

Eli Lilly and Company Limited

Report and Financial Statements

31 December 2006

Registered No 284385



Eli Lilly and Company Limited

Registered No 284385

Directors

A Hotchkiss
P Johnson (resigned 31 March 2007)
E Sun (resigned 31 March 2007)
S Harper
E Huntington
B Bodem (appointed 8 June 2006)
C Michael (appointed 17 March 2006)
C Sedgman (appointed 8 June 2006)
S Martin (appointed 1 June 2007)

Secretary

S Harper (resigned 20 June 2007)
A Burton (appointed 20 June 2007)

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Bankers

National Westminster Bank Plc
3 London Street
Basingstoke
Hampshire
RG21 2NS

Registered Office

Lilly House
Priestley Road
Basingstoke
Hampshire
RG24 9NL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2006

Results and dividends

The profit for the year, after taxation, amounted to £156,116,000 (2005 profit £207,807,000)

No dividends were paid in the year (2005 dividend £316,000,000)

Principal activity and review of the business

Principal activities

The principal activities of the company are the production and supply of pharmaceuticals and animal health products to fellow subsidiaries and third parties in the United Kingdom and certain selected areas of the world. The company is a wholly owned subsidiary of Eli Lilly and Company, its US parent company. The UK company manufactures, promotes and supplies products from the Eli Lilly global product portfolio and performs significant research and development in the UK as part of the global research and development programme. (Further details on the current global product portfolio and research pipeline can be obtained from the Eli Lilly and Company annual accounts at the following web address <http://investor.lilly.com/annuals.cfm>)

Review of the business

The global nature of Eli Lilly and Company's business and associated strategies results in significant intercompany trading, the level of which is driven by third party sales demand in different geographic markets. Eli Lilly and Company Limited manages its business with reference to UK and Ireland third party sales and control of operating expenditure. UK and Ireland third party sales grew 3.7% in 2006, in line with local and global management expectations. Operating expenses were also in line with expectations. In 2006 the UK company invested funds in expanding its research, development and office facilities.

During the year the company announced the closure of the manufacturing plant in Basingstoke following a review of future global product pipeline and manufacturing requirements. Exceptional items of £45,186,000 are included in the profit and loss relating to the closure. Closure of the site is anticipated at the end of December 2007, and final decommissioning by June 2008.

The company adopted FRS 20 'Share based payment' for the first time in 2006. FRS 20 requires the recognition of the fair value of share-based compensation within the company's operating expenses. The 2005 comparative results included within these accounts have been restated to reflect the change. This change in accounting policy increased operating costs by £3.0 million in 2006 and by £4.8 million in 2005.

Risks and uncertainties

The company faces risks in relation to successful patent challenges by generic manufacturers, failure to obtain approval for new products and license extensions from NICE (National Institute for Health and Clinical Excellence) and/ or the Scottish Medicines Consortium (SMG). The company also faces the possible adverse impact on pricing, reimbursement and access resulting from any changes to the Pharmaceutical Price Regulation Scheme (PPRS) implemented by the government in response to the Office of Fair Trading report.

The company does not hedge against foreign currency exposure, this risk is managed by the US parent company on a global basis.

Research and development

The company continues to invest in research and development in four main areas. These are cardiovascular, neuroscience, oncology and endocrine disorders.

Directors' report

Future developments

The company will continue to provide its customers "Answers That Matter" through innovative medicines, information and exceptional customer service in order to enable people to live longer, healthier, and more active lives

Fixed assets

There were additions to fixed assets totalling £32,255,000 (2005 £57,565,000) that comprised principally expenditure on production and research facilities

Directors and their interests

The directors during the year were as follows

A Hotchkiss	(Chairman)
P Johnson	(resigned 31 March 2007)
E Sun	(resigned 31 March 2007)
S Harper	
E Huntington	
B Bodem	(appointed 8 June 2006)
C Michael	(appointed 17 March 2006)
C Sedgman	(appointed 8 June 2006)
S Martin	(appointed 1 June 2007)

No director held any interest in the share capital of the company

Political and charitable contributions

During the year, the company made various charitable contributions totalling £210,578

Employees

It is the policy of this company that disabled persons, whether registered disabled or not, should receive full and fair consideration for all job vacancies, company training and development programmes and promotion opportunities for which these persons are suitable and qualified applicants. Employees who become disabled during their working life with the company will be retrained in employment wherever practicable and will be given reasonable assistance with any necessary retraining.

The company has continued to maintain and develop its policy of involving and communicating with its employees, as appropriate to the various components of its organisation, and has continued its policy of providing annually a detailed report to each employee of its performance and business progress.

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2006, the company had an average of 45 days' purchases outstanding in trade creditors.

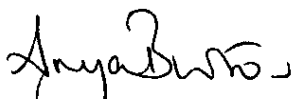
Directors' report

Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the members at the forthcoming Annual General Meeting.

By order of the Board


A. Burton
Secretary

10 SEPTEMBER 2007

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Eli Lilly and Company Limited

We have audited the company's financial statements for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

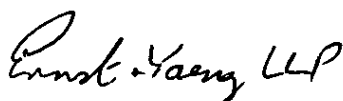
Independent auditors' report

to the members of Eli Lilly and Company Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Ernst & Young LLP

Registered Auditor

Southampton

Date

12 September 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000 <i>Restated</i>
Turnover	2	1,307,645	1,429,343
Change in stocks of finished goods and work in progress		(76,762)	85,830
Raw materials and consumables		1,039,042	912,917
Staff costs	5	134,697	130,925
Depreciation and amortisation		26,207	26,316
Other operating charges		25,287	27,886
Other operating income		(102,690)	(80,627)
		<u>1,045,781</u>	<u>1,103,247</u>
Operating profit	3	261,864	326,096
Exceptional Items	6	(45,186)	-
Interest receivable	7	14,027	4,532
Interest payable and similar charges	7	(33,096)	(32,163)
Other finance income	21	18,565	13,862
		<u>216,174</u>	<u>312,327</u>
Profit on ordinary activities before taxation		216,174	312,327
Tax on profit on ordinary activities	8	60,058	104,520
		<u>156,116</u>	<u>207,807</u>
Profit for the financial year		156,116	207,807
Dividends ordinary dividends on equity shares		-	316,000
		<u>156,116</u>	<u>(108,193)</u>
Profit/(Loss)retained for the financial year		<u>156,116</u>	<u>(108,193)</u>

Statement of total recognised gains and losses


for the year ended 31 December 2006

	Notes	2006 £000	2005 £000 <i>Restated</i>
Profit for the financial year		156,116	207,807
Actuarial loss recognised on retiree benefits	15	(1,145)	-
Deferred tax on retiree benefits		1,078	-
Actuarial loss recognised on pension	21	(64,616)	(12,525)
Deferred tax on pension		19,385	3,758
		<u>110,818</u>	<u>199,040</u>
Total recognised gains and losses relating to the year		110,818	199,040
Prior year adjustment for share options charge	1	(4,840)	-
		<u>105,978</u>	<u>-</u>
Total gains and losses since last annual report		<u>105,978</u>	<u>-</u>

Balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000 <i>Restated</i>
Fixed assets			
Tangible assets	9	238,668	253,882
Investments	10	8,228	8,228
		<u>246,896</u>	<u>262,110</u>
Current assets			
Stocks	11	426,551	348,773
Debtors	12	517,811	482,122
Cash at bank and in hand		3,756	5,969
		<u>948,118</u>	<u>836,864</u>
Creditors amounts falling due within one year	13	(180,175)	(250,787)
Net current assets		<u>767,943</u>	<u>586,077</u>
Total assets less current liabilities		<u>1,014,839</u>	<u>848,187</u>
Creditors amounts falling due after more than one year	14	(692,262)	(693,222)
Provisions for liabilities and charges			
Other provisions for liabilities and charges	17	(67,153)	(41,280)
Pension liability	21	(37,457)	(9,537)
		<u>(796,872)</u>	<u>(744,039)</u>
		<u>217,967</u>	<u>104,148</u>
Capital and reserves			
Called up share capital	18	8,202	8,202
Contributed capital	19	85,021	85,021
Profit and loss account	19	124,744	10,925
Equity shareholders' funds	19	<u>217,967</u>	<u>104,148</u>



B Bodem

Director

Date

10 September 2007

Notes to the financial statements

at 31 December 2006

1. Accounting Policies

Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

Basis of presentation

The company is exempt from the obligation to prepare group financial statements by virtue of section 228 of the Companies Act 1985. Consequently these financial statements present the results of the company as an individual undertaking and not of its group. Certain comparative amounts have been re-stated to conform with current presentation.

Cash flow statement

The company has taken advantage of the dispensation within Financial Reporting Standard No 1 (revised) not to present a cash flow statement. The cash flows of the company have been included in the financial statements of the ultimate parent undertaking.

Fixed assets

All fixed assets are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	over 40 to 50 years
Leasehold property	-	over the period of the lease
Plant and equipment	-	over 3 to 20 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

Raw materials	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Notes to the financial statements

at 31 December 2006

1. Accounting Policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less tax, with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Research and development

Research and development expenditure is written off as incurred

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company operates a defined benefit pension scheme for certain employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are measured using market values at the balance sheet date.

The pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to a benefit liability is offset against the benefit liability and not included with other deferred tax assets or liabilities.

A credit representing the expected return on assets of the scheme is included within interest payable and similar charges. This is based on the market value of the assets at the start of the financial year. A charge representing the expected increase in the liabilities of the scheme during the year is included within interest payable and similar charges. This arises from the liabilities of the scheme being one year closer to retirement. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses, together with the impact of changes in assumptions.

The company provides healthcare benefits to certain retired employees. Payments are made to beneficiaries when claimed. The cost of the scheme and associated liabilities have been fully recognised on an actuarially determined basis in 2006.

Notes to the financial statements

at 31 December 2006

1. Accounting Policies (continued)

Share-based payments

FRS 20 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses. Share based payments comprise stock options and performance awards, both received in shares of the ultimate parent company Eli Lilly and Company. Stock options are granted to employees at exercise prices equal to the fair market value of the parent company's stock at the dates of grant. Options fully vest three years from the date of grant and have a term of 10 years, the cost of these options is recognised equally over the vesting period. Performance awards are granted to directors and key employees and are payable in shares of the parent company, these vest at the end of the financial year of grant. The fair value is determined using an appropriate pricing model.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

No tax deduction has been made for the FRS20 charges as the directors consider it unlikely that a corresponding benefit will crystallise in the future.

The change in accounting policy increased operating expenses by £3.0 million in 2006 and by £4.8 million in 2005, these relate to the cost of share options issued. Staff costs increased by £7.0 million in 2006 and £6.4 million in 2005, in addition to the recognition of stock option costs certain stock related charges were reclassified from 'Raw materials and consumables'.

2. Turnover

Turnover, which is stated net of value added tax, represents the amounts invoiced less trade discounts.

The turnover and pre-tax profit is attributable to one activity, the production and supply of pharmaceuticals, animal health products and associated research and development. All turnover is sourced from the United Kingdom.

An analysis of turnover by destination is given below:

	2006 £000	2005 £000
Third party sales to United Kingdom and Republic of Ireland	289,516	279,113
Sales to group undertakings	1,018,129	1,150,230
	<u>1,307,645</u>	<u>1,429,343</u>

Notes to the financial statements

at 31 December 2006

3. Operating Profit

This is stated after charging/(crediting)

	2006	2005
	£000	£000
Auditors' remuneration – audit services	176	147
- non audit services	76	241
Depreciation of owned fixed assets	24,313	21,403
Depreciation of assets held under finance leases and hire purchase contracts	1,894	4,913
Loss on disposal of fixed assets	687	1,564
Research and development expenditure written off	107,029	110,154
Operating lease rentals - plant and machinery	439	286
- land and buildings	3,468	3,246
Research and development expenditure recharged	(97,603)	(80,750)
Exchange gains	(777)	(243)

4. Directors' Emoluments

	2006	2005
	£000	£000
Emoluments	2,372	1,546
Emoluments of the highest paid director	459	304

The accrued pension for the highest paid director at the year end totals £90,377 per annum

There were six directors (2005 six) that were eligible for the defined benefit scheme (note 21)

5. Staff Costs

	2006	2005
	Notes	Restated
	£000	£000
Wages and salaries	97,894	97,708
Social security costs	10,835	10,642
Other pension costs	18,920	14,792
Share based payment - Cost of share options issued	3,001	4,840
Share based payment – Cost of performance awards issued	4,047	2,943
	134,697	130,925

Notes to the financial statements

at 31 December 2006

5. Staff Costs (continued)

The average number of employees during the year was as follows

	2006 No	2005 No
Manufacturing	1,032	1,080
Other	1,140	1,326
	<u>2,172</u>	<u>2,406</u>

6. Exceptional items

	2006 £000	2005 £000
Severance costs	24,273	-
FRS 17 pension credit	(6,890)	-
Asset impairment	20,525	-
Construction in progress written off	3,210	-
Other site closure costs	4,068	-
	<u>45,186</u>	<u>-</u>

All exceptional items relate to the closure of the Basingstoke manufacturing plant

7. Interest

	2006 £000	2005 £000
Receivable		
Bank interest	28	23
Group Deposits	13,999	4,509
	<u>14,027</u>	<u>4,532</u>
Payable		
Group loans	32,228	31,187
Bank interest	6	-
Finance charges payable under finance leases and hire purchase contracts	862	976
	<u>33,096</u>	<u>32,163</u>

Notes to the financial statements

at 31 December 2006

8. Tax on profit on ordinary activities

Analysis of charge in period

	2006 £000	2005 £000
<i>Current tax</i>		
UK Corporation tax on profits of the period	59,944	91,476
Adjustments in respect of previous periods	(5,915)	600
Total current tax	54,029	92,076
<i>Deferred tax</i>		
Origination and reversal of timing differences	6,029	12,444
Total deferred tax	6,029	12,444
<i>Tax on profit on ordinary activities</i>	60,058	104,520

Factors affecting tax charge for period

The tax for the period is lower than the rate of corporation tax applicable

The differences are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	216,174	Restated 312,327
Multiplied by standard rate of corporation tax in the UK of 30%	64,852	93,698
Effects of		
Non taxable income/non deductible expenses	2,223	10,114
Capital allowances for period less than/ (in excess of) depreciation	1,208	(5,562)
Other short term timing differences	180	831
Adjustment in respect of prior periods	(5,915)	600
Pension contribution greater than charge	(7,419)	(6,408)
R&D tax credits	(1,100)	(1,197)
Current tax charge for the period	54,029	92,076

Notes to the financial statements

at 31 December 2006

9 Tangible Fixed Assets

	<i>Land & Buildings</i>		<i>Plant & Construction</i>		
	<i>Freehold</i>	<i>Short leasehold</i>	<i>machinery</i>	<i>in progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost					
At 1 January 2006	77,204	1,000	284,606	79,748	442,558
Additions	2,968	-	3,669	25,618	32,255
Transfers from construction in progress	3,907	-	22,303	(26,210)	-
Reclassifications	29,775	-	(29,775)	-	-
Disposals	-	-	(6,839)	-	(6,839)
At 31 December 2006	113,854	1,000	273,964	79,156	467,974
Depreciation					
At 1 January 2006	16,258	721	171,697	-	188,676
Provided during the year	1,797	71	24,339	-	26,207
Impairment	-	-	20,525	-	20,525
Reclassifications	12,680	-	(12,680)	-	-
Disposals	-	-	(6,102)	-	(6,102)
At 31 December 2006	30,735	792	197,779	-	229,306
Net book value					
At 31 December 2006	83,119	208	76,185	79,156	238,668
At 1 January 2006	60,946	279	112,909	79,748	253,882

The impairment of fixed assets of £20,525,000 is due to the decision to close the manufacturing plant in Basingstoke

The net book value of tangible fixed assets above includes an amount of £21,793,749 (2005 £19,226,000) in respect of assets held under finance leases and hire purchase contracts

10. Investments

	<i>Subsidiary Undertakings</i>
	<i>£000</i>
Cost	
At 1 January 2006 and at 31 December 2006	8,228

Notes to the financial statements

at 31 December 2006

10. Investments (continued)

Eli Lilly and Company Limited own 100% of the ordinary share capital of the following subsidiaries all of which are registered in England and Wales

Creative Packaging Limited *
 Dista Products Limited *
 Elanco Products Limited *
 Lilly Industries Limited *
 Eli Lilly (Basingstoke) Limited *
 Eli Lilly Leasing Limited
 Eli Lilly Property Limited
 Eli Lilly Resources Limited
 Greenfield Pharmaceuticals Limited *
 Lilly Property Limited
 Lilly Research Centre Limited *
 Lilly Resources Limited

* The subsidiaries have no trading activities other than as attorneys for Eli Lilly & Company Limited
 Apart from the amounts loaned, without any terms specified, to Eli Lilly & Company Limited, the subsidiaries have no other assets and liabilities

Eli Lilly Leasing Limited holds the reversionary interest in a lease of land and buildings within the group

Eli Lilly Resources Limited, Lilly Resources Limited, Eli Lilly Property Limited and Lilly Property Limited own leasehold interests in the Aurora Centre and Lilly House properties which are held by them on behalf of Eli Lilly Company Limited

In the opinion of the directors the value of investments in subsidiary undertakings is not less than the amount stated above

11. Stocks

	2006	2005
	£000	£000
Raw materials and consumables	6,051	5,035
Work in progress	317,853	277,996
Finished goods and goods for resale	102,647	65,742
	<u>426,551</u>	<u>348,773</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

Notes to the financial statements

at 31 December 2006

12. Debtors

	Notes	2006 £000	2005 £000
Trade debtors		33,199	40,337
Other debtors		1,550	2,854
Prepayments and accrued income		5,552	6,108
Amounts owed by group undertakings		124,737	143,019
Advances to Affiliates		352,773	289,804
		<u>517,811</u>	<u>482,122</u>

13. Creditors: amounts falling due within one year

	Notes	2006 £000	2005 £000
Obligations under finance leases and hire purchase contracts	16	2,742	2,982
Trade creditors		31,277	28,471
Loans from group undertakings		-	-
Amounts owed to group undertakings		104,209	115,075
Corporation tax		17,492	56,779
Other taxes and social security costs		10,672	19,266
Accruals and deferred income		13,783	28,214
		<u>180,175</u>	<u>250,787</u>

14. Creditors: amounts falling due after more than one year

	Notes	2006 £000	2005 £000
Medical costs of retirees	15	21,026	19,363
Obligations under finance leases and hire purchase contracts	16	6,135	8,768
Other creditors		10	-
Loans from group undertakings		665,091	665,091
		<u>692,262</u>	<u>693,222</u>

Included within loans from group undertakings is £100,000,000 from Kinsale Financial Services which is repayable in 2010. There is a further loan from Kinsale Financial Services for the amount of £200,000,000, repayable in 2013, interest charged at LIBOR plus 12.5 basis points. In 2004, an additional loan of £80,000,000 was granted, repayable in 2014, interest charged at LIBOR plus 12.5 basis points. On 1 February 2005, a loan for £282,979,000 was taken from Kinsale Financial services. The loan is repayable over 10 years at LIBOR plus 18.75 basis points.

Notes to the financial statements

at 31 December 2006

15. Retiree medical costs

Employees and former employees who joined before 1 January 1997 are provided with post retirement benefits in the form of cover for medical costs. The net present value of the liability was assessed with the advice of independent qualified actuaries at 1 January 2007 using the following main assumptions

Discount rate 5.00%

Medical expense inflation 6.25% for five years, falling to 2.75% linearly over a further five years

	£'000
Liability as at 1 January 2006	19,363
Service Cost	475
Interest on liability	1,018
Amortisation of actuarial loss	42
Employer's contribution	(1,017)
Actuarial loss	1,145
	<hr/>
Liability as at 31 December 2006	21,026
	<hr/>

16. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows

	2006 £000	2005 £000
Amounts payable		
Within one year	2,742	2,982
Within two to five years	6,067	8,493
In over five years	68	275
	<hr/>	<hr/>
	8,877	11,750
	<hr/>	<hr/>

Notes to the financial statements

at 31 December 2006

17. Provisions for liabilities and charges

Provision for deferred taxation

	2006	2005
Notes	£000	£000
Deferred taxation	38,812	41,280

The movements in deferred taxation during the current year are as follows

	2006	2005
	£000	£000
At 1 January 2006	41,280	28,836
Charge for the year	(1,390)	12,444
Actuarial loss on retiree benefits	(1,078)	-
At 31 December 2006	38,812	41,280

Full provision has been made for deferred taxation at 30% as follows

	2006	2005
	£000	£000
Capital allowances in advance of depreciation	40,056	42,718
Other short term timing differences	(1,244)	(1,438)
	38,812	41,280

Provision for site closure costs

	2006	2005
	£000	£000
Severance costs	24,273	-
Other site closure costs	4,068	-
	28,341	-

Total provisions for liabilities and charges

67,153 41,280

18. Share capital

	2006	Authorised	Allotted, called up and fully paid	
	No	2005	2006	2005
		No	£000	£000
Ordinary shares of £1 each	8,202,196	8,202,196	8,202	8,202

Notes to the financial statements

at 31 December 2006

19. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Contributed capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£000	£000	£000	£000
At 1 January 2005	8,202	52,000	123,045	183,247
Profit for the year	-	-	207,807	207,807
Dividends paid	-	-	(316,000)	(316,000)
Capital Injection	-	33,021	-	33,021
Actuarial loss on pension	-	-	(12,525)	(12,525)
Deferred Tax on actuarial loss	-	-	3,758	3,758
Share based payment – stock options	-	-	4,840	4,840
At 1 January 2006	8,202	85,021	10,925	104,148
Profit for the year	-	-	156,116	156,116
Actuarial Loss on pension and retiree benefits	-	-	(65,761)	(65,761)
Deferred Tax on actuarial loss	-	-	20,463	20,463
Share based payment – stock options	-	-	3,001	3,001
At 31 December 2006	8,202	85,021	124,744	217,967

On 31 January 2005, the company received a capital injection from its immediate parent, Eli Lilly Group Limited, of £33,021,000. Consideration received was a loan note payable by the ultimate parent from Eli Lilly Group Limited of £33,021,000.

20. Capital commitments

	<i>2006</i>	<i>2005</i>
	£000	£000
Amounts contracted but not provided for in the financial statements	339	1,591

Notes to the financial statements

at 31 December 2006

21. Retirement Benefits

A qualified independent actuary has updated the results of the valuation based on the projected unit basis to 31 December 2006. The last actuarial valuation of the scheme was conducted on 1 January 2006. The major assumptions used were

	2006	2005	2004
Rate of return on investments	9.3%	9.3%	9.4%
Rate of increase in salaries	4.5%	4.5%	3.35%
Rate of pension increases			
- for pensions accrued before 5 April 1997, on excess over GNP	NIL	NIL	NIL
- for pensions accrued from 6 April 1997	2.75%	2.5%	2.5%
- for pensions accrued from 6 April 2005	2.0%	2.0%	2.0%
Discount rate	5.0%	5.25%	5.6%
Inflation assumption	2.75%	2.5%	2.5%

The assets of the scheme and the expected rates of return were

	<i>Long term rate of return expected at 31 Dec 2006 %</i>		<i>Long term rate of return expected at 31 Dec 2005 %</i>		<i>Long term rate of return expected at 31 Dec 2004 %</i>	
	<i>Value at 31 Dec 2006 £000</i>		<i>Value at 31 Dec 2005 £000</i>		<i>Value at 31 Dec 2004 £000</i>	
Equities	9.3	525,896	9.3	465,463	9.4	367,215
Other	4.0	8,153	4.0	4,812	4.0	10,147
Total market value of total assets		534,049		470,275		377,362
Present value of pension liabilities		(587,559)		(483,900)		(394,987)
Overall deficit		(53,510)		(13,625)		(17,625)
Related deferred tax asset		16,053		4,088		5,288
		(37,457)		(9,537)		(12,337)

Notes to the financial statements

at 31 December 2006

21. Retirement Benefits (continued)

<i>Analysis of the amount charged to operating profit</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Employer's current service cost	(19,824)	(17,477)
Additional Service Cost	-	(6,839)
<i>Total operating charge</i>	<i>(19,824)</i>	<i>(24,316)</i>

The operating charge above reflects the total charge for the pension scheme. A total of £1,745,000 (2005 £1,848,000) was recharged to other group companies.

<i>Analysis of the amount charged to exceptional items</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Additional Service Cost	(6,768)	-
Effect of Curtailment	13,658	-
<i>Total exceptional items</i>	<i>6,890</i>	<i>-</i>

<i>Analysis of the amount credited to other finance income</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Expected return on pension plan assets	44,644	36,499
Interest on pension liabilities	(26,079)	(22,637)
<i>Net return</i>	<i>18,565</i>	<i>13,862</i>

<i>Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Actual return less expected return on plan assets	13,524	45,902
Experience gains/(losses) arising on the plan's liabilities	(29,760)	12,754
Changes in assumptions underlying the plan liabilities	(48,380)	(71,181)
<i>Actuarial loss recognised in STRGL</i>	<i>(64,616)</i>	<i>(12,525)</i>

Notes to the financial statements

at 31 December 2006

21. Retirement Benefits (continued)

RECOGNITION OF DEFICIT

<i>Movement in deficit during the year</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>
Deficit in plan at beginning of the year	(13,625)	(17,625)
Movement in year		
Employer's current service cost	(23,277)	(17,477)
Employer's contributions	21,053	25,253
Effect of curtailment	13,658	-
Cost of Past Service Recognition	(6,768)	(6,839)
Protected Rights Rebate	1,500	1,726
Other finance income	18,565	13,862
Actuarial loss	(64,616)	(12,525)
Deficit in plan at end of the year	<u>(53,510)</u>	<u>(13,625)</u>

GAINS AND LOSSES

<i>History of experience gains and losses</i>	<i>2006</i> <i>£000</i>	<i>2005</i> <i>£000</i>	<i>2004</i> <i>£000</i>	<i>2003</i> <i>£000</i>
<i>Actual return less expected return on plan assets</i>				
Amount	13,524	45,902	10,346	7,639
Percentage of plan assets	3%	10%	3%	2%
Experience gains/(losses) on plan liabilities				
Amount	(29,760)	12,754	(24,106)	(1,859)
Percentage of the present value of the plan liabilities	(5%)	3%	(6%)	(1%)
Total gain/(loss) recognised in statement of total recognised gains and losses				
Amount	(64,616)	(12,525)	(27,067)	(17,838)
Percentage of the present value of the plan liabilities	(11%)	(3%)	(7%)	(5%)

Notes to the financial statements

at 31 December 2006

22. Other Financial Commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006		2005	
	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Land and buildings</i>	<i>Plant and machinery</i>
	£000	£000	£000	£000
Operating leases which expire				
Within one year	13	-	-	-
Within two to five years	330	626	45	-
In over five years	3,108	54	1,125	52
	<u>3,451</u>	<u>680</u>	<u>1,170</u>	<u>52</u>

23. Share-based payments

FRS 20 'Share based payment' requires the recognition of the fair value of share-based compensation within the company's operating expenses. Share based payments comprise stock options and performance awards, both received in shares of the ultimate parent company Eli Lilly and Company. Stock options are granted to employees at exercise prices equal to the fair market value of the parent company's stock at the dates of grant. Options fully vest three years from the date of grant and have a term of 10 years, the cost of these options is recognised equally over the vesting period. Performance awards are granted to directors and key employees and are payable in shares of the parent company, these vest at the end of the financial year of grant.

Eli Lilly and Company Limited adopted FRS 20 for the first time in 2006. The 2005 comparative numbers have been restated to reflect the change in accounting policy.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2006 No	2006 WAEP	2005 No	2005 WAEP
		£		£
Outstanding as at 1 January	2,611,705	39.83	2,751,570	35.48
Granted during the year	116,960	32.30	128,640	29.11
Cancelled during the year	(113,516)	39.74	(145,182)	35.75
Exercised	(62,895)	19.89	(123,323)	12.64
Outstanding at 31 December	<u>2,552,254</u>	<u>39.98</u>	<u>2,611,705</u>	<u>36.24</u>
Exercisable at 31 December	<u>1,869,050</u>	<u>40.45</u>	<u>1,708,350</u>	<u>37.15</u>

All share options included above are issued with a vesting period of three years.

Notes to the financial statements

at 31 December 2006

23. Share-based payments (continued)

The fair value of equity-settled share options is estimated as at the grant date, taking into account the terms and conditions upon which the options were granted. Options issued before 2004 were valued using the Black-Scholes option pricing model. Options issued from 2004 onwards are valued using the Trinomial Lattice approach. The following table lists the inputs to the model used for the years ended 31 December 2006 and 31 December 2005.

	2006	2005
Dividend yield (%)	2.0%	2.0%
Expected share price volatility (%)	24.8%-27%	27.6%-30.7%
Historical volatility (%)	25%	27.8%
Risk free interest rate (%)	4.6-4.8%	2.5%-4.5%
Expected life of options (years)	7 years	7 years
Weighted average share price £	32.30	29.11

24. Ultimate Parent Undertaking and Related Party Transactions

The ultimate parent undertaking is Eli Lilly & Company which is incorporated in the United States of America. The consolidated financial statements of Eli Lilly & Company are those of the largest group of which the company is a member and for which consolidated financial statements are prepared. The consolidated financial statements can be obtained from Eli Lilly & Company, Lilly Corporate Center, Indianapolis, Indiana, USA.

The company has utilised the exemption under Financial Reporting Standard No. 8 as a 100% owned subsidiary undertaking not to disclose transactions with other entities that are part of, or investees of, the Eli Lilly & Company Group.