stock Account on the Annual Allocation Date. Shares and, if necessary, fractional Shares, shall be credited based upon the closing price of Shares on the New York Stock Exchange on the Valuation Date for that month. Notwithstanding any other provision of the Plan, Shares allocated to a Deferred Stock Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 6 hereof.

A Participant's Account shall consist of book entries only and shall not constitute a separate cash or Share fund or other asset held in trust or as security for the Company's obligation to pay the amount of the Account to the Participant. The balance of a Participant's Account shall be adjusted pursuant to this Section 5 and reduced by the amount of applicable tax withholding, distributions and expenses. A Participant's Account may include sub-accounts as the Company considers necessary or advisable for purposes of maintaining a proper accounting of amounts credited or debited for a Participant under the Plan. A Participant shall receive or have on-line access to a statement of such Participant's Account no less frequently than once a year following the end of each Plan Year.

(b) Crediting of Deferral Amount . A Participant who has filed an Election Form with the Plan Administrator for the deferral of Monthly Compensation with respect to a Plan Year shall have the Deferral Amount deducted from the applicable compensation and credited to the Participant's appropriate Account under the Plan. The Deferral Amount so credited shall be reduced by applicable tax withholding, distributions and expenses.

(c) Annual Share Allocation . On the Annual Allocation Date of each Plan Year, there shall be allocated to the Deferred Stock Account of each person who (i) is a Deferred Stock Participant on the Annual Valuation Date of that Plan Year or (ii) was a Deferred Stock Participant at any time subsequent to the last Annual Valuation Date, as part of his or her compensation for service on the Board of Directors, the number of Shares specified from time to time by resolution of the Board of Directors. This allocation shall in no event be more than the lesser of (i) 7,500 Shares or (ii) the number of Shares equal in value to $800,000 minus the director's total cash compensation for the Plan Year (including for this purpose, but not limited to, any cash compensation deferred into this Plan pursuant to an election under Section 4(a) above), as of the Annual Valuation Date.

(d) Interest Credits . The Deferred Compensation Accounts of Participants shall be credited with interest computed each Plan Year or portion thereof at a rate equal to 120% of the

long-term applicable federal rate, with monthly compounding (as prescribed under section 1274(d) of the Code), as in effect for the month of December for the immediately preceding Plan Year. Such interest shall accrue on all Deferral Amounts and prior earnings thereon of Deferred Compensation Accounts and be credited daily to such accounts.

(e) Cash Dividends . Cash dividends paid on Shares shall be deemed to have been paid on the Shares allocated to each Participant's Deferred Stock Account as if the allocated Shares were actual Shares issued and outstanding on the Dividend Record Date. An amount equal to the amount of such dividends shall be credited in Shares to each Deferred Stock Account as of the last Business Day of each month in which a Dividend Payment Date occurs, based upon the closing price for Shares on the New York Stock Exchange on the Valuation Date for that month.

(f) Capital Adjustments . The number of Shares referred to in the Preamble and Section 5 hereof and the number of Shares allocated to each Deferred Stock Account shall be adjusted by the Plan Administrator, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with the Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

(g) Vesting of Accounts . A Participant is fully vested in his or her Account.

Section 6. Distribution of Accounts

(a) Distribution upon Separation from Service . A Participant shall specify on an Election Form the manner in which the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for a Plan Year (and earnings thereon) shall be distributed from the Participant's Account upon the Participant's Separation from Service. All elections are irrevocable, and no changes shall be permitted to any Election Form delivered to the Plan Administrator, except as specifically provided under the terms of the Plan. A Participant may elect, to the extent permitted by the Plan Administrator and set forth on the Election Form, that such portion of the Account be distributed upon a Participant's Separation from Service either in:

(i) Lump Sum payment in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs; or

(ii) Annual Installment payments over a period of two (2) to ten (10) years commencing in January of the second Plan Year following the Plan Year in which the Participant's Separation from Service occurs, with subsequent installment payments to be made in each January within the applicable period.

If a Participant fails to make a timely payment election on the Election Form for a Plan Year, the amounts deferred in the Deferred Compensation Account and the Deferred Stock Account, as applicable, for such Plan Year (and earnings thereon) shall be distributed in a lump sum in accordance with Section 6(a)(i) hereof.

(b) Form of Distributions . All distributions of a Participant's Deferred Compensation Account under the Plan shall be made in cash. Except as provided in Section 6(f), all distributions of a Participant's Deferred Stock Account shall be paid in Shares, at which time the Shares shall be issued or transferred from the books of the Company to the Participant. All Shares to be issued or transferred hereunder may be newly issued or treasury shares. Fractional Shares shall not be issued or transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fraction remaining in the Participant's Deferred Stock Account shall be rounded up to the next whole Share and that number of whole Shares shall be issued or transferred. The value of the Deferred Stock Account is calculated with reference to the closing price of Shares on the last trading day of the prior Plan Year.

(c) Distribution of Account . The Company shall distribute amounts from the Participant's Deferred Compensation Account and the Deferred Stock Account in the manner and on the date(s) applicable under this Section 6. If the payment option described in Section 6(a)(i) hereof is applicable, the amount of the lump sum shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the payment. If the payment option described in Section 6(a)(ii) hereof is applicable, the amount of each installment shall be calculated using the valuation of the applicable portion of the Participant's Account as of the December 31 preceding the date of the installment payment divided by the number of installment payments that have not yet been made.

(d) Distribution upon Death . Notwithstanding any election made by a Participant or any other provision of this Section 6 to the contrary, if a Participant dies before full distribution of his or her Account balance, any remaining balance shall be distributed to the Participant's Beneficiary in a lump sum within 90 days following the date of the Participant's death. The amount of such lump sum distribution shall be calculated using the valuation of the Participant's Account as of the date preceding the date of distribution. Any payment required to be made to a Participant under the Plan that cannot be made due to the Participant's death shall be made to the Participant's Beneficiary, subject to applicable law. Each Participant shall have the right to designate one or more Beneficiaries, and to change a Beneficiary designation, from time to time by filing a written notice with the Plan Administrator. In the event that a Beneficiary does not survive the Participant and no successor Beneficiary is selected, or in the event no valid Beneficiary designation has been made, the Participant's Beneficiary shall be the Participant's estate.

(e) Unforeseeable Emergency . Upon the written request of a Participant, the Plan Administrator may permit the Participant to withdraw some or all of the Participant's Account for the purpose of enabling the Participant to meet the immediate needs created by an Unforeseeable Emergency. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, but in any case, the amounts distributed with respect to an Unforeseeable Emergency shall not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise, by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not itself cause severe financial hardship, or by cessation of deferrals under the Plan.

(f) Payment of Cash in Lieu of Shares . If at any time the Plan Administrator determines that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Plan Administrator shall pay all or a portion of the Participant's Deferred Stock Account in cash.

(g) Withholding Taxes . All distributions of a Participant's Account under the Plan shall be subject to income tax and other withholdings that the Plan Administrator deems necessary or appropriate, and the Plan Administrator may reduce the amount credited to any Participant's Account to the extent it deems necessary to satisfy tax withholding requirements. Participants or Beneficiaries receiving distributions under the Plan shall bear all taxes on amounts paid under the Plan to the extent that taxes are not withheld thereon, irrespective of whether withholding is required.

Section 7.Administrative Matters

(a) Claims Procedure . Any person making a claim for benefits hereunder shall submit the claim in writing to the Plan Administrator. If the Plan Administrator denies the claim in whole or in part, it shall issue to the claimant a written notice explaining the reason for the denial and identifying any additional information or documentation that might enable the claimant to perfect the claim. The claimant may, within sixty (60) days of receiving a written notice of denial, submit a written request for reconsideration to the Plan Administrator, together with a written explanation of the basis of the request. The Plan Administrator shall consider any such request and shall provide the claimant with a written decision together with a written explanation thereof. No legal action may be commenced or maintained against the Plan more than one year after the Plan Administrator wholly or partially denies, or is deemed to have wholly or patially denied, a claim for Plan benefits. All interpretations, determinations, and decisions of the Plan Administrator in respect of any claim shall be final, binding and conclusive.

(b) Incapacity . If the Plan Administrator determines that any person entitled to benefits under the Plan is unable to care for his or her affairs because of illness, accident or other physical and mental incapacity, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid consistent with the terms described herein for the benefit of such person to such person's spouse, parent, brother, sister, adult child or other party deemed by the Plan Administrator in its sole discretion to ensure proper care for such person.

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

(d) Liability . Any decision made or action taken by the Board of Directors, the Plan Administrator, or any employee of the Company or any of its subsidiaries, arising out of or in connection with the construction, administration, interpretation, or effect of the Plan, shall be absolutely discretionary, and shall be conclusive and binding on all parties. Neither the Plan

Administrator nor a member of the Board of Directors and no employee of the Company or any of its subsidiaries shall be liable for any act or action hereunder, whether of omission or commission, by any other member or employee or by any agent to whom duties in connection with the administration of the Plan have been delegated or, except in circumstances involving bad faith, for anything done or omitted to be done.

(e) Notices . No notice, election or communication in connection with the Plan made or submitted by any Participant, claimant or other person shall be effective unless duly executed and filed with the Plan Administrator (including any of its representatives, agents, or delegates) in the form and manner required by the Plan Administrator.

(f) Waiver . No term, condition, or provision of the Plan shall be deemed waived unless the purported waiver is in writing signed by the Plan Administrator. No waiver signed by the Plan Administrator shall be deemed a continuing waiver unless so specifically stated in the writing, and any such waiver shall operate only for the stated period and only as to the specific term, condition, or provision waived, and shall apply only to the individual or individuals seeking the waiver.

Section 8.Unfunded Status

All Accounts and all rights of Participants to benefits under the Plan are unfunded obligations of the Company. Plan benefits shall be paid from the general assets of the Company, and Participants shall have the status of an unsecured general creditor of the Company with respect to all interests under the Plan. The Plan is a plan of unfunded deferred compensation. Notwithstanding the foregoing, the Company may, but shall not be required to, establish a trust or other funding vehicle under the Plan that does not affect the Plan's status as a Plan of unfunded deferred compensation.

Section 9.Nontransferability; Successors

No interest of any person in, or right to receive a distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person.

The obligations of the Company under the Plan will be binding upon the Company's successors, transferees and assigns.

Section 10.Limitation of Rights

Nothing in the Plan shall confer upon any Participant the right to continue to serve as a Director of the Company or to serve in the capacity in which the Participant is employed by the Company. Nothing in the Plan shall be interpreted as creating a right of a Participant to receive any compensation or benefit from the Company. A Participant shall have no rights as a shareholder

of the Company with respect to any Shares until the Shares are issued or transferred to the Participant on the books of the Company.

Section 11.Enforceability and Governing Law

To the extent not preempted by federal law, the Plan shall be construed, administered and enforced in accordance with the laws of the State of Indiana, regardless of the law that might otherwise govern under applicable principles or provisions of choice or conflict of law doctrines. To the extent that any provision of the Plan or portion thereof shall be found to be invalid or unenforceable, such provision or portion of the Plan shall be considered deleted herefrom and the remainder of such provision and the Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein. In addition, the remainder of the Plan shall be unaffected and shall continue in full force and effect.

Section 12.Forum Selection

To the fullest extent permitted by law, any action brought in whole or in part relating to the Plan the lawfulness of any Plan provision, the administration of the Plan, or the performance or non-performance of the Plan's administrators and fiduciaries, shall be filed in one of the following jurisdictions: (i) the jurisdiction in which the Plan is principally administered, which is currently the United States District Court for the Southern District of Indiana; or (ii) in the case of a putative class action, the jurisdiction in which the largest number of putative class members resides (or if that jurisdiction cannot be determined, the jurisdiction in which the largest number of class members is reasonably believed to reside).

If any action is filed in a jurisdiction other than one of those described above, then the Plan, all parties to such action that are related to the Plan (such as a Plan fiduciary, administrator or party in interest) and all alleged Plan Participants and Beneficiaries shall take all necessary steps to have the action removed to, transferred to or re-filed in a jurisdiction described above. Such steps may include, but are not limited to, (i) a joint motion to transfer the action; or (ii) a joint motion to dismiss the action without prejudice to its re-filing in a jurisdiction described above, with any applicable time limits or statutes of limitations applied as if the suit or class action allegation had originally been filed or asserted in a jurisdiction described above at the same time that it was filed or asserted in a jurisdiction not described therein.

This forum selection provision is waived, with respect to an action, if no party invokes it within 120 days of the filing of an action. This provision does not relieve any claimant from any obligation existing under the Plan or by law to exhaust administrative remedies before initiating litigation.

Section 13.Scrivener's Errors

The Plan shall be applied and interpreted without regard to any scrivener's error in this instrument. The determination whether a scrivener's error has occurred shall be made by the Plan Administrator in the exercise of the Plan Administrator's best judgment and sole discretion, based on the Plan Administrator's understanding of the intent of the Company as settlor of the Plan,

and taking into account such evidence, written or oral, as the Plan Administrator deems appropriate or helpful. The Plan Administrator is authorized to correct any scrivener's errors the Plan Administrator discovers in this instrument, retroactively or prospectively.

Section 14.Rules of Construction

For purposes of the Plan, unless the contrary is clearly indicated by the context:

(a)the use of the masculine gender in this Plan shall also include within its meaning the feminine gender and vice versa;

(b) the use of the singular shall also include within its meaning the plural and vice versa;

(c) the word "include" shall mean to include, but not to be limited to;

(d) any reference to a statute or section of a statute shall further be a reference to any successor or amended statute or section, and any regulations or other guidance of general applicability issued thereunder;

(e) the title of an officer, employee, or entity used in this Plan means the respective officer, employee, or entity of Eli Lilly and Company and means any successor title to such position as such title may be changed from time to time;

(f) references to the Plan Administrator, or other named fiduciary, officer or employee of the Company, or other person or entity with responsibility or authority under the Plan shall include delegates (if any) of such entity or person, with respect to such entity's or person's delegated responsibilities; and

(g) the captions and headings of each article, section, paragraph, and other provision of the Plan are for convenience and reference only and are not to be considered in interpreting the terms and conditions of the Plan.

Section 15.Effective Date; Amendment and Termination

The Plan, as amended and restated, shall become effective for deferrals on and after January 1, 2017, and for each Plan Year thereafter until terminated by the Board, contingent upon receiving the approval of the Company’s shareholders at the Company’s 2017 annual meeting. The Board may amend or terminate the Plan at any time and in any manner; provided that no amendment or termination shall reduce the amount credited to a Participant’s Account at the time of any such amendment or termination, and no amendment shall be effective that shall cause the Plan to fail to meet the requirements of Section 409A. Upon termination of the Plan in accordance with the requirements of Section 409A, (i) all future deferrals of compensation will cease, (ii) all Plan Accounts will continue to receive interest credits (or be invested) as permitted under the Plan, and (iii) all Plan Accounts will be distributed in accordance with the Participant’s elections under the provisions of the Plan, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements of Section 409A.

APPENDIX A

GRANDFATHERED AMOUNTS

Distribution of amounts that were earned and vested (within the meaning of Section 409A) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Section 409A shall be made in accordance with the Plan terms as in effect on January 1, 2004, as attached below.

THE LILLY DIRECTORS' DEFERRAL PLAN

(As amended and restated through January 1, 2004)

Section 1. Establishment of the Plan and Shares Available.

1.1. Establishment of Plan. This Plan was established effective January 1, 1996, to permit Directors of the Company who are not salaried employees of the Company to voluntarily defer receipt of some or all of their meeting fees and retainer and to share in the long-term growth of the Company by acquiring, on a deferred basis, an ownership interest in the Company. This amended and restated Plan is effective January 1, 2004.

1.2. Shares Available. Subject to adjustment as provided in Section 7.5, the aggregate number of shares of Eli Lilly and Company common stock that may be issued or transferred under this Plan after April 28, 2003, is 750,000. The shares may be authorized and unissued shares or treasury shares.

Section 2. Definitions.

The following terms shall have the definitions set forth in this Section 2:

2.1. Annual Allocation Date . The last Business Day in November of each calendar year, or such other annual date, not earlier than the third Monday in February, established by the Committee as the date as of which Shares are allocated to each Share Account in accordance with Section 6.

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

2.3 Business Day. A day on which the Company’s corporate headquarters are open for regular business.

2.4. Board of Directors . The Board of Directors of the Company.

2.5. Committee . The Directors and Corporate Governance Committee of the Board of Directors, or any successor committee of the Board of Directors that is charged with matters relating to the compensation of non-employee directors.

2.6. Company . Eli Lilly and Company.

2.7. Company Credit . For any calendar year or part thereof, an amount computed, and credited annually to a Participant's Deferred Compensation Account at an annual rate that is equal to one hundred twenty percent (120%) of the applicable federal long-term rate, with compounding (as prescribed under Section 1274(d) of the Internal Revenue Code) that was in effect for the month of December immediately preceding the calendar year.

2.8. Deferred Amount . The amount of a Monthly Deferral Participant's Monthly Compensation that the Participant elects to defer in accordance with Section 4 hereof.

2.9. Deferred Stock Participant . A Director who is not, and for the preceding 12 months has not been, a salaried employee of the Company and who becomes a Participant in the Plan in accordance with Section 3 hereof.

2.10. Director . A member of the Board of Directors.

2.11. Dividend Payment Date . The date as of which the Company pays a cash dividend on Shares.

2.12. Dividend Record Date . With respect to any Dividend Payment Date, the date established by the Board of Directors as the record date for determining shareholders entitled to the dividend.

2.13. Individual Accounts or Accounts . The separate accounts (the Deferred Compensation Account and the Share Account) described in Section 7 hereof. When used in the singular, the term shall refer to one of these two accounts, as the context requires.

2.14. Monthly Compensation . For any month, the monthly retainer and the aggregate of all meeting fees, committee fees and committee chairperson fees to which a Director is entitled for services rendered to the Company as a Director during the month, as established from time to time by resolution of the Board of Directors. For avoidance of doubt, Monthly Compensation does not include stock options granted to Directors or the Shares allocated pursuant to Section 6 of this Plan.

2.15. Monthly Deferral Participant . A Director who is not a salaried employee of the Company and who has elected to defer all or part of his or her Compensation pursuant to the Plan in accordance with Section 4 hereof.

2.16. Participant . A Director who is a Deferred Stock Participant, a Monthly Deferral Participant, or both.

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

2.18. Share . A share of common stock of the Company.

2.19. Valuation Date . For any month, the third Monday of the month, or if Shares are not traded on the New York Stock Exchange on such third Monday, the next day on which Shares are traded on the New York Stock Exchange.

Section 3. Deferred Stock Participants.

Each Director who participated in The Lilly Non-Employee Directors' Deferred Stock Plan immediately before the effective date of this Plan shall continue as a Deferred Stock Participant on such effective date, and all elections in effect under The Lilly Non-Employee Directors' Deferred Stock Plan shall remain in effect under this Plan, unless and until amended in accordance with this Plan. Thereafter, each person who becomes a Director, and who is not, and for the preceding 12 months has not been, a salaried employee of the Company, shall become a Deferred Stock Participant.

Section 4. Monthly Deferral Participants.

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

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

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

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

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

Section 5. Form of Deferred Compensation Credits.

5.1. Deferred Compensation Account . Except with respect to Deferred Amounts which a Monthly Deferral Participant elects to have credited in Shares in accordance with subsection 5.2 hereof, the Deferred Amount shall be denominated in U.S. dollars and credited to the Participant's Deferred Compensation Account pursuant to subsection 7.1 hereof.

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

Section 6. Annual Allocations to Share Accounts.

6.1. Annual Allocation of Shares . As of the Annual Allocation Date of each calendar year, there shall be allocated to the Share Account (as described in Section 7.2 below) of each Deferred Stock Participant who is a Director on that date, as part of his or her compensation for service on the Board of Directors, seven hundred (700) Shares or such other number of Shares, not to exceed 3,000 shares, as may be specified from time to time by resolution of the Board of Directors.

Section 7. Individual Accounts.

The Company shall maintain Individual Accounts for Participants as follows:

7.1. Deferred Compensation Account . The Company shall maintain a Deferred Compensation Account in the name of each Monthly Deferral Participant who elects to defer the receipt of Monthly Compensation pursuant to Section 4 hereof for a calendar year and does not elect to have the Deferred Amount for such calendar year credited in Shares pursuant to subsection 5.2 hereof. The Deferred Compensation Account shall be denominated in U.S. dollars, rounded to the nearest whole cent. For each month, Deferred Amounts allocated to a

Deferred Compensation Account pursuant to subsection 5.1 hereof shall be credited to the Deferred Compensation Account as of the last Business Day of the month.

7.2. Share Account . The Company shall maintain a Share Account for each Deferred Stock Participant and for each Monthly Deferral Participant who elects to have a Deferred Amount credited in Shares pursuant to subsection 5.2 hereof. The Share Account shall be denominated in Shares and maintained in fractions rounded to three (3) decimal places. Shares allocated to each Share Account shall be hypothetical and not issued or transferred by the Company until payment is made pursuant to Section 8 hereof.

For each month, Deferred Amounts allocated to a Share Account pursuant to subsection 5.2 hereof shall be credited to the Share Account as of the last Business Day of the month. Shares and, if necessary, fractional Shares, shall be credited based upon the average of the high and low price of Shares on the New York Stock Exchange on the Valuation Date for that month.

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

7.4. Cash Dividends . Cash dividends paid on Shares shall be deemed to have been paid on the Shares allocated to each Participant's Share Account as if the allocated Shares were actual Shares issued and outstanding on the Dividend Record Date. An amount equal to the amount of such dividends shall be credited in Shares to each Share Account as of the last Business Day of each month in which a Dividend Payment Date occurs, based upon the average of the high and low prices for Shares on the New York Stock Exchange on the Valuation Date for that month.

7.5. Capital Adjustments . The number of Shares referred to in Sections 1.2 and 6 hereof and the number of Shares allocated to each Share Account shall be adjusted by the Committee, as it deems appropriate in its discretion, in the event of any subdivision or combination of Shares or any stock dividend, stock split, reorganization, recapitalization, or consolidation or merger with Eli Lilly and Company as the surviving corporation, or if additional shares or new or different shares or other securities of the Company or any other issuer are distributed with respect to Shares through a spin-off or other extraordinary distribution.

7.6. Account Statements . Within a reasonable time following the end of each calendar year, the Company shall render an annual statement to each Participant. The annual statement shall report the number of Shares credited to the Participant's Share Account as of December 31

of that year and the dollar amount, if any, credited to the Participant's Deferred Compensation Account as of December 31 of that year.

Section 8. Payment Provisions .

8.l. Method of Payment . All payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Deferred Compensation Account shall be paid in cash. Except as provided in Section 8.5, all payments to a Participant (or to a Participant's Beneficiary) with respect to the Participant's Share Account shall be paid in Shares, at which time the Shares shall be issued or transferred on the books of the Company. All Shares to be issued or transferred hereunder may be newly issued or treasury shares. Fractional Shares shall not be issued or transferred to a Participant, provided that in the case of a final payment under the Plan with respect to a Participant, any fraction remaining in the Participant's Share Account shall be rounded up to the next whole Share and that number of whole Shares shall be issued or transferred. If Shares are not traded on the New York Stock Exchange on any day on which a payment of Shares is to be made under the Plan, then that payment shall be made on the next day on which Shares are traded on the New York Stock Exchange.

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

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

(ii) a lump sum in January of the second calendar year following the calendar year in which the Participant ceases to be a Director;

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

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

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

to the Participant's Deferred Compensation Account as of the last day of the month immediately preceding the date of a monthly installment payment, or the December 31 immediately preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made. The amount of each installment with respect to the Participant's Share Account shall be equal to the number of Shares credited to the Participant's Share Account as of the December 31 immediately preceding the date of an annual installment payment, divided by the number of installment payments that have not yet been made.

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

8.3. Payment Upon Death . Within a reasonable period of time following the death of a Participant, the amount credited to the Participant's Deferred Compensation Account and the Shares credited to the Participant's Share Account shall be paid by the Company in a lump sum to the Participant's Beneficiary. For purposes of this subsection 8.3, the amount credited to the Participant's Deferred Compensation Account and the number of Shares credited to the Participant's Share Account shall be determined as of the later of the date of death or the last Business Day of the month prior to the month in which the payment occurs.

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

8.4. Payment on Unforeseeable Emergency . The Committee may, in its sole discretion, direct payment to a Participant of all or of any portion of the Participant's Individual Account balance, notwithstanding an election under subsection 8.2 above, at any time that it determines that such Participant has an unforeseeable emergency, and then only to the extent reasonably necessary to meet the emergency. For purposes of this section, "unforeseeable emergency" means severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute

an unforeseeable emergency will depend upon the facts of each case, but, in any case, payment may not be made to the extent that such hardship is, or may be, relieved --

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

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

(iii) by cessation of deferrals under the Plan.

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

8.5. Payment of Cash in Lieu of Shares . If at any time the Committee shall determine that payment of Shares to a Participant (or a Participant's Beneficiary) or the ownership or subsequent disposition of such Shares by such Participant or Beneficiary may violate or conflict with any applicable law or regulation, the Committee may, in its discretion, pay all or a portion of the Participant's Share Account in cash. In this case, the amount of cash shall be determined with reference to the average of the high and low trading price for Shares on the December 31 next preceding the date of payment, or if Shares are not traded on that day, the next preceding trading day.

Section 9. Ownership of Shares.

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

Section 10. Prohibition Against Transfer.

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

Section 11. General Provisions.

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

11.2. Administration . Except as otherwise provided in the Plan, the Plan shall be administered by the Committee, which shall have the final authority to adopt rules and

regulations for carrying out the Plan, and to interpret, construe, and implement the provisions of the Plan.

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

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

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

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

11.7. Participant Who Becomes Employee. If a Participant becomes an employee of the Company but remains a Director, he or she will no longer be entitled to new deferrals under the Plan as a Deferred Stock Participant or Monthly Deferral Participant. However, the individual's Account balances will continue to be administered under the Plan (including eligibility for the Company Credit and Cash Dividends under Sections 7.3 and 7.4) until they are paid out in accordance with Section 8.

Section 12. Term, Amendment, Suspension, and Termination.

The Plan shall remain in effect until terminated by the Board of Directors. The Board of Directors shall have the right at any time, and from time to time, to amend, suspend, or terminate the Plan, subject to the following:

(i) no amendment or termination shall reduce the number of Shares or the cash balance in an Individual Account;

(ii) the number of Shares allocated annually pursuant to Section 6 hereof may not be changed more frequently than every calendar year; and

(iii) to the extent required by New York Stock Exchange listing rules or applicable law, material amendments shall be submitted to the Company's shareholders for approval.

Section 13. Applicable Law.

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

Section 14. Effective Date.

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

EXHIBIT 12. Statement Re: Computation of Ratio of Earnings to Fixed Charges

ELI LILLY AND COMPANY AND SUBSIDIARIES

(Dollars in millions)

	Six Months Ended June 30,	Years Ended December 31,					
	2017	2016	2015	2014	2013	2012
	(Unaudited)					
Consolidated pretax income	**$ 1,321.7**	$ 3,374.0	$ 2,790.0	$ 3,000.3	$ 5,889.3	$ 5,408.2
Interest [1]	**128.0**	232.9	216.0	187.1	184.2	198.8
Less interest capitalized during the period	**(27.8)**	(47.7)	(54.8)	(38.3)	(24.1)	(21.0)
Earnings	**$ 1,421.9**	$ 3,559.2	$ 2,951.2	$ 3,149.1	$ 6,049.4	$ 5,586.0
Fixed charges	**$ 128.0**	$ 232.9	$ 216.0	$ 187.1	$ 184.2	$ 198.8
Ratio of earnings to fixed charges	**11.1**	15.3	13.7	16.8	32.8	28.1

[1] Interest is based upon interest expense reported as such in the consolidated condensed statements of operations and does not include any interest related to unrecognized tax benefits, which is included in income tax expense.

EXHIBIT 31.1 Rule 13a-14(a) Certification of David A. Ricks, Chairman, President, and Chief Executive Officer

CERTIFICATIONS

I, David. A Ricks, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 28, 2017

By: /s/David A. Ricks

David A. Ricks

Chairman, President, and Chief Executive Officer

EXHIBIT 31.2 Rule 13a-14(a) Certification of Derica W. Rice, Executive Vice President, Global Services, and Chief Financial Officer

CERTIFICATIONS

I, Derica W. Rice, certify that:

1. I have reviewed this report on Form 10-Q of Eli Lilly and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize, and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 28, 2017

By: /s/ Derica W. Rice

Derica W. Rice

Executive Vice President, Global Services,
and Chief Financial Officer

EXHIBIT 32. Section 1350 Certification

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Eli Lilly and Company, an Indiana corporation (the “Company”), does hereby certify that, to the best of their knowledge:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 (the “Form 10-Q”) of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 28, 2017

/s/David A. Ricks

David A. Ricks

Chairman, President, and Chief Executive Officer

Date: July 28, 2017

/s/Derica W. Rice

Derica W. Rice

Executive Vice President, Global Services, and Chief Financial Officer