

Eli Lilly and Company Limited

Report and Financial Statements

31 December 2009

Registered No 284385

SATURDAY



AE7TRKZY

A23

19/06/2010

351

COMPANIES HOUSE

Eli Lilly and Company Limited
Registered No: 284385

Directors

R Sequeira
S Harper
B Bodem
R Ascroft
L Bickle
S Chatham
P Troutt

Secretary

A Burton

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 2009

Results and dividends

The profit for the year, after taxation, amounted to £281,363,000 (2008 £207,324,000)

A dividend of £63,444,000 was paid in the year (2008 dividend £78,133,000)

Principal activities 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 increased 16.3%, in line with local and global management expectations. Operating expenses were also in line with expectations. In 2009 the UK company continued to invest funds in expanding its research, development and office facilities.

The Basingstoke Manufacturing Plant ceased manufacture at the end of December 2007. Final decommissioning has been completed. Disposal of the site has been deferred until February 2011.

In September 2009 the Eli Lilly group announced a global restructuring of its activities, realigning with its core markets and customers. The revised structure targets significant operating expenditure and headcount reductions. The impact on Eli Lilly and Company Ltd is currently under review.

Principal 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 continues to face the possible adverse impact on pricing, reimbursement and access resulting from any future changes to the Pharmaceutical Price Regulation Scheme (PPRS). The Department of Health introduced a revised PPRS scheme with effect from 1 February 2009. The revised scheme requires price reductions of 5.8% over the life of the scheme, this compares to 7% under the previous scheme.

The company continues to monitor current government thinking on 'Payment by results' and the strategic, financial, and accounting risk involved.

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.

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.

Directors' report (continued)

Going Concern

The company's business activities, the factors likely to affect its future development and its financial position are discussed in the 'Principal risks and uncertainties' section above

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts

Directors of the Company

The current directors are shown on page 1 and details listed below

R Sequeira	(appointed 1 January 2010)
A Hotchkiss	(resigned 1 January 2010)
S Harper	
B Bodem	
C Michael	(resigned 25 February 2010)
S Martin	(resigned 30 September 2009)
K Briner	(resigned 1 April 2010)
R Ascroft	(appointed 24 February 2009)
L Bickle	(appointed 21 December 2009)
S Chatham	(appointed 1 April 2010)
P Troutt	(appointed 25 February 2010)

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 2009, the company had an average of 45 days' purchases outstanding in trade creditors.

Disclosure of information to the 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.

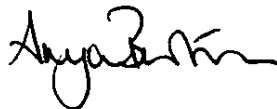
Eli Lilly and Company Limited
Registered No 284385

Directors' report (continued)

Re-appointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company

By order of the Board



A Burton
Secretary

Date 17/6/10

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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, and
- 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 financial statements of Eli Lilly and Company Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

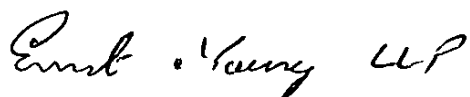
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Charles Pretty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton

Date 18 June 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover	2	759,836	689,031
Change in stocks of finished goods and work in progress		12,394	(43,573)
Raw materials and consumables		(270,990)	(230,322)
Staff costs	5	(109,884)	(115,359)
Depreciation		(26,376)	(26,035)
Other operating charges		(130,883)	(129,475)
Other operating income		139,102	120,707
		(386,637)	(424,057)
Operating profit	3	373,199	264,974
Exceptional items	7	(54)	5,224
Interest receivable	8	2,112	17,507
Interest payable and similar charges	8	(3,644)	(22,051)
Other finance income	23	13,631	22,684
		385,244	288,338
Profit on ordinary activities before taxation		385,244	288,338
Tax on profit on ordinary activities	9	(103,881)	(81,014)
Profit on ordinary activities after taxation and retained for the financial year	21	281,363	207,324

Statement of total recognised gains and losses

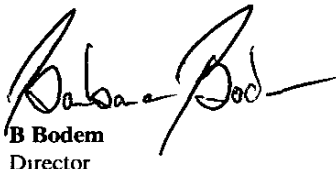
for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Profit for the financial year		281,363	207,324
Actuarial loss recognised on retiree benefits	16	(3,953)	6,730
Deferred tax on retiree benefits		1,107	(1,884)
Actuarial loss recognised on pension	23	(30,239)	(100,761)
Deferred tax on pension		8,500	28,213
Total recognised gains and losses relating to the year		256,778	139,622

Balance Sheet

at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Tangible assets	10	242,083	251,320
Investments	11	8,228	8,228
		<u>250,311</u>	<u>259,548</u>
Current assets			
Stocks	12	97,076	84,082
Debtors	13	720,036	493,352
Cash at bank and in hand		36,535	8,415
		<u>853,647</u>	<u>585,849</u>
Creditors amounts falling due within one year	14	(251,069)	(186,699)
Net current assets		<u>602,578</u>	<u>399,150</u>
Total assets less current liabilities		<u>852,889</u>	<u>658,698</u>
Creditors amounts falling due after more than one year	15	(234,238)	(226,644)
Provisions for liabilities and charges			
Other provisions for liabilities and charges	18	(34,876)	(39,548)
Pension liability	23	(15,293)	(17,342)
		<u>(284,407)</u>	<u>(283,534)</u>
Net assets		<u>568,482</u>	<u>375,164</u>
Capital and reserves			
Called up share capital	19	8,202	8,202
Contributed capital	21	85,021	85,021
Profit and loss account	21	475,259	281,941
Equity shareholders' funds	21	<u>568,482</u>	<u>375,164</u>


B Bodem
Director

17-6-2010
Date

Notes to the financial statements

at 31 December 2009

1. Accounting Policies

Basis of preparation

The financial statements of Eli Lilly and Company Limited were approved for issue by the Board of Directors on 17 June 2010

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

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

Preparation of group financial statements

The company is exempt from the obligation to prepare group financial statements by virtue of section 401 of the Companies Act 2006. Consequently these financial statements present the results of the company as an individual undertaking and not of its group

The results of the Company are included in the consolidated financial statements of Eli Lilly and Company, which is incorporated in the United States of America

Revenue recognition

Revenue is recognised from sales of products at the time title of goods passes to the buyer and the buyer assumes the risks and rewards of ownership

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. 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

Investments

Investments are valued at cost. The carrying values of investments in subsidiary undertakings are reviewed for impairment if events indicate that 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

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 2009

1. Accounting Policies (continued)

Provision for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

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

Notes to the financial statements

at 31 December 2009

1. Accounting Policies (continued)

Pensions (continued)

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.

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.

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

	2009	2008
	£000	£000
Third party sales to United Kingdom and Republic of Ireland	418,863	360,279
Sales to group undertakings	340,973	328,752
	759,836	689,031

Notes to the financial statements

at 31 December 2009

3. Operating Profit

This is stated after charging/(crediting)

	2009	2008
	£000	£000
Auditors' remuneration (see note 4)	169	204
Depreciation of owned fixed assets (see note 10)	24,839	25,404
Depreciation of assets held under finance leases and hire purchase (see note 10)	1,537	631
Loss on disposal of fixed assets	625	2,504
Research and development expenditure written off	130,214	139,659
Operating lease rentals		
- plant and machinery	376	237
- land and buildings	807	2,856
Research and development expenditure recharged	(136,061)	(118,146)
Royalties received	(247,728)	(193,670)
Exchange loss / (gains)	2,712	(1,807)

4. Auditors' Remuneration

The remuneration of the auditors is further analysed as follows

	2009	2008
	£000	£000
Audit of the financial statements *	145	167
Other fees to auditors		
- local statutory audits for subsidiaries	-	-
- taxation services	14	15
- other services	10	22
	169	204

* Included in these fees are the financial statement audits of Eli Lilly Holdings Limited and Eli Lilly Group Limited

5. Staff Costs

	2009	2008
	£000	£000
Wages and salaries	82,256	83,851
Social security costs	9,378	9,513
Other pension costs	13,292	19,853
Share based payment - Cost of share options issued	(15)	233
Share based payment - Cost of performance awards issued	4,973	1,909
	109,884	115,359

The average monthly number of employees during the year was made up as follows

	2009	2008
	No.	No.
Manufacturing	480	548
Other	954	1,051
	1,434	1,599

Notes to the financial statements

at 31 December 2009

6. Directors' Remuneration

	2009 £000	2008 £000
Aggregate remuneration in respect of qualifying services	2,403	2,294
	2009 No.	2008 No.
Number of directors accruing benefits under defined benefit schemes	3	4
	2009 £000	2008 £000
In respect of the highest paid director		
Aggregate remuneration	811	533
Accrued pension at the end of the year	119	100

7. Exceptional items

	2009 £000	2008 £000
Severance costs	-	-
Asset impairment	54	(859)
Site Costs	-	-
Other site closure costs	-	(4,365)
	54	(5,224)

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

8. Interest

	2009 £000	2008 £000
Interest receivable:		
Bank interest	-	24
Group Deposits	2,112	17,483
	2,112	17,507
Interest payable and similar charges:		
Group loans	3,453	21,618
Bank interest	-	3
Finance charges payable under finance leases and hire purchase contracts	191	430
	3,644	22,051

Notes to the financial statements

at 31 December 2009

9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2009 £000	2008 £000
<i>Current tax</i>		
UK Corporation tax at 28% (2008 28.5%)	97,886	68,197
Adjustments in respect of previous periods	53	2,425
Total current tax (note 9(b))	97,939	70,622
<i>Deferred tax</i>		
Origination and reversal of timing differences	5,942	10,392
Tax on profit on ordinary activities	103,881	81,014

(b) Factors affecting the current tax charge

The tax for the period is lower (2008 Lower) than the standard effective rate of corporation tax in the UK of 28% (2008 28.5%)

The differences are reconciled below

	2009 £000	2008 £000
Profit on ordinary activities before tax	385,244	288,338
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	107,868	82,176
Non taxable income/non deductible expenses	612	1,325
Capital allowances for period less than/ (in excess of) depreciation	1,287	600
Other short term timing differences	-	(3,352)
Adjustment in respect of prior periods	53	2,425
Pension contribution greater than charge	(9,264)	(10,848)
R&D tax credits	(2,617)	(1,704)
Total current tax (note 9(a))	97,939	70,622

(c) Factors that may affect future tax charges

The UK corporation tax rate decreased from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for the accounting period ending 31 December 2008 were taxed at an effective rate of 28.5%. Changes to the UK Capital allowance regime will also impact the capital allowances the Company can claim. The full impact of these changes is still being assessed.

Notes to the financial statements

at 31 December 2009

10. Tangible Fixed Assets

	<i>Land & Buildings</i>		<i>Plant &</i>	<i>Construction</i>	
	<i>Freehold</i>	<i>Short</i>	<i>machinery</i>	<i>in progress</i>	<i>Total</i>
	<i>£000</i>	<i>leasehold</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
		<i>£000</i>			
Cost					
At 1 January 2009	170,788	-	329,081	15,321	515,190
Additions	-	-	1,773	17,160	18,933
Transfers from construction in progress	3,576	-	19,524	(23,100)	-
Reclassifications	-	-	-	-	-
Disposals	(953)	-	(61,525)	-	(62,478)
At 31 December 2009	173,411	-	288,853	9,381	471,645
Depreciation					
At 1 January 2009	47,606	-	216,264	-	263,870
Provided during the year	4,587	-	21,789	-	26,376
Impairment	-	-	(12,934)	-	(12,934)
Reclassifications	-	-	-	-	-
Disposals	(661)	-	(47,089)	-	(47,750)
At 31 December 2009	51,532	-	178,030	-	229,562
Net book value					
At 31 December 2009	121,879	-	110,823	9,381	242,083
At 1 January 2009	123,182	-	112,817	15,321	251,320

The net book value of tangible fixed assets above includes an amount of £5,056,385 (2008 £6,959,981) in respect of assets held under finance leases and hire purchase contracts

11. Investments

	<i>Subsidiary</i>
	<i>Undertakings</i>
	<i>£000</i>
Cost	
At 1 January 2009 and at 31 December 2009	8,228

Notes to the financial statements

at 31 December 2009

11. Investments (continued)

Details of the investments in which the company (unless indicated) holds 20% or more of the nominal value of a class of share capital are as follows

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 previously held the reversionary interest in a lease of land and buildings within the group. This was purchased by Eli Lilly & Company Limited during 2007.

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.

12. Stocks

	2009 £000	2008 £000
Raw materials and consumables	4,936	4,336
Work in progress	42,875	49,965
Finished goods and goods for resale	49,265	29,781
	<u>97,076</u>	<u>84,082</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 2009

13. Debtors

	2009 £000	2008 £000
Trade debtors	67,873	42,225
Amounts owed by group undertakings	112,255	108,603
Advances to Affiliates	532,106	332,714
Other debtors	1,904	3,732
Prepayments and accrued income	5,898	6,078
	720,036	493,352

14. Creditors: amounts falling due within one year

	Notes	2009 £000	2008 £000
Obligations under finance leases and hire purchase contracts	17	951	1,553
Trade creditors		37,023	36,061
Amounts owed to group undertakings		135,530	85,317
Corporation tax		44,313	38,980
Other taxes and social security costs		2,777	2,794
Other Creditors		7,208	7,635
Accruals and deferred income		23,267	14,359
		251,069	186,699

There are no repayment terms for, or interest payable on, the amounts shown above

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

	Notes	2009 £000	2008 £000
Loans from group undertakings		190,092	190,092
Obligations under finance leases and hire purchase contracts	17	2,748	2,618
Medical costs of retirees	16	36,000	30,000
Liabilities under disability scheme		1,922	822
Other creditors		3,476	3,112
		234,238	226,644

Notes to the financial statements

at 31 December 2009

15. Creditors: amounts falling due after more than one year (continued)

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. On 2 May 2008, £474,000,000 was repaid to Kinsale Financial Services which cleared the three oldest amounts outstanding leaving £187,979,000 repayable over 10 years from 1 February 2005 at LIBOR plus 18.75 basis points.

16. 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 2010 using the following main assumptions:

Discount rate 5.85%

Medical expense inflation 6.50% for five years, falling to 5.00% linearly over a further five years

	£000
Liability as at 1 January 2009	30,000
Service Cost	360
Interest on liability	1,867
Amortisation of actuarial loss	629
Employer's contribution	(809)
Actuarial loss	3,953
Liability as at 31 December 2009	<u>36,000</u>

17. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts

	2009 £000	2008 £000
Amounts payable		
Within one year	951	1,553
Within two to five years	2,748	2,618
In over five years	-	-
	<u>3,699</u>	<u>4,171</u>

Notes to the financial statements

at 31 December 2009

17. Obligations under leases and hire purchase contracts (continued)

Annual commitments under non-cancellable operating leases are as follows

	2009		2008	
	<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	42	118	-	101
Within two to five years	201	138	330	313
In over five years		-	39	-
	243	256	369	414

18. Provisions for liabilities and charges

Provision for deferred taxation

	2009	2008
	£000	£000
Deferred taxation	33,476	37,883

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

	2009	2008
	£000	£000
At 1 January 2009	37,883	36,655
Charge for the year	(3,300)	(294)
Rate change 30% to 28%	-	(684)
Actuarial loss on retiree benefits	(1,107)	2,206
At 31 December 2009	33,476	37,883

Full provision has been made for deferred taxation at 28% as follows

	2009	2008
	£000	£000
Capital allowances in advance of depreciation	37,255	40,551
Other short term timing differences	(3,779)	(2,668)
	33,476	37,883

Notes to the financial statements

at 31 December 2009

18. Provisions for liabilities and charges (continued)

Provision for site closure costs

	2009	2008
	£000	£000
Severance costs	-	265
Other site closure costs	1,400	1,400
	1,400	1,665
Total provisions for liabilities and charges	34,876	39,548

19. Authorised and issued share capital

Authorised, allotted, called up and fully paid

	2009	2008	2009	2008
	No.	No.	£000	£000
Ordinary shares of £1 each	8,202,196	8,202,196	8,202	8,202

20. Dividends and other appropriations

	2009	2008
	£000	£000
<i>Declared and paid during the year</i>		
Equity dividend on ordinary shares		
Interim	63,444	78,133

Notes to the financial statements

at 31 December 2009

21. 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 2008	8,202	85,021	220,218	313,441
Profit for the year	-	-	207,324	207,324
Dividends declared and paid	-	-	(78,133)	(78,133)
Actuarial gain on pension and retiree benefits	-	-	(94,031)	(94,031)
Deferred tax on actuarial gain	-	-	26,330	26,330
Share based payment – stock options	-	-	233	233
At 1 January 2009	8,202	85,021	281,941	375,164
Profit for the year	-	-	281,363	281,363
Dividends declared and paid	-	-	(63,444)	(63,444)
Actuarial loss on pension and retiree benefits	-	-	(34,192)	(34,192)
Deferred tax on actuarial loss	-	-	9,607	9,607
Share based payment – stock options	-	-	(16)	(16)
At 31 December 2009	8,202	85,021	475,259	568,482

22. Capital commitments

	<i>2009</i>	<i>2008</i>
	£000	£000
Amounts contracted but not provided for in the financial statements	4,141	1,207

23. Retirement Benefits

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.

Asset allocations are intended to achieve a total asset return target over the long term. Expected rates of return detailed below are based on historical data and future long-term expectations. The assumed rate of return on pension scheme assets is consistent with the scheme's long-term investment return objective.

Notes to the financial statements

at 31 December 2009

23. Retirement Benefits (continued)

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages)

	2009	2008
Rate of return on investments	8.50%	9.00%
Rate of increase in salaries	3.50%	4.00%
Rate of pension increases		
- for pensions accrued before 5 April 1997, on excess over GNP	NIL	NIL
- for pensions accrued from 6 April 1997	3.15%	2.75%
- for pensions accrued from 6 April 2005	2.20%	2.00%
Discount rate	5.85%	6.25%
Inflation assumption	3.25%	2.75%
Longevity at age 65 for pensioners		
- Men	22.30	22.20
- Women	24.70	24.60

These mortality figures have been based upon the following assumptions

	2009	2008
- before retirement	AMC00/ AFC00	AMC00/ AFC00
- after retirement (actives/deferreds)	PNMA00mc/PNFA00mc (individual year of birth, 1% underpin to the improvement factors)	PNMA00mc/PNFA00mc (individual year of birth, 1% underpin to the improvement factors)
- pensioners	PNMA00mc/PNFA00mc (individual year of birth, 1% underpin to the improvement factors)	PNMA00mc/PNFA00mc (individual year of birth, 1% underpin to the improvement factors)

Notes to the financial statements

at 31 December 2009

23. Retirement Benefits (continued)

Employee benefit obligations

The amounts recognised in the balance sheet are as follows:

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Present value of funded obligations	597,240	506,090
Fair value of plan assets	(576,000)	(482,000)
Overall deficit	21,240	24,090
Related deferred tax (asset) / liability	(5,947)	(6,748)
Net Liability	15,293	17,342
Amounts in the balance sheet		
Liabilities	15,293	17,342
Assets	-	-
Net Liability	15,293	17,342

The amounts recognised in profit or loss are as follows:

	<i>2009</i>	<i>2008</i>
	<i>£000</i>	<i>£000</i>
Employer's current service cost	14,210	18,649
Additional Service Cost	-	-
Total operating charge	14,210	18,649

The operating charge above reflects the total charge for the pension scheme. A total of £3,601,656 (2008 £1,272,503) was recharged to other group companies.

Notes to the financial statements

at 31 December 2009

23. Retirement Benefits (continued)

Changes in the present value of the defined benefit obligation are as follows:

	2009 £000	2008 £000
Benefit obligation, beginning of year	506,090	551,790
Current service cost	14,210	18,649
Interest cost	31,594	31,924
National insurance rebates	1,200	1,200
Actuarial loss/ (gain)	70,114	(75,447)
Benefits paid	(25,968)	(22,026)
	<hr/>	<hr/>
Benefit obligation, end of year	597,240	506,090
	<hr/>	<hr/>

Changes in the fair value of plan assets are as follows:

	2009 £000	2008 £000
Fair value, beginning of year	482,000	590,398
Expected return	45,225	54,608
Actuarial gain/ (loss)	39,875	(176,206)
Employer contribution	33,000	34,000
National insurance rebates	1,200	1,200
Benefits paid	(25,300)	(22,000)
	<hr/>	<hr/>
	576,000	482,000
	<hr/>	<hr/>

The Company expects to contribute £40 million to its defined benefit pension plan in 2010

The major categories of plan assets as a percentage of total plan assets are as follows

	2009	2008
Equities	80%	85%
Property	0%	6%
Other	20%	9%

Analysis of the amount credited to other finance income

	2009 £000	2008 £000
Expected return on pension plan assets	45,225	54,608
Interest on pension liabilities	(31,594)	(31,924)
	<hr/>	<hr/>
Net return	13,631	22,684
	<hr/>	<hr/>

Notes to the financial statements

at 31 December 2009

23. Retirement Benefits (continued)

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	2009 £000	2008 £000
Actual return less expected return on plan assets	39,467	(173,883)
Experience losses arising on the plan's liabilities	(20,706)	(11,876)
Changes in assumptions underlying the plan liabilities	(49,000)	84,998
Actuarial loss recognised in the STRGL	<u>(30,239)</u>	<u>(100,761)</u>

RECOGNITION OF (DEFICIT) / SURPLUS

Movement during the year

	2009 £000	2008 £000
Deficit in plan at beginning of the year	(24,090)	38,607
<i>Movement in year</i>		
Employer's current service cost	(14,744)	(19,820)
Employer's contributions	33,000	34,000
Effect of curtailment	-	-
Cost of Past Service Recognition	-	-
Protected Rights Rebate	1,200	1,200
Other finance income	13,631	22,684
Actuarial loss	(30,237)	(100,761)
Deficit in plan at end of the year	<u>(21,240)</u>	<u>(24,090)</u>

Amounts for the current and previous four periods are as follows:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Defined benefit obligation	(597,240)	(506,090)	(551,790)	(587,559)	(483,900)
Plan assets	576,000	482,000	590,398	534,049	470,275
(Deficit) / surplus	(21,240)	(24,090)	38,608	(53,510)	(13,625)
Experience adjustments on plan liabilities	(20,706)	(11,876)	29,640	(29,760)	12,754
Experience adjustments on plan assets	39,875	(176,206)	(25,497)	13,524	45,902

Notes to the financial statements

at 31 December 2009

24. 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 were granted to employees in 2006 and 2005 at exercise prices equal to the fair market value of the parent company's stock at the dates of grant. No stock options were granted in 2009, 2008 or 2007. 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 following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year

	No.	2009 WAEP £	No.	2008 WAEP £
Outstanding as at 1 January	2,039,345	34.90	2,309,537	35.06
Granted during the year	-	-	-	-
Transfers	259,303	50.42	118,493	35.82
Cancelled during the year	(515,515)	50.42	(388,685)	35.82
Exercised	-	-	-	-
Outstanding at 31 December	1,783,133	45.47	2,039,345	34.90
Exercisable at 31 December	1,783,133	45.47	1,936,458	35.25

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

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. As no options were granted in 2009, 2008 or 2007, no inputs are shown for this year.

	2006	2005
Dividend yield (%)	2.0%	2.0%
Expected share price volatility (%)	24.8%-27%	27.6%-30.7%
Historical volatility (%)	25.0%	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

Notes to the financial statements

at 31 December 2009

25. 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 smallest and 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.