# 2010 CORPORATE RESPONSIBILITY REPORT

We believe it is our corporate responsibility to make a significant contribution to humanity. We do this by creating medicines that help people live longer, healthier, more active lives … improving global health in the 21st century.

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# MESSAGE FROM THE CEO

For more than 135 years, Eli Lilly and Company has shown its commitment to be a responsible global citizen—in large part, through a long history of philanthropic contributions. Today, however, our understanding of corporate responsibility is evolving beyond charity and reaching into the core of our business operations.

Lilly's emerging vision of our responsibility as a company is inspired by the concept of "shared value," developed by Michael Porter and Mark Kramer of Harvard. We believe that business can help solve today's social problems by finding intersections between what society needs and what a company does—and then developing collaborative, strategic initiatives that both serve society and enhance business performance.

Lilly's greatest contribution in this regard is to continue to discover and develop innovative medicines, which we believe will be among the most powerful tools to improve the quality and reduce the cost of health care going forward.

We aim to put a special focus on improving the health of underserved people in low- and middle-income countries around the globe—specifically, by tackling several tenacious diseases that are growing rapidly in these parts of the world.

We'll do this not only by contributing money, but also by applying what we do best, drawing on our scientific, technical, and business expertise. We'll also work to improve health by helping expand access to medicines. And we'll work to strengthen global policies that foster better health in the most effective and efficient ways.

Approaching corporate responsibility this way will help us realize our vision: To make a significant contribution to humanity by improving global health in the 21st century.

Aligning our business with pressing social needs opens up new opportunities to provide greater value to people around the world.

We believe that collaborating with governments and other stakeholders builds trust and reinforces our mutual interest in bringing value to patients and society. And we know that conducting our business responsibly enables us to attract a principled, passionate, and creative workforce—individuals who seek to contribute their talents to our mission of improving global health.

Our commitment to corporate responsibility is also reflected in our ongoing support for the United Nations Global Compact's 10 principles related to human rights, labor, the environment, and anti-corruption. Information on Lilly's activities and performance in each of these areas is included in this report.

We will continue our efforts aimed at serving our local communities and reducing our environmental footprint. Highlights of these efforts can be found on the next page.

Thank you for taking time to review the 2010 Corporate Responsibility Report. Our world today faces daunting challenges, and we are doing our best to help meet them—working in the areas where we believe we can make the greatest impact. We remain committed to building on our heritage of corporate responsibility based on an unwavering dedication to helping people around the world live longer, healthier, and more active lives.

**JOHN C. LECHLEITER, PH.D.**

CHAIRMAN, PRESIDENT, AND
CHIEF EXECUTIVE OFFICER

NOVEMBER 2011

# 2010 CORPORATE RESPONSIBILITY HIGHLIGHTS

Building on what our people do best—discovering, developing, and delivering new medicines that address important patient needs—we're focusing our skills and resources in ways that will most effectively help us achieve our vision of improving patient outcomes. Highlights of our recent efforts include the following:

Since 2003, **contributed $135 million** in cash, medicines, technology, and know-how to fight multidrug-resistant tuberculosis (MDR-TB).

Launched a partnership in 2011 to leverage our medicines and expertise to **fight diabetes and other noncommunicable diseases** (NCDs) in developing nations.

Committed to **end hunger for 100,000 families globally by 2020** through a partnership with Heifer International and our Elanco animal health division.

**Improved energy efficiency by more than 12 percent**, compared to 2007, and reduced corresponding greenhouse gas (GHG) emissions by more than 9 percent (both per square foot of facility space).[1]

Provided **help to 227,000 patients** through our patient-assistance programs.

**Invested $2.5 million**—our largest-ever education-focused grant—in a new education-reform campaign sponsored by The Mind Trust, an organization committed to improving public education for underserved children.

Made approximately **$430 million in charitable contributions**, including cash and products.

Named for the first time to DiversityInc's list of **"Top 50 Companies for Diversity."**

**Decreased our water intake by more than 30 percent** compared to 2007.

Selected **200 Lilly employees to volunteer** in countries where people lack resources or access to quality health care.

Received a **perfect score of 100** on the Human Rights Campaign's **"Best Places to Work: Corporate Equality Index."**

**Reduced our waste to landfill by 50 percent** compared to 2007.

**Reduced serious injury and lost-time injury rates by 33 percent** each from our 2007 baseline.

Launched a physician payment registry in 2011 to **help people better understand how we work with doctors to advance research and education.**

Introduced a **new tool for social networking** within Lilly—"The Loop."

Committed to **donating more than 800,000 vials of insulin** to the International Diabetes Federation's Life for a Child program between 2008 and 2013.

[1] See page 66 for notes regarding our environmental data and goals.

# ABOUT LILLY

In 2011, Eli Lilly and Company celebrated its 135th anniversary. Today, we are the 10th-largest pharmaceutical company in the world. Lilly has a long history of medical innovation, most notably in the treatment of infectious diseases, diabetes, and mental health.

Around the globe, we have forged alliances and partnerships that advance our capacity to develop innovative medicines at lower costs for some of the world's most urgent medical needs. For additional information about our corporate history and significant medical breakthroughs, visit the "About Lilly" pages on **www.lilly.com**.

## Facts at a Glance

(AS OF DECEMBER 31, 2010)

- Founded in 1876
- Headquartered in Indianapolis, Indiana, United States
- More than 38,300 employees worldwide
- 7,300 employees engaged in research and development
- Research and development facilities located in eight countries
- Clinical research conducted in more than 50 countries
- Manufacturing plants located in 13 countries
- Products marketed in 125 countries
- Revenue of $23 billion in 2010
- Listed on the New York Stock Exchange with the symbol "LLY"

## About Elanco

Elanco is a division of Lilly that researches, develops, and markets products to improve animal health and protein production in more than 75 countries. The company introduced the first product for veterinary use in 1953, and today offers more than 30 products. Elanco employs more than 2,400 people worldwide, with offices in more than 40 countries. Its global headquarters is in Greenfield, Indiana, United States, which is also the base of its U.S. business operations.

Elanco products are marketed primarily to cattle, poultry, and swine producers and concentrate on four therapeutic classes: antibacterials, parasiticides, anticoccidials, and productivity enhancers. Elanco Companion Animal Health develops pet medicines and assists veterinarians in helping companion animals lead longer, healthier lives.

FOUNDED IN

**1876**

HEADQUARTERED IN INDIANAPOLIS, INDIANA, UNITED STATES

**$23** BILLION

REVENUE IN 2010

**LLY**

NEW YORK STOCK EXCHANGE LISTING

# OUR APPROACH TO CORPORATE RESPONSIBILITY

## KEY ISSUES FOR LILLY

Lilly considers a variety of factors and stakeholder input to determine which issues are most relevant or important to our business and our corporate responsibility performance. These factors include: patient needs; conversations and interviews with stakeholders; investor queries and feedback; business strategy and risk assessment; public policy dialogue and legislative debate; and employee interests.

We consider the following corporate responsibility issues to be among the most important to our core business:

- The development and production of safe and effective medicines,
- Upholding ethical standards in business practice, research and development, and marketing,
- Addressing issues of access to medicines and affordability,
- Maintaining a diverse and engaged global workforce, and
- Minimizing environmental impacts and waste.

### How Lilly Manages Corporate Responsibility

As a global company, Lilly governs corporate responsibility issues through our global corporate affairs leadership. The senior vice president of corporate affairs and communications (SVPCAC) reports directly to the chief executive officer and sits on the corporation's executive committee, which facilitates direct engagement with other senior Lilly executives on corporate responsibility priorities, actions, and outcomes. The SVPCAC also reports regularly to the public policy and compliance committee of the board of directors, providing a link to the corporation's highest governing body. At the operational level, the senior director of corporate responsibility (SDCR) reports directly to the SVPCAC and also sits on the global corporate affairs leadership team.

### CORPORATE RESPONSIBILITY GOALS FOR 2013

(2007 baseline, unless stated otherwise)

**↓50%**

REDUCTION IN SERIOUS INJURY, LOST TIME INJURY, AND MOTOR-VEHICLE COLLISION RATES

**↓15%**

REDUCTION IN ENERGY USE AND CORRESPONDING GREENHOUSE GAS EMISSIONS (both per square foot of facilities space)[4, 5]

**↓5%**

REDUCTION IN WATER INTAKE, IN ABSOLUTE TERMS (2010 baseline)[6]

**↓20%**

REDUCTION IN WASTE TO LANDFILL, IN ABSOLUTE TERMS (2010 baseline)[7]

See footnotes on page 7.

This operational framework allows for cross-functional work on key global corporate responsibility issues. Environmental issues are managed by Lilly's health, safety, and environmental organization, which also reports to the company's CEO.

Both the SVPCAC and the SDCR play a critical role in engaging a range of external stakeholders—including government, nongovernment, and multi-sector private entities—in dialogue on corporate responsibility issues. Lilly corporate responsibility staff at all levels coordinate with the corporate secretary, government affairs, investor relations, and community relations departments to promote dialogue with key stakeholders. For more information on our approach to stakeholder dialogue, see **page 31**.

Lilly continues to explore new ways of gaining and sharing insights on a range of relevant responsibility issues. Recently, Lilly launched an internal corporate responsibility website that provides a dialogue venue for employees wherever they work.

# KEY PERFORMANCE INDICATORS

| | GOAL | 2007 | 2008 | 2009 | 2010 | PERCENT CHANGE 2009-2010 |
|---|---|---|---|---|---|---|
| **FINANCIAL HIGHLIGHTS** | | | | | | |
| Worldwide Revenue ($ millions) | | $18,633.5 | $20,371.9 | $21,836.0 | $23,076.0 | 5.7% |
| U.S. Revenue | | $10,145.5 | $10,930.1 | $12,294.4 | $12,865.6 | 4.6% |
| Europe | | $ 4,731.8 | $ 5,333.5 | $ 5,227.2 | $ 5,106.4 | (2.3%) |
| Other Foreign-Country Revenue | | $ 3,756.2 | $ 4,108.3 | $ 4,314.4 | $ 5,104.0 | 18.3% |
| Stock Price ($ at year end) | | $ 53.39 | $ 40.27 | $ 35.71 | $ 35.04 | (1.9%) |
| Dividend ($ per share) | | $ 1.70 | $ 1.88 | $ 1.96 | $ 1.96 | 0% |
| Research and Development ($ millions) | | $ 3,486.7 | $ 3,840.9 | $ 4,326.5 | $ 4,884.2 | 12.9% |
| **WORKPLACE HIGHLIGHTS[2]** | | | | | | |
| Serious Injury Rate (per 100 employees) | (50%) | 1.44 | 1.17 | 0.91 | 0.95 | |
| Lost-Time Injury Rate (per 100 employees) | (50%) | 0.62 | 0.59 | 0.37 | 0.40 | |
| Motor-Vehicle Collision Rate (collisions per million miles driven) | (50%) | 11.1 | 12.0 | 11.2 | 10.48 | |
| **PHILANTHROPY HIGHLIGHTS** | | | | | | |
| Product and Other In-Kind Donations ($ millions) | | $ 240 | $ 297 | $ 335 | $ 373 | |
| Cash Contributions ($ millions) | | $ 75 | $ 53 | $ 70 | $ 57 | |
| Total Contributions ($ millions) | | $ 315 | $ 350 | $ 405 | $ 430 | |

[2] 2013 goal, 2007 baseline for all three workplace-related metrics.

(cont'd)

# KEY PERFORMANCE INDICATORS (cont'd)

| | GOAL[3] | 2007 | 2008 | 2009 | 2010 | PERCENT CHANGE |
|---|---|---|---|---|---|---|
| **ENVIRONMENTAL HIGHLIGHTS** | | | | | | |
| Energy Consumption (million BTUs) | | 12,900,000 | 11,900,000 | 11,300,000 | 11,200,000 | |
| Energy Intensity (thousand BTUs/ square foot) | (15%)[4] | 593 | 562 | 543 | 520 | |
| Greenhouse Gas Emissions (Scope 1 and Scope 2) (metric tons $CO_2e$) | | 1,810,000 | 1,740,000 | 1,670,000 | 1,620,000 | |
| Greenhouse Gas Emissions Intensity (kg $CO_2e$/ square foot) | (15%)[5] | 83.1 | 82.6 | 79.8 | 75.3 | |
| Water Intake (billion liters) | (5%)[6] | 19.6 | 17.6 | 13.2 | 13.3 | |
| Water Intensity (million liters/ million $ revenue) | | 1.05 | 0.864 | 0.605 | 0.576 | |
| Waste Generation (metric tons) | | 379,000 | 387,000 | 287,000 | 228,000 | |
| Waste Generation Intensity (metric tons/ million $ revenue) | | 20.3 | 19.0 | 13.1 | 9.88 | |
| Waste to Landfill (metric tons) | (20%)[7] | 32,000 | 22,300 | 14,800 | 15,900 | |
| Reportable Permit-Limit Exceedances[8] | | 43 | 27 | 16 | 11 | |

[3] Following World Resource Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions, and divestitures as appropriate, to ensure comparability, unless stated otherwise.

[4] 2013 goal, 2007 baseline.

[5] 2013 goal, 2007 baseline. This goal covers Lilly's Scope 1 and Scope 2 emissions.

[6] 2013 goal, 2010 baseline. Lilly established this goal after meeting its prior goal—to reduce water intake in absolute terms by 25 percent by 2013, compared to 2007—four years early. "Water intake" as used in evaluating our progress toward our water-reduction goal is the total amount of water coming into a facility, including water pumped from bodies of surface water and groundwater, and water provided by a utility. It includes water used in processes, utilities, and other ancillary operations, such as irrigation. The term does not include groundwater pumped solely for treatment to satisfy regulatory actions or requirements (e.g., remediation activities where the water is not used for another purpose). Values also do not include the water extracted from wells solely for the purpose of lowering the groundwater table(s) to maintain the physical and structural integrity of building foundations.

[7] 2013 goal, 2010 baseline. Lilly established this goal after meeting its prior goal—to reduce waste to landfills by 40 percent in absolute terms by 2013, compared to 2007—four years early. Lilly's former and current waste-to-landfill goals do not include construction and demolition debris, biosolids from wastewater treatment plants, incinerator ash, coal ash if reused for mine reclamation or road base, and mycelia and urea reused for fertilizer. Unlike our energy, GHG emissions, and water-intake goals, performance data used to calculate progress against our waste-to-landfill goal do not exclude data from our Tippecanoe Laboratories facility in Indiana, U.S.A., which Lilly divested in 2009, because the data at that site did not have a significant impact on our worldwide waste-to-landfill total.

[8] "Reportable permit-limit exceedances" are environmental releases to air, water, or land outside of regulatory limits. These do not necessarily result in harm to people or the environment.

# ENHANCING ACCESS TO MEDICINES

Health is one of our most important personal assets, and medicines play an essential role in preserving it. They can boost health by controlling symptoms and preventing subsequent illness, stopping the progression of disease, and halting or lessening the severity of complications. In so doing, medicines help patients maintain a higher quality of life. Medicines also provide value to society by improving patient outcomes, reducing hospitalizations and the use of other medical services, decreasing absenteeism, and increasing productivity and well-being.

Yet around the world, millions lack access to comprehensive health care, including medicines and other treatment tools. Poor disease outcomes—especially among low-income populations—are shaped by a complex web of factors and therefore require multifaceted solutions. This section discusses Lilly's approach.

## Lilly's Approach to Expanding Access to Medicines

Lilly is committed to expanding access to medicines and health care, and we work with partners to improve health outcomes for underserved populations. We recognize that health care is about more than medicine. In fact, health care and outcomes that meet patients' needs are the result of a complex coordination of health care tools, health care professionals, supporting infrastructure, and appropriate measurement,

### BARRIERS TO HEALTH CARE FOR LOW-INCOME POPULATIONS[9]


[9] Adapted from the presentation: *Essential Medicines, Equity, and Human Rights: A Framework for Analysis and Action,* World Health Organization, 2007. Available at: http://tinyurl.com/4xxde4k.

**$135 MILLION**
AMOUNT PROVIDED IN CASH, MEDICINES AND TECHNOLOGY TO THE LILLY MDR-TB PARTNERSHIP, 2003-2011

**227,000+**
NUMBER OF PATIENTS HELPED BY LILLY PATIENT-ASSISTANCE PROGRAMS IN 2010

**$335 MILLION**
MARKET VALUE OF LILLY MEDICATIONS PROVIDED THROUGH PATIENT-ASSISTANCE PROGRAMS IN 2010

**800,000+**
NUMBER OF VIALS OF INSULIN LILLY WILL DONATE TO THE INTERNATIONAL DIABETES FEDERATION'S "LIFE FOR A CHILD" PROGRAM, 2008-2013

evaluation, and regulatory capabilities. We take seriously our responsibility to populations in developing countries where ability to access affordable health care is dramatically different than it is in developed countries.

No single organization can solve all of the problems related to access to medicine. Therefore, we focus our efforts where we believe we can have the greatest impact. Moving forward, our key area of focus will be improving the health of people in need around the globe—specifically, in low- and middle-income countries. Increasingly, we are aligning our initiatives with our core business areas of focus, where we have experience and expertise.

We use multiple strategies to help increase access to medicines, including investing in public/private partnerships; supporting technology transfer to build manufacturing capacity and technical know-how within developing countries; exploring differential pricing for medicines; not enforcing intellectual-property rights for Lilly medicines in least-developed countries (LDCs) as defined by the United Nations; and providing donations of, and discounts on, Lilly products. We also support programs that improve patient outcomes, such as scholarships, award recognitions, and tools for healthy living. To learn more about our programs to improve patient outcomes, see **page 54**.

### Intellectual-Property Rights

The use of patents to protect intellectual property and secure exclusive rights to market a medicine is sometimes seen as a factor that prevents access to medicines in both the developed and developing world. The patent system provides an essential incentive for the investments needed to obtain solutions to unmet medical needs. The pharmaceutical industry is dependent upon this protection, which grants the inventor of a new product an exclusive, yet limited, period to market the product. Lilly supports strong and effective protection of intellectual-property rights, including patent protection and data protections for pharmaceutical products. Without this protection, we would be unable to generate the returns necessary to support the significant research and development costs to bring new drugs to market.

### Generic Medications

Once a patented medication has reached the conclusion of its patent-protected lifespan, Lilly supports the manufacture and distribution of quality-assured generic medications. In many cases, Lilly's own employee health care programs utilize generic medications. While a generic often may be appropriately substituted for the branded version of the same drug, Lilly does not support the therapeutic substitution of generics for other medications in the same class. (Therapeutic substitution occurs when a health care provider prescribes a branded medicine and the pharmacist is required or paid to substitute a generic version of a different medication.) Therapeutic substitution does not recognize the unique properties of medicines within a therapeutic class. The underlying assumption of therapeutic substitution is that the medicines under consideration are essentially the same. Yet even medicines within the same class work in different ways and have important differences in side effects and effectiveness for each individual patient.

### Patents in Least-Developed Countries

In many developing countries, Lilly does not seek nor enforce patents for our medicines, to further contribute to making these medicines more accessible. For example, Lilly does not seek patents in

#### COUNTRIES WHERE LILLY DOES NOT SEEK PATENTS

Afghanistan // Angola // Bangladesh // Benin // Bhutan // Burkina Faso // Burundi // Cambodia // Central African Republic // Chad // Comoros // Democratic Republic of the Congo // Djibouti // Equatorial Guinea // Eritrea // Ethiopia // Gambia // Guinea // Guinea-Bissau // Haiti // Kiribati // Laos // Lesotho // Liberia // Madagascar // Malawi // Maldives // Mali // Mauritania // Mozambique // Myanmar // Nepal // Niger // Rwanda // Samoa // São Tomé and Príncipe // Senegal // Sierra Leone // Solomon Islands // Somalia // Sudan // Tanzania // Timor-Leste // Togo // Tuvalu // Uganda // Vanuatu // Yemen // Zambia

LDCs, as defined by the United Nations. As a result, generics manufacturers are free to produce and provide generic versions of our medicines in these countries.

## Public/Private Partnerships

There are sizable challenges as we work to improve the health and well-being of those in our immediate communities and around the world. Removing barriers to access requires the collaboration, expertise, and resources of many, including the pharmaceutical industry. We believe public/private partnerships can play an important role.

### ➔ The Lilly Global Health Innovation Campaign

In 2011, we launched a new platform, The Lilly Global Health Innovation Campaign, aimed at improving health for underserved populations. The campaign encompasses two of Lilly's signature programs, The Lilly NCD Partnership and The Lilly MDR-TB Partnership.

The Lilly Global Health Innovation Campaign will advance treatment capabilities and improve outcomes through partnerships with leading global health organizations. Specifically, the campaign employs a novel approach that immediately benefits health care providers and patients and, in parallel, assesses program outcomes. The campaign's operational framework includes three components which Lilly will implement with its partners:

- **RESEARCH:** Pilot new, comprehensive models of health care based on sophisticated research and detailed data collection.
- **REPORT:** Work with well-respected partners to share data and lessons learned.
- **ADVOCATE:** Inform key stakeholders about program findings and encourage the adoption of proven, cost-effective solutions.

**JANE NELSON**

DIRECTOR, CORPORATE SOCIAL RESPONSIBILITY INITIATIVE, HARVARD KENNEDY SCHOOL

"Businesses are increasingly under pressure to rebuild trust, meet rising social expectations, and access emerging markets. Companies that can leverage their core business competencies to find creative strategies that address social problems have the opportunity to gain competitive advantage in this new marketplace. I applaud Lilly's efforts in this direction."

### ➔ Our Focus on Non-Communicable Diseases (NCDs)

Non-communicable diseases such as diabetes, cancer, and heart disease are placing an increasing burden on patients, health care systems, and economies, not only in developed countries but also in middle- and low-income countries. According to the World Health Organization (WHO), NCDs account for 63 percent of global deaths worldwide, or 36 million annually. Nearly 80 percent of those occur in low- to middle-income countries; and sadly, almost half of these deaths are premature, occurring before age 70. NCDs are a major cause of economic hardship and poverty and a barrier to social and economic development.

Despite these statistics, the Center for Global Development reports that, from 2001 to 2008, spending on NCDs in developing countries was less than 3 percent of all global health assistance ($503 million out of $22 billion). Moreover, few successful models of treatment and care for NCDs currently exist in the developing world—particularly in low-income communities. Governments in developing countries increasingly see the importance of focusing resources on NCD treatment and prevention; however, they do not currently have tools and models to provide care. For these reasons, NCDs are one of the main areas where we are focusing our expertise and resources.

### ➔ The Lilly NCD Partnership

In September 2011 we announced The Lilly NCD Partnership. This program will enable us to apply our capabilities and resources—along with those of our partners—in novel ways to help increase access to health care and improve individual patient outcomes. The partnership will focus on diabetes initially.

### ➔ Our Focus on Tuberculosis

Tuberculosis (TB), often thought of as a disease of the past, continues to plague the world's most vulnerable populations. A curable disease, it claims the lives of 1.7 million people each year, according to the WHO. And 98 percent of those deaths occur in the developing world, according to the U.S. Agency for International Development. More than 2 billion people, or one-third of the world's population, are infected with the microbes that cause TB. Of those infected, one in 10 will become sick with active TB.

The most popular vaccine used to treat TB was developed in the early 20th century using a bovine strain of the disease. Despite widespread use, the vaccine does not always work. It has been shown to protect against severe TB in children, but there is little evidence of effectiveness in adults. Furthermore, it can create a false-positive TB test in those who have been vaccinated.

To cure TB requires a regimen of several medicines that must be taken daily for six to nine months. But many patients fail to complete the treatment, or medication is incorrectly prescribed, which can lead to multidrug-resistant tuberculosis (MDR-TB).

**MARK KRAMER**

FOUNDER AND MANAGING DIRECTOR, FSG, AND SENIOR FELLOW, CORPORATE SOCIAL RESPONSIBILITY INITIATIVE, HARVARD KENNEDY SCHOOL

"Through the new Lilly NCD Partnership, Lilly is making a major move toward the concept of creating 'shared value.' By investing in the health care infrastructure of countries that have the highest burden of diabetes, they are leveraging their assets and expertise to both drive business results and improve public health. Only the private sector, working in smart concert with governments and health care actors, can achieve the scale necessary to solve such emerging global health problems."

When that happens, a new treatment regimen requiring intensive monitoring and complex treatment plans over 18 to 24 months must be undertaken.

In 1996, the nonprofit organization Partners in Health (PIH) began pioneering work in an impoverished district on the outskirts of Lima, Peru. This work demonstrated that cure rates of more than 80 percent could be achieved for patients with MDR-TB using several drugs, including two Lilly antibiotics that the company had planned to stop manufacturing. These outcomes opened the door for treatment in resource-poor settings where MDR-TB had previously gone untreated. Realizing these antibiotics were an important part of the two-year treatment regimen, Lilly decided to offer them, in partnership with the WHO and the Centers for Disease Control, at steep discounts to countries facing outbreaks of the resistant strains. However, Lilly also realized that the company's capacity to manufacture these drugs would be insufficient to meet future global treatment needs. To address this gap, as Lilly set about significantly expanding our own manufacturing capacity, we also set out to establish partnerships that would transfer our technology to local manufacturers in countries hit hard by the disease. Ultimately, this work evolved into The Lilly MDR-TB Partnership, with a main focus on increasing capability and capacity in affected countries and ensuring a sustainable supply of quality-assured drugs.

## The Lilly MDR-TB Partnership

The Lilly MDR-TB Partnership was created in 2003 to confront a disease so daunting that no single organization could fight it alone. This public/private initiative offers education, training, and improved care to people worldwide who have fallen victim to deadly multidrug-resistant TB. Working in more than 80 nations and with more than 20 partners, The Lilly MDR-TB Partnership has trained doctors and nurses to recognize, treat, monitor, and prevent the spread of multidrug-resistant TB. These health care professionals have raised awareness to reduce the stigma of the disease, promoted prevention, researched drugs to improve treatment, and advocated for some of the world's most vulnerable populations.

When the partnership began its work in 2003, the WHO set a goal of treating 20,000 MDR-TB patients by 2010—a goal achieved ahead of schedule. We're working now as part of an overall effort to meet a new target: treating a cumulative 800,000 MDR-TB patients by 2015.

Working alongside international organizations, in-country TB programs, and local nongovernmental organizations (NGOs), The Lilly MDR-TB Partnership has worked to:

- Promote community support and patient advocacy,
- Implement MDR-TB care and training programs and strengthen surveillance of drug resistance,
- Transfer Lilly drug manufacturing technology to local pharmaceutical companies, and supply medicines at concessionary prices until local companies were qualified and approved to do so,
- Facilitate research for new drug discovery, and
- Collaborate with policymakers to raise awareness and prevent the spread of MDR-TB.

In 2010, the International Chamber of Commerce recognized The Lilly MDR-TB Partnership with a World Business and Development Award as an example of an innovative, business-driven solution addressing the United Nations' Millennium Development Goals (MDGs). Endorsed by 189 countries, the MDGs include eight goals

### MULTIDRUG-RESISTANT TUBERCULOSIS

According to the WHO, there are almost 9.4 million new cases of TB every year, of which approximately half a million are multidrug resistant. MDR-TB is highly contagious, and can be easily transmitted through the air. In 2008, the WHO reported the highest rates of MDR-TB ever recorded, with some locations in the former Soviet Union reporting up to 22 percent of all new TB cases to be MDR-TB.

that promote the reduction of poverty, better education, improved maternal health, gender equality, the lessening of child mortality, and the eradication of infectious diseases, including TB.

Additional information about The Lilly MDR-TB Partnership is available at **www.lillymdr-tb.com**.

**THE LILLY MDR-TB PARTNERSHIP INVESTMENT**

Between 2003-2011, Lilly provided $135 million in cash, medicines, and technology:

**$15M** to The Lilly TB Drug Discovery Initiative,

**$50M** for advocacy activities, community support and health care provider training, and

**$70M** for the transfer of MDR-TB drug manufacturing technology to generic producers in high-burden countries.

## Lessons Learned and Challenges

Tackling MDR-TB has proven challenging. Less than one percent of estimated MDR-TB patients globally receive appropriate treatment. Over the past eight years, Lilly has learned a lot about the myriad obstacles blocking patient access to diagnosis and treatment. The strategy of transferring technology has proved especially timely, as we realize now that the need for medicines is much greater than anyone imagined when we first began.

Removing barriers will take a focused, coordinated effort by everyone committed to stamping out TB. When we launched The Lilly MDR-TB Partnership in 2003, it was the largest philanthropic effort ever undertaken by the company. Through 2011, Lilly has donated $135 million in cash, medicines, and support to our distinguished partners for much-needed programs and to companies that will make lifesaving medicines. But billions of dollars are needed. Success depends on a sustained, joint commitment by governments, NGOs, and businesses to bring an end to this disease.

### LILLY TECHNOLOGY TRANSFER FOR MDR-TB TREATMENT

In addition to providing lifesaving medication, The Lilly MDR-TB Partnership has worked to transfer technology so medicines can be produced locally, where they are needed, building local economic benefits and health care system capacity by training local doctors and nurses to treat the disease. Because the Lilly drugs used to treat MDR-TB can be difficult to manufacture and require specialized equipment and facilities, Lilly identified capable manufacturers in high-burden countries—China, India, Russia, and South Africa—and offered them, free of charge, access to know-how and technical support so they could manufacture the needed drugs on their own. In addition, Lilly identified and worked with companies in the United States and Greece to provide additional capacity and assure supply of these products to global markets. Lilly also provided funding where necessary to support the conversion or upgrading of local manufacturing facilities to meet international quality standards.

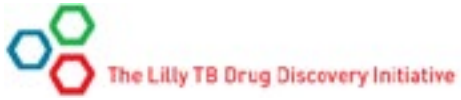
## Moving Forward

In the coming years, the Eli Lilly and Company Foundation will assume funding responsibility for The Lilly MDR-TB Partnership. The Lilly Foundation has made a commitment of $30 million over five years to extend the Partnership's efforts to fight multidrug-resistant tuberculosis. Funding will begin in 2012 and conclude in 2016. Over the next five years, the Lilly Foundation will support its partners to help ensure they are well positioned to carry on this important work.

Since inception, the Partnership has made tremendous strides. We've also learned along the way; importantly, we've learned that we need to focus our efforts in a more concentrated way on areas where we can have the deepest impact, and the greatest chance of finding new approaches that can be replicated elsewhere. Our primary aim is to ensure all activities the Partnership engages in over the next five years are sustainable and replicable. The Partnership will identify, document, and advocate for the replication and scale-up of best practices that have the support of strong global and local organizations to continue this work once the Lilly Foundation's support ends.

The work in the final phase of the Partnership will be regionally and topically focused to:

- Provide training for health care providers, from professional health care workers such as nurses and doctors, to informal caregivers such as community volunteers,
- Improve supply and access to safe, effective, and high-quality drugs to treat MDR-TB,
- Continue Lilly's commitment to finding new medicines to treat TB quicker and more effectively, with a grant of nearly $5 million plus volunteer support of more than $1 million over several years made to the Infectious Disease Research Institute (IDRI), and
- Work with partners at the global and local level, with a specific focus on partners in the four countries carrying the highest burden of MDR-TB: China, India, Russia and South Africa.




### The Lilly TB Drug Discovery Initiative

The battle against TB requires new, faster-acting medicines at affordable prices. The Lilly TB Drug Discovery Initiative, launched in June 2007, is a nonprofit public/private partnership focused on accelerating early-stage TB drug discovery. The initiative is run from a research facility in Seattle, Washington, and operates in partnership with the Infectious Disease Research Institute, Merck and Company, and the National Institute of Allergy and Infectious Diseases, which is part of the U.S. National Institutes of Health. Bringing together specialists from around the world for the systematic exploration of vast, private molecular libraries, the initiative has a primary goal of filling the pipeline with new clinical candidates for future TB drug development.

Lilly donated $15 million to launch the effort and has opened our library of more than 500,000 existing molecular compounds to test for possible TB treatments, including more effective treatments for drug-resistant strains. In 2008, the initiative announced its first acquisition of compounds for further development into drug candidates.

### THE LILLY MDR-TB PARTNERSHIP ACHIEVEMENTS: 2003-2011[10]

**DRUG SUPPLY AND ACCESS**

- Technology transfer successfully completed for two Lilly drugs to seven manufacturing companies across the globe
- Donated or steeply discounted Lilly medicines reached more than 40,000 MDR-TB patients
- More than doubled capacity for one MDR-TB drug and significantly expanded production of another through partnership with local manufacturers

**TRAINING FOR HEALTH CARE PROVIDERS**

- More than 21,000 nurses in 15 countries directly trained in patient care and infection control
- More than 100,000 nurses reached indirectly through secondary training
- Toolkits to help identify, diagnose and treat TB and MDR-TB distributed to more than 200,000 health care professionals in more than 45,000 hospitals and clinics

**ADVOCACY AND AWARENESS**

- Trained more than 350 journalists trained about TB and MDR-TB, to enable them to report more accurately and frequently on the disease
- Raised awareness of TB for approximately 45,000 school-aged children, through a number of education campaigns, including a soccer-themed game
- Reached 15.2 million commuters through an awareness campaign in South African public transport
- Reached 6 million radio listeners and 3 million cell phone users in awareness campaign in India
- Reached 3 million university students in awareness campaign in China
- Reached 50,000 people in Russia through the White Flower of Hope campaign, an initiative that engaged young people to make paper flowers to show their commitment to fighting TB

**AWARDS AND RECOGNITION**

- Committee Encouraging Corporate Philanthropy Excellence Award in Corporate Philanthropy, 2009
- Global Business Coalition Award for Excellence in Business Action, 2007 and 2010
- International Chamber of Commerce and United Nations Development Programme, 2010 World Business and Development Award

[10] Indicators are approximations based on available data and do not represent the sum total of the Partnership's achievements.

## Differential Pricing

Lilly believes providing financial incentives for pharmaceutical innovation is in everyone's interest. Our ability to improve outcomes for individual patients depends on our discovering, developing, and commercializing innovative new pharmaceutical products. The profits we generate enable us to invest in the research necessary to bring the next generation of new medicines to the market.

Lilly advocates for policies that support *differential pricing*—i.e., the charging of different prices based on a purchaser's ability to pay. Currently, many countries reference the price of medicines in other countries as a basis for setting prices for new drugs. This practice limits differential pricing because a discounted price in a lower-income country can be referenced by a higher-income country. Entering into commercial contracts with payers can support the increased use of differential pricing, if those contracts are private and

**INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES**

"Because of Lilly, the International Federation of Red Cross and Red Crescent Societies is able to place TB on the agenda at the global level. If not for this support, this work on multidrug-resistant TB would go unfunded."

## LILLY MDR-TB PARTNERSHIPS[11]


[11] Except for transferring of technology, all activities are implemented directly by Lilly MDR-TB partners through unrestricted grants

the discounted price cannot be referenced. Lilly also supports efforts to decrease the final price of medicine to patients, such as through minimizing value-added taxes and markups applied in the supply chain. Finally, Lilly advocates for stronger anti-counterfeiting protections, to ensure patients receive quality-assured medicines.

Prices for prescription medicines, like other products, can differ from country to country because of differences in currency value and market dynamics—or they may be kept artificially low by government price controls. We recognize that, for individuals, the price of medicines can present a barrier to those who might benefit from them, both in developed and emerging markets. Pricing is one way pharmaceutical companies, including Lilly, can enhance access to medicines. Lilly believes differential pricing can help balance the desire to have affordable prices for low-income populations with rewards for innovation.

## Product Donations

Lilly strives to engage with governments throughout the world to offer our products at sustainable prices that are affordable for local populations. We also offer our medicines for free, or at deeply discounted prices, through our patient-assistance programs.

In times of disaster, we donate medicines to those in need. To learn more about Lilly disaster relief efforts, see **page 59**.

### ➔ Lilly TruAssist

In the United States, approximately 50 million people were without health insurance in 2010, according to the U.S. Census Bureau, and many others had limited coverage. As the cost of health care has risen, even people with health insurance are paying a higher portion of costs out of pocket. For the uninsured and underinsured, the cost of medical treatment and prescription drugs may be an obstacle to getting the care and medicines they need.

Lilly provides access to our medicines for eligible patients through several patient-assistance programs, some in partnerships with industry groups. In 2011, we announced Lilly TruAssist, a central point of information about these programs, including eligibility requirements and available Lilly medicines. Lilly TruAssist increases awareness of available assistance by providing an easy-to-use, one-stop resource to help health care providers, advocates, and patients quickly access the information they need.

In 2009, we also expanded access to our most widely used patient-assistance programs in the United States by adjusting income requirements to allow the enrollment of eligible patients with incomes of up to 300 percent (up from 200 percent) of the U.S. Federal Poverty Level. During 2010, more than 227,000 patients received help through Lilly patient-assistance programs, in areas including mental health, diabetes, cardiovascular disease, men's health, osteoporosis, oncology, and growth-hormone disorders. This represented an increase of 12 percent from 2009. The market value of this assistance totaled $335 million. To learn more, visit **www.lillytruassist.com**.

### Life for a Child

Lilly has committed to donating more than 800,000 vials of insulin to the International Diabetes Federation's Life for a Child program between 2008 and 2013.

These donations, initially focused on 12 countries in sub-Saharan Africa, have now expanded to include 21 countries throughout Africa, Asia, and South America. The medicine will help as many as 24,000 children who have no access to diabetes treatment. The donation is one of Lilly's largest single contributions in the 85 years since we introduced the world's first mass-produced insulin. For more information, visit **www.lifeforachild.org**.

### Kenyan Hospital Partnership

Lilly has a long-standing partnership with Indiana University and the Moi Teaching and Referral Hospital in Eldoret, Kenya. For more than 10 years, Lilly has supported this hospital with donations of insulin and medicines to treat depression, mental illness, and cancer. In 2010, total drug donations to this hospital were $6 million at net wholesale value.

# DEVELOPING INNOVATIVE MEDICINES

Lilly has a rich history of creating breakthrough products that enhance and preserve life. Today, our commitment to scientific research and development remains as strong as ever, and we've developed some innovative approaches that are helping us speed the creation of new medicines. Yet we recognize that the responsibilities we have go far beyond the laboratory.

At all stages of the development and use of our medicines, Lilly strives to maintain the highest standards of ethical behavior. This begins with our bioethics program and guiding principles and is reflected in our commitment to safeguard and protect the rights of people who participate in our research and use our products. It is also reflected in our commitment to use animals in research only when needed and to ensure their humane treatment. This section explores these issues and provides an overview of how Lilly brings new medicines to patients who need them.

## The Lilly Bioethics Program: A Global Framework

In 1999, Lilly became one of the first pharmaceutical companies to establish a standing bioethics committee to systematically identify, evaluate, and communicate bioethics issues. In 2008, we took our first steps toward a more dedicated approach to bioethics and established the Lilly Bioethics Program, devoting full-time resources to the area. The program is an independent organizational unit within Lilly with dedicated senior leadership by the vice president of global patient safety and bioethics. Full-time staff with graduate training in bioethics is responsible for the program's development, oversight, and deliverables. The program also includes part-time effort in the form of the Lilly bioethics advisory committee (BEAC) and the Lilly bioethics network (BEN).

The Lilly Bioethics Program is designed to address the increasingly complex ethical challenges of global pharmaceutical research and development (R&D) in today's fast-paced biotechnology environment. The program is a global framework that governs the full sweep of Lilly's R&D activities. It promotes ethical research and drug development, safeguards the integrity of the scientific process, protects patients' well-being, and ensures that animals are treated humanely. The program's purpose is to assist employees in identifying and addressing bioethical issues related to Lilly's R&D activities. Program staff also

**7,300**
EMPLOYEES ENGAGED IN RESEARCH AND DEVELOPMENT AS OF DECEMBER 31, 2010

**50+**
NUMBER OF COUNTRIES WHERE LILLY CONDUCTED CLINICAL RESEARCH IN 2010

**125**
NUMBER OF COUNTRIES WHERE LILLY MARKETED PRODUCTS AS OF DECEMBER 31, 2010

**10-15 YEARS**
AVERAGE AMOUNT OF TIME IT TAKES TO DEVELOP A NEW MEDICINE

provides consultations with primary internal stakeholders on bioethical matters related to other aspects of the company's business.

The Lilly Bioethics Program comprises four core activities:

- Contributing to internal collaborative projects that integrate bioethics into R&D operations, as well as external projects that contribute to the advancement of the field of bioethics as it relates to pharmaceutical applications,
- Establishing and articulating company positions on key bioethics issues,
- Conducting internal education and training on bioethics, and
- Consulting with Lilly staff.

### The Lilly Bioethics Advisory Committee

The Lilly BEAC is a cross-functional volunteer committee comprising senior-level individuals from various functional areas within and outside of R&D, including medical, patient safety, discovery research, veterinary resources, legal, corporate affairs, and global brand development. Membership also includes two external academic bioethicists. Members are asked to take basic training in bioethics, provide advice on bioethics consultations, and offer input into company bioethics projects, such as the development of Lilly's official position on a bioethics issue. Meetings are held on a regular basis, but can also be called for ad hoc discussions.

Positions developed by the BEAC inform the policies, standards, procedures, and practices of our R&D group. Employees involved in clinical research are trained on these items, and refresher courses are provided as policies, standards, and procedures are updated.

The BEAC runs an internal bioethics consultation service to help Lilly employees identify and address bioethics issues related to R&D activities. This service handles requests for consultation about specific ethical concerns, clarifies Lilly bioethics positions and how to apply them to workplace situations, and facilitates the discussion of hypothetical or historical cases.

### The Lilly Bioethics Network

Recently, the program launched the Lilly bioethics network (BEN). BEN is an informal, voluntary, virtual community of Lilly staff who are interested in developing their knowledge and skills in bioethics. Participation includes training opportunities and attendance at lectures, seminars, case discussions, and other activities sponsored by the Lilly Bioethics Program.

### Bioethics Framework for Human Biomedical Research

Lilly strives to maintain the highest standards of ethical behavior in all aspects of the company's business, consistent with our brand. In 2010, to provide researchers with guiding principles and practical tools, Lilly developed a bioethics framework specifically to describe and evaluate the ethics of developing, conducting, analyzing, and disclosing results from studies involving human subjects. The framework incorporates ethics principles from widely recognized global guidelines and scholarly literature, including but not limited to the Belmont Report, the Declaration of Helsinki, the Council for International Organizations of Medical Sciences' International Ethical Guidelines, and the International Conference on Harmonisation's Guideline for Good Clinical Practice.

Flowing out of the framework, the Lilly Bioethics Program has developed bioethics positions on relevant and emerging topics, including stem-cell research, human biological samples, and the choice of control for clinical trials.

#### BIOETHICS SPECIALIST TEAM AND BIOETHICS SPECIALIST DEVELOPMENT PROGRAM

The bioethics specialist team (BEST) is a subgroup of the BEN and comprises Lilly employees with specialized knowledge and skills in bioethics and an ongoing commitment to develop in this area. BEST members support the Lilly Bioethics Program through participation in bioethics activities and projects.

The bioethics specialist development program is an internal, six-month, experiential training program designed to help Lilly employees identify and respond to bioethics issues specifically related to their functional role in the company and the pharmaceutical industry.

To view Lilly's position statements, visit: **http://lilly.com/responsibility/business/Pages/bioethics.aspx**

### Stem Cell Research

Lilly believes in the scientific potential of stem cell research, but also acknowledges that there are conflicting views about the ethics of using stem cells derived from certain sources. To support scientific innovation, respect human life, and respect stakeholder views, Lilly uses stem cells that are derived from animals, and from human sources where appropriate informed consent and/or assent can be obtained and there is little risk of harm to the sample donor.

### Human Biological Samples

Human biological samples have long been utilized in preclinical and clinical pharmaceutical research, but they play an increasingly important role in the post-human genome era. Specifically, DNA

samples are essential to understanding how genome variations affect or are affected by pharmaceutical interventions. Because of the individualized information that can be extracted from DNA samples, Lilly commits to protecting and using data derived from samples in a responsible manner that minimizes the potential for physical, dignatory, discriminatory, or stigmatizing harms.

## Choice of Control for Clinical Trials

### ACTIVE CONTROLS

Part of ensuring the scientific validity of research is designing clinical trials that are methodologically sound. Therefore, studies that measure differences among active treatments should be designed to make fair comparisons.

An *active control* is an agent used as a comparator in a clinical trial that is presumed to have beneficial effects related to the disease being studied. Use of an active control is often considered scientifically necessary to obtain valid comparisons between two or more treatments.

The decision to use an active control should be made after giving careful consideration to several factors, including the severity of the illness, the adverse event profile of the investigational treatment (i.e., potential for harm), and the scientific and regulatory objectives of the trial.

### PLACEBO CONTROLS

A *placebo control* is an inactive agent used as a baseline for comparison against a test treatment in a clinical trial, and is often considered scientifically necessary to obtain valid trial results. However, there is concern that placebo controls are ethically problematic, because individuals who receive a placebo are not receiving an established, effective treatment.

Lilly believes that the use of placebo controls in the development of new medicines can be scientifically valuable and ethically justifiable, provided the use of the placebo meets several key conditions and the decision to conduct a placebo-controlled trial is made after a careful analysis of scientific and ethical considerations, risks to research participants, and local regulatory requirements.

## Protecting Research Subjects' Rights in Clinical Trials

Our bioethics framework is the basis for a single global standard that Lilly applies to the conduct of clinical trials worldwide. Our practices are consistent with the Pharmaceutical Research and Manufacturers of America's Principles on Conduct of Clinical Trials, in addition to the applicable laws and regulations of the country or countries in which a study is conducted.

Lilly is a global company serving the medical needs of a global population. In choosing locations worldwide to conduct clinical trials, Lilly considers the local prevalence of the disease under study and the medical research capabilities of the candidate institutions.

In addition, Lilly works with local ethics committees and/or health authorities, as appropriate, to ensure that conducting the proposed research in each location is scientifically and ethically justified. These decisions take into consideration:

- the risks and benefits for research participants,
- the potential for the research to yield important scientific advances,
- the relevance of the research to local health needs, and
- intent to register the drug in the host country.

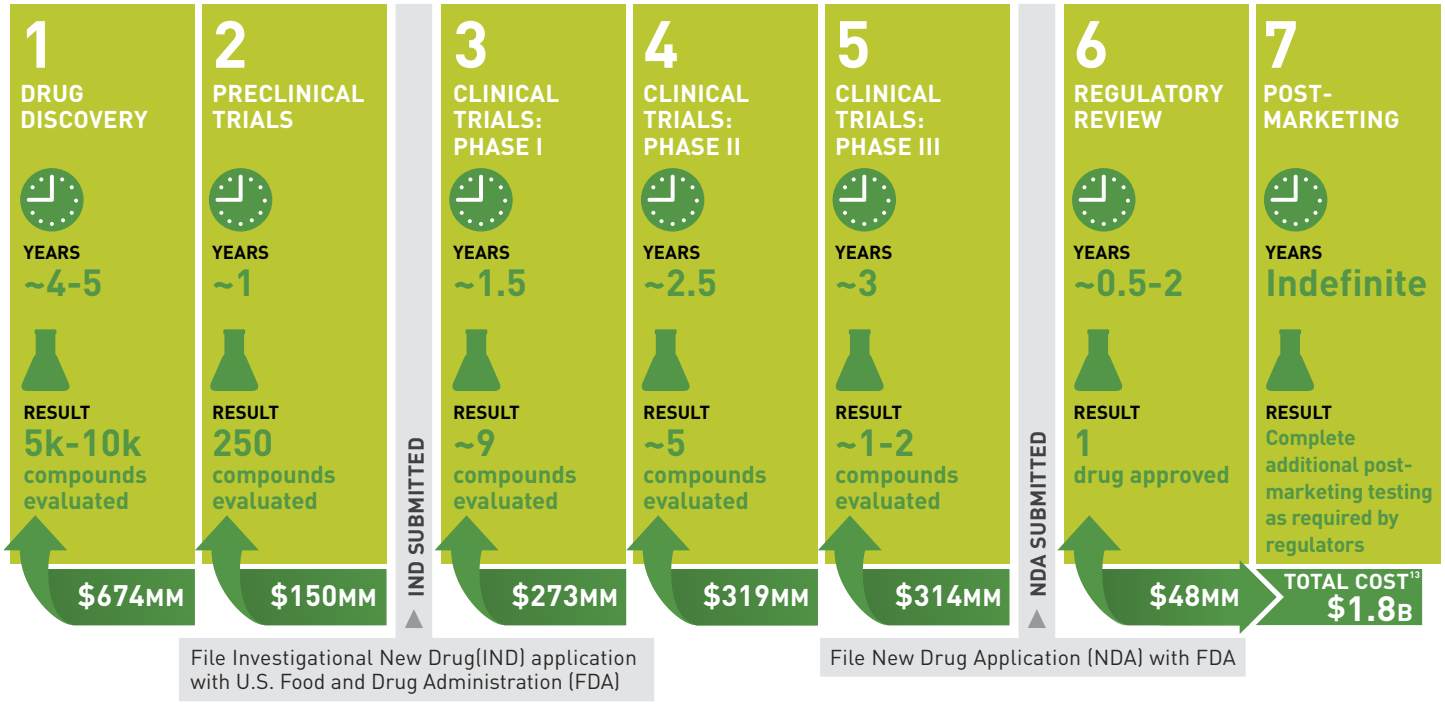
In applying these considerations, Lilly places paramount importance on the safety and well-being of the individual research participants. Taken together, this external and internal guidance helps researchers access thoughtful, informed, consistent advice on ethical questions that relate to the design, planning, and implementation of clinical trials, and to the timely disclosure of research results.

## Informed Consent

One key aspect of protecting research participants is the informed-consent process, designed to respect an individual's autonomy and protect an individual's freedom of choice. Each patient or volunteer who wishes to participate in Lilly-sponsored research is informed both verbally and in writing of the purpose, methods, and possible risks and benefits of a study, as well as the fact that he or she is free to withdraw from the study at any time and for any reason. The decision to volunteer for a study must be an individual choice, free from undue influences that might persuade a person to consent to greater than reasonable risk. To help ensure this, it is Lilly's policy that the promise of payments of money or other rewards not be so large as to unduly influence a prospective subject's decision. The individual's consent to participate in a study is documented by a signature of agreement. In the case of an individual who is not capable of giving informed consent, including children, the consent of a legally authorized representative may be obtained on behalf of that individual, provided that the study participant provides his or her assent to participate.

## The Drug Development Process

The research-based pharmaceutical industry is uniquely able to discover, develop, and produce lifesaving medicines for patients who need them. Yet pharmaceutical research and development is a complex and lengthy process. To demonstrate the safety and efficacy of a drug, by law it must be tested in the laboratory, in living cells and organisms, in laboratory animals, and finally, in humans. After the drug-discovery process produces a promising lead, that compound is still a long way from being ready for testing in human subjects. Here is how the process unfolds in the United States.[12]




[12] We have adapted the phase chart from PhRMA and supplemented it with cost data from a recently published article on R&D productivity: Paul S, Mytelka D, Dunwiddie C, et al. *How to Improve R&D Productivity: The Pharmaceutical Industry's Grand Challenge*. Nature Reviews Drug Discovery. 2010; available from: doi:10.1038/nrd3078. Accessed October 25, 2011.

[13] Figures provided are capitalized, meaning they account for the cost of capital to complete each phase. The $1.8B total estimated cost includes the cost of all projects that fail during the drug discovery and development process.

### 1. Drug Discovery

**PURPOSE:** Lilly discovery scientists search for biological targets within the body that play a role in a given disease. They create or find unique molecules that might someday be medicines, and they screen millions of molecules against the targets to pick promising leads.

Pharmaceutical discovery—like all kinds of discovery—favors those who search in the right places. The drug-discovery process at Lilly begins by focusing on specific diseases and patient needs. Lilly discovery scientists search for biological targets within the body that play a role in a given disease. They then screen millions of molecules against the targets to pick promising leads—molecules that might someday be medicines.

To make the best use of our R&D investment and provide the greatest benefit to patients, we largely concentrate in therapeutic areas in which we have deep expertise, including diabetes, neuroscience, cardiovascular diseases, and oncology. We seek to develop

pharmaceuticals that are "first-in-class" (i.e., creating a treatment where none existed) and/or "best-in-class" (i.e., improving on existing treatments).

Today, Lilly is generating potential biotech solutions (using therapeutic proteins or antibodies to treat disease), alongside more traditional chemistry-based work to deliver innovative treatments for a wide range of diseases, including cancer, multiple sclerosis, diabetes, osteoporosis, rheumatoid arthritis, and Alzheimer's disease. Review our current pipeline at **http://www.lilly.com/research/Pages/pipeline.aspx**.

One of our most promising areas of research and development concerns so-called "personalized medicine," also known as "tailored therapies." The ultimate goal is to provide the right medicine, at the right time, at the right dose, for each patient.

The earliest stage of new drug research and development—the discovery phase—can take many years. As mentioned previously, Lilly discovery scientists search for biological targets within the body that appear to play a role in a given disease. Biological targets can be part of the body (such as a protein, receptor, or gene) or foreign (such as a virus or bacteria). Lilly scientists identify, design, and synthesize promising molecules, screening perhaps tens of thousands, to assess their effect on the relevant biological targets. Molecules that have the desired effect on the target and meet other design criteria become "lead" molecules that go on to the next phase of development.

In this next stage, Lilly scientists learn about how a compound is broken down and eliminated from the body and also how it might intervene in a disease. During this process, Lilly scientists use experiments in test tubes and animals as well as computer modeling and simulation to investigate questions such as: Is there a viable way to deliver the molecule to the biological target? How is this affected by chemical composition, the size of the molecule, and natural barriers within the body's tissues and organs? Should the delivery vehicle be an oral method, an injection, or something else? How fast is the drug released and distributed in the body?

Researchers probe further to determine what dosage might be required for the medicine to be effective, and at what level it might be toxic to the patient. They also explore practical issues, such as whether Lilly will be able to manufacture the compound on a large scale, and whether the compound will be stable enough to remain effective and safe in the patient's hands.

## TAILORED THERAPIES

Historically, medicine has been "one size fits all." Increasingly, this is changing. Personalized medicine (also called tailored therapies) promises to deliver greater precision, higher value, and improved outcomes for individual patients.

Tailoring therapeutics is in part technical: by using emerging technologies and capabilities, the pharmaceutical industry can move toward better and more predictable patient outcomes. It is also a strategy for enhancing the social value of medicines. All medicines have potential risks and benefits; tailoring allows us to use real-world data and information and input from those closest to patients to develop therapies that offer the most value to individuals and to society.

Tailoring is being built into every drug-development program at Lilly, using a variety of approaches to identify meaningful differences across patient populations. These include:

- phenotypic characteristics, such as age or weight,
- established biomarkers, such as HbA1C levels for monitoring diabetes, and
- more novel markers emerging from new tools and technologies, such as pharmacogenomics, bioimaging, and bioinformatics, which advance how we understand, classify, and treat patients.

Lilly is also engaged in the development of companion diagnostics to better assist physicians to identify those patients who should, or should not, receive Lilly medicines.

### 2. Preclinical Trials

**PURPOSE:** Assess the potential safety, toxicity, and efficacy of compounds evaluated

**SUBJECTS:** Laboratory and animal studies

Drug trials and approval processes aim to prove that a new drug candidate is safe for human patients and effective in treating the target disease. Before any human ever takes a new drug candidate, preclinical trials are conducted to obtain initial proof of safety and effectiveness. This may include data from tests done in laboratory dishes or other devices—called *in vitro* research—or from limited animal studies. These efforts can take several years to complete, and they demonstrate whether it is warranted to proceed to the next step.

## INNOCENTIVE: THE PROBLEM-SOLVING MARKETPLACE

In 2001, Lilly launched InnoCentive, a company designed to expand Lilly's access to the global scientific network. InnoCentive created a global online network that now exceeds 250,000 scientists around the world and operates as a sort of "open market" for technical challenges. Lilly scientists have tapped into this network to obtain solutions to many technical challenges, and external scientists have received monetary rewards from InnoCentive for solving technical problems. This crowd-sourcing approach has proved to be quite effective at solving challenges cost-effectively and efficiently.

In 2005, Lilly brought in venture-capital investors to expand InnoCentive, but retained 20 percent ownership and a seat on the board of directors. Since then, the company has expanded its open-innovation approach to address a broad array of problems from diverse sectors of society, including governments, nonprofits, and other corporations, both within and outside of the pharmaceutical sector. Clients, including Lilly scientists, NASA, the Cleveland Clinic, Procter & Gamble, the Environmental Defense Fund, and many others, post their problems under "pavilions" divided by topic area. At any given time, challenges posted across the pavilions might range from traditional biochemistry conundrums, to the creation of alternative fuel sources for impoverished women in the developing world, to removing contamination from plastics recycling, to how to more effectively conduct humanitarian food drops.

To learn more, visit **www.innocentive.com**.

### 3. Clinical Trials: Phase I

**PURPOSE:** Determine safety and dosage

**AVERAGE NUMBER OF SUBJECTS:** 20 to 80 healthy human volunteers or patient volunteers with disease

The next stage of the R&D process comprises three phases of clinical trials with humans. Lilly conducts clinical trials around the world and markets its medicines in 125 countries. That means we must complete regulatory-approval processes in each country to bring innovative cures to patients worldwide.

Phase I is intended to generate initial safety information about the drug in humans and assess how it behaves inside the human body. The subjects in this phase are often healthy volunteers (rather than people who have the target disease), and they usually number between 20 and 80.

### 4. Clinical Trials: Phase II

**PURPOSE:** Evaluate efficacy, assess side effects

**AVERAGE NUMBER OF SUBJECTS:** 300 to 400 patient volunteers with disease

Phase II marks the beginning of controlled testing with patients who actually have the disease, to begin to demonstrate the medicine's effectiveness. The total number of patients is still relatively small—perhaps several hundred people. This phase also produces additional information about short-term side effects and risks associated with the drug.

**INNOCENTIVE BY THE NUMBERS**
(AS OF Q2 2011)

**250,000**
Approximate Total Registered Solvers From Nearly 200 Countries

**12M+**
Total Solver Reach Through Strategic Partners

**1,300**
Total Challenges Posted to Innocentive.com

**339,726**
Project Rooms Opened to Date

**24,256**
Total Solution Submissions

**866**
Total Awards Given

**$28M**
Total Award Dollars Posted

**$5K To $1M**
Range of Awards, Based on the Complexity of the Problem

**50%**
Average Success Rate

## 5. Clinical Trials: Phase III

**PURPOSE:** Evaluate efficacy, monitor adverse reactions from long-term use

**AVERAGE NUMBER OF SUBJECTS:** 1,500 to 2,500 patient volunteers with disease[14]

Phase III seeks to provide definitive proof of the drug's effectiveness and provides safety information from a much larger number of patients—from several hundred to several thousand—who suffer from the disease. The extensive data generated in Phase III provide a sound basis for extrapolating results to the general population and for developing the labeling information that is provided with the product.

In 2004, Lilly was one of the first pharmaceutical companies to launch a clinical-trial registry website to enable public access to results from our clinical trials. Today, this is required by law of all pharmaceutical companies. The results of applicable clinical trials of Lilly's marketed products, per the FDA Amendments Act of 2007, can be found at **www.clinicaltrials.gov**.

[14] In some cases, as many as 15,000 to 25,000 patients are needed for Phase III.

### ACCELERATING INNOVATIVE DRUG DEVELOPMENT

Ultimately, the future of Lilly depends on bringing to patients new medicines—whether developed in our own labs or from outside our walls. This requires the innovation and development of new strategies to speed the delivery of medicines. It's critical to our success as a company, and to the patients we serve.

That's why Lilly has added a new approach to its drug-development strategy. This approach—unique to pharmaceutical companies—uses external venture capital and the company's own virtual drug development organization, called Chorus, to expedite the development of compounds from Lilly and outside companies.

In typical drug development, a large number of compounds fail to make it past Phase II clinical trials. Chorus has developed more cost-effective and faster methods to reach clinical proof of concept—that is, to determine if a candidate drug is likely to be effective. That helps us determine whether to invest further in the most promising compounds.

Established in 2002, Chorus is a small, multidisciplinary drug-development group within Lilly that conducts early-stage development work. Chorus operates on a "virtual" model: It consists of a group of Lilly employees that manages drug-development work done by a network of hundreds of external experts and companies from around the world.

Chorus focuses on designing and executing highly focused development plans that progress compounds from candidate selection to clinical proof of concept in human clinical trials. Using this approach, Chorus has been able to reach decisions about 12 months earlier and at about half the cost of the current industry model.

To date, Chorus has delivered data on 17 molecules. Six of these have resulted in positive proof-of-concept clinical data. And we are applying the lessons learned from Chorus to our Development Center of Excellence, which manages the clinical development of all Lilly investigational compounds.

In addition, Lilly has designed, and is investing in, several venture capital funds—dubbed the Mirror Funds—created to supplement the company's pipeline and expand access to innovation. The funds will license drug candidates from Lilly and other companies and pay for clinical development and testing to take the compounds through the clinical proof-of-concept stage.

Our venture-capital partners get access to Chorus and Lilly molecules from the pipeline, and they share in the profits from successfully developed drugs. As an investor, Lilly also shares in fund profits. As of August 2011, one of the independent venture-capital firms participating in the Mirror Portfolio has acquired four molecules and will oversee the next phase of their development. Three of those molecules were developed preclinically by researchers at major academic institutions and are being studied as potential treatments for cardiovascular, diabetes, and oncology indications; the fourth molecule was developed by Lilly and is being studied for its potential in bone healing and cancer.

Lilly retains rights to buy back all Lilly molecules licensed by the funds as well as to evaluate and acquire a limited number of external compounds. Within five to seven years, the funds are designed to pay for the development of a pipeline of compounds that "mirrors" the number of compounds at this stage of development in Lilly's own pipeline.

## ACCREDITATION, REGULATIONS, AND INSPECTIONS

Lilly maintains the highest standards of animal care and demonstrates best practice globally. All Lilly facilities are accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC). All animal facilities are subject to external review and inspection. As appropriate, in the United States, our facilities are subject to unannounced site inspections by the U.S. Department of Agriculture. In Europe, local and national authorities regularly inspect all animal facilities. AAALAC also provides an independent review and confirmation of appropriate animal care and use.

In the United States, Lilly's animal care and use committee (which includes an independent, third-party member) approves and oversees animal research activities and care programs. Similarly, Lilly's U.K. ethical committee reviews all animal usage in that country and ensures that people using animals are appropriately qualified.

### 6. Regulatory Review

**PURPOSE:** Review NDA for drug approval or rejection

After extensive testing and study, a candidate drug is submitted for regulatory approval. The decision of the regulatory body determines whether or not the drug can be marketed to patients for approved uses. The review process can take anywhere from six months to two years or longer.

## ANIMAL TESTING

To assess the potential safety, toxicity, and efficacy of compounds for human use, Lilly researchers conduct tests in laboratory animals. Animals are used when other reasonable alternatives do not exist. Safety studies are mandated by law and are conducted to understand the effects of new medicines. We recognize we have an ethical and scientific obligation to ensure the appropriate and humane treatment of animals used in research, and we have systems in place to fulfill this obligation. Lilly requires its R&D staff to comply with all applicable country and local laws, regulations, and standards regarding the care and use of animals. We require the same of all individuals and organizations that supply animals to be used in Lilly research, and with which Lilly contracts for animal research services.

Moreover, we require application of the Lilly Animal Care and Use Principles by Lilly researchers and contractors, even if these principles are more stringent than applicable local laws. Lilly also encourages animal-research and animal-supply companies globally to obtain and maintain accreditation from the AAALAC. Through active engagement, we are helping to raise the standards of animal care and use.

## LILLY ANIMAL CARE AND USE PRINCIPLES

Lilly's Animal Care and Use principles state that animals shall be treated humanely, with pain and stress minimized. Animal testing should be performed after consideration of the 3 Rs: replace animals whenever alternatives are scientifically valid and acceptable to regulators; reduce the numbers of animals used; and *refine* procedures to minimize distress. Specifically:

- Living conditions for research animals must be appropriate for their species and contribute to their health and well-being.
- Personnel who care for animals or who conduct animal studies must be appropriately qualified regarding the proper care and use of animals in research.
- Studies involving animals must be designed and conducted in accordance with applicable country and local regulatory guidance and the following widely recognized principles of animal care and use:
  - with due consideration of the relevance of the study to human or animal health and the advancement of scientific knowledge,
  - selecting only animals appropriate for that study,
  - using the minimum number of animals required to obtain valid results,
  - using alternative methods instead of live animals where appropriate, and
  - avoiding or minimizing discomfort and distress to the animals.

## 7. Post-Marketing Monitoring: Informing Patients Who Use Our Medicines

**PURPOSE:** Additional long-term testing required by the FDA, and ongoing safety surveillance through spontaneous reporting of adverse events

Everyone is biochemically unique; therefore, individuals may respond quite differently to the same medication. Approved medications have been subjected to extensive testing for safety and efficacy. But even after medications are approved for general use, Lilly continues to collect product-safety information and monitor the safety profile of all Lilly products. In fact, the monitoring increases over time—through the collection of information from ongoing clinical studies, spontaneous adverse-event reports voluntarily reported directly from health care providers, and patients using the medicine.

## WORKING TOWARD DIVERSITY IN CLINICAL TRIALS

Minority populations have historically and consistently been underrepresented in clinical trials. As a result, important information about how medicines work in minority populations is not always available.

This issue is critical because patients' responses to medicines can vary by ethnicity, lifestyle, and genetic background. For example, African Americans and Hispanics are 2.2 times and 1.6 times more likely, respectively, to die from diabetes than non-Hispanic whites,[15] yet combined they have historically represented only 15 percent of diabetes clinical-trial participants.[16]

More diverse representation in clinical trials is needed to gain insights that will make medicines most effective for all people who use them. Across the industry, pharmaceutical companies are aiming to better match the demographic composition of clinical-test groups with the disease-prevalence rate in the general population.

Lilly has taken a leadership role, boosting enrollment of diverse populations in trials and making trials more accessible to minority communities. We have goals across our therapeutic and product lines to achieve greater diversity among patients enrolling in new clinical trials.

Our initial work has been in the United States, where we set a goal of introducing 36 new clinical-trial sites in locations with diverse populations. Since 2008, we have introduced 229 new clinical-trial sites in the United States that meet this definition. We are currently establishing a global strategy.

Lilly has partnered with a number of organizations to develop educational materials designed to raise awareness of the need for diversity in clinical trials. We also have made multiple presentations on the need for diversity in clinical trials to such organizations as the National Medical Association, the National Hispanic Medical Association, and the American Medical Association's Commission to End Healthcare Disparities. We also have held several national, regional, and local panels reaching journalists, advocates, and health care providers concerning health care disparities and our clinical-trial diversity strategy.

To help address barriers to access to trials, our clinical-trial diversity strategy includes the following activities:

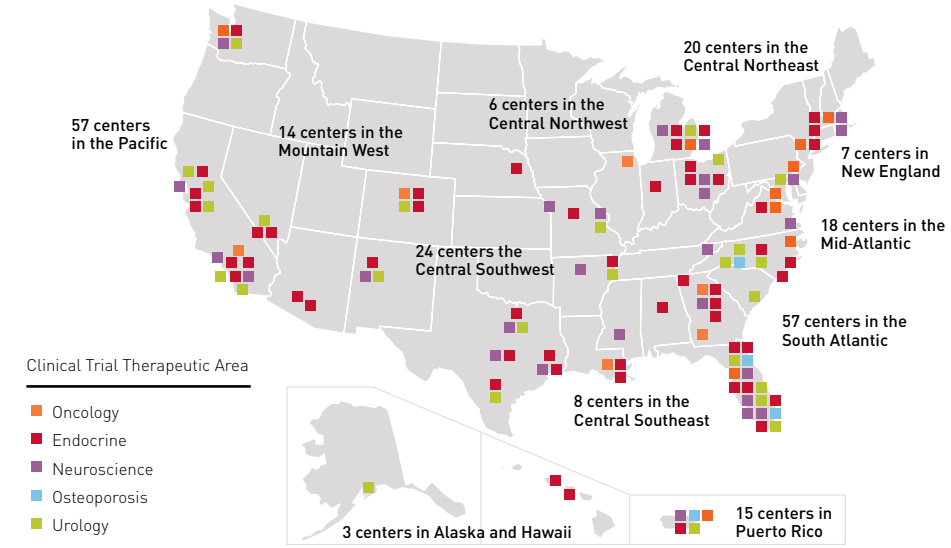
- Translating patient materials into appropriate languages,
- Providing physician-education materials that include background on the different needs of distinct patient groups, and
- Providing assistance with patient transportation and travel reimbursement to and from certain trial sites.

[15] The Office of Minority Health. Diabetes and African Americans and Diabetes and Hispanic Americans. 2009. Available at: http://minorityhealth.hhs.gov/templates/content.aspx?lvl=3&lvlID=5&ID=3017 and http://minorityhealth.hhs.gov/templates/content.aspx?lvl=3&lvlID=5&ID=3324. Accessed November 16, 2009.

[16] B. Evelyn, K. Gray & R. Rothwell (Office of Special Health Issues, U.S. FDA), *U.S. Black Participation in Clinical Trials: A Review of Selected New Molecular Entities Approved 1998-2001*, Presented at the NMA Annual Meeting, Honolulu, Hawaii, 2002. Data on file, Lilly USA, LLC: B2B07092009A.

## LILLY DIVERSITY IN CLINICAL TRIALS IN THE UNITED STATES[17]

AS OF AUGUST 2011




[17] A "diverse clinical site" is defined as any clinical-trial site where the patient population (of the medical practice, not necessarily who they enroll into trials) is more than 25 percent non-Caucasian.

## Lilly Global Patient Safety Organization

Lilly's global patient safety organization is a team of more than 300 individuals, including physicians, pharmacists, nurses, and other drug-safety professionals. This group leads the company's efforts to report adverse events[18] and continuously monitor the safety of Lilly's products through their entire life cycle, including the identification of changes in the benefit/risk balance.

### ➡ Adverse-Event Reporting and Monitoring

To protect the safety of patients, regulatory agencies and pharmaceutical manufacturers assess the safety of products (i.e., pre- and post-marketed medications) on an ongoing basis. This process depends on the reporting of adverse events to identify and minimize potential risks, including extremely rare events that would not have been identified in clinical trials. Often, infrequent side effects can be observed only after a medication has been approved and used across a large, diverse patient population for an extended period of time.

As required by law, we collect adverse-event reports from all over the world—from sources including health care providers, patients, medical literature, and regulatory agencies—as part of our continuous monitoring and evaluation of all Lilly products. We continually assess safety information, and we share new findings and emerging concerns openly with regulators and health care providers to appropriately manage risks associated with the use of our medicines. We also work diligently to combat drug counterfeiting (see **page 39**) which poses serious health threats to patients.

When safety-surveillance activities lead to a change in the benefit/risk balance of a product, we communicate these changes to health care providers and patients through:

- Updates to the investigator brochure and/or informed-consent document for clinical trials,
- The revision of labeling (package inserts) for marketed products, and
- The provision of safety information to physicians via letter, to consumers via patient package inserts and medication guides, and to the public via publications, press releases, and other means.

[18] The FDA defines an "adverse event" as any undesirable experience associated with the use of a medical product in a patient.

### EDUCATING PATIENTS ABOUT THE BENEFIT/RISK BALANCE OF PHARMACEUTICALS

When a regulatory agency approves a medicine, it has concluded that, for the overall public, the medication's benefits outweigh its risks for the conditions outlined in the product label. Still, accurate and up-to-date safety information is critical for health care providers and patients to best decide how and for whom a medication should be used. Lilly's role in risk management centers on helping health care providers make informed decisions about how and when a medicine should be used, how to monitor the patient for potential adverse events, and how to communicate to the patient about proper use of the medication.

In January 2010, Lilly launched our "Safety Matters" website (**http://safetymatters.lilly.com**) to educate key external stakeholders (including patients and doctors) about the role that the pharmaceutical industry and the FDA play in ensuring medicines are safe and effective.

# CONDUCTING OUR BUSINESS ETHICALLY AND TRANSPARENTLY

## VALUES AND INTEGRITY

For more than 135 years, the people of Lilly have approached our company's business with a deep sense of responsibility to those we serve—patients, physicians and other health care providers, shareholders, suppliers, business partners, employees, and the communities in which we operate. Our actions are grounded in our core company values of integrity, excellence, and respect for people. These values are not simply platitudes; they are infused into the Lilly culture and are a guide for all that we do.

At Lilly, how we do business is as important as what we do. We strive to be a leader in corporate responsibility. We demonstrate our values through responsible business practices that reflect our commitments to strong governance principles; transparency; patient, customer, and employee privacy; ethical product promotion; and stakeholder engagement. Our participation in the public policy process also demonstrates our values and affects how we do business. This section of the report describes our efforts in, and approaches to, these areas in greater detail. It also highlights our work around ethical supply chain management.

### Ethics, Compliance, and Governance

Our commitment to ethics and compliance is born of our commitment to integrity. Our policies, our Code of Business Conduct, our top-down compliance management systems, and our training programs reinforce ethical behavior.

As a global leader in the development, manufacture, and sale of pharmaceutical products, we have implemented—and we continue to refine and improve—programs designed to promote ethical conduct and instill a culture of compliance. We train all of our employees in ethical business practices and have systems in place to detect potential violations of the law and company policies.

**100%**

PERCENTAGE OF LILLY EMPLOYEES WHO MUST COMPLETE ANNUAL CODE OF CONDUCT TRAINING

**24**

NUMBER OF LANGUAGE TRANSLATIONS FOR OUR "RED BOOK" CODE OF BUSINESS CONDUCT

**$474 MILLION**

TOTAL AMOUNT SPENT WITH DIVERSE SUPPLIERS IN 2010

Our Global Ethics and Compliance Program (GECP) takes a comprehensive approach to compliance. It includes training and communications designed to prevent potential issues from arising, as well as reporting, auditing, and monitoring to detect potential compliance failings. We have invested significant resources in our formal ethics and compliance programs, which include focused efforts on privacy, anti-corruption, and appropriate product promotion, among other areas.

### Ethics and Compliance Program Oversight

Responsibility for ethics and compliance at Lilly starts at the very top and cascades to all levels of the organization. Our board of directors' public policy and compliance committee, consisting of five independent director members, exercises direct oversight of Lilly's chief ethics and compliance officer and the operation of the GECP. The board's audit committee has direct oversight of financial matters and some compliance-related audit matters.

### LILLY COMPLIANCE STRUCTURE


Our chief executive officer routinely sets "the tone at the top" by speaking directly to employees about ethics and compliance issues through his blog, through audio and video messages, and through global town hall meetings.

The global ethics and compliance organization is headed by our chief ethics and compliance officer, who reports to the CEO and to the board of directors. The organization is charged with providing support for and assessment of compliance with global company policies that apply cross-functionally. All employees play a role in the success of our ethics and compliance program.

### Code of Conduct, Policies, Standards, and Procedures

Our ethics and compliance programs include policies, standards, and procedures. We communicate our key compliance-related expectations through the following vehicles:

- **THE RED BOOK.** We regularly update and disseminate our Code of Business Conduct, *The Red Book*. Available in 24 languages, this document emphasizes the company's values and the importance of ethical decision-making, summarizes key principles from global company policies, and provides examples for employees to practice applying these principles to their decisions and actions. *The Red Book* is designed to provide foundational guiding principles to help our employees navigate an increasingly complex global business environment.
- **POLICIES, STANDARDS, PROCEDURES, AND RELATED MATERIALS.** The information summarized in *The Red Book* is amplified by policies, standards, and procedures accessible to employees on the company's intranet. These documents govern Lilly's actions with respect to specific areas, including anti-corruption, privacy, product promotion, safety, medical research, communications, securities trading, record keeping, international transactions, ethical interactions with external parties, interactions with government and public officials, payments, grants and donations, meetings with health care providers, gifts, product samples, and many other topics. We also have policies, standards, and procedures that are specific to particular areas of our business.

**JOHN C. LECHLEITER, PH.D.**

CHAIRMAN, PRESIDENT, AND CEO
ELI LILLY AND COMPANY
From *The Red Book* (2011 edition)

"Just as we set the bar high on the innovative medicines we bring to patients, so we must operate our business with absolute integrity and earn the trust of all; set the highest standards for the performance of our products and for ourselves; and demonstrate caring and respect for all those who share in our mission and are touched by our work."

### Reporting, Monitoring, and Auditing

To detect possible compliance violations, we maintain an internal disclosure system that includes a mechanism for anonymous reporting. We also review business actions through a system of monitoring and audits.

- **INTERNAL REPORTING.** Unless prohibited by local law, Lilly employees are required to report to the company any known or suspected violations of the law, *The Red Book*, company policies, or official orders or decrees applicable to our business. Employees are encouraged to report any other ethical concerns or issues as well. Our toll-free Ethics and Compliance Hotline is staffed by an independent firm 24 hours a day, seven days a week.

J.K. LILLY, SR., 1946

"And as to the future of this business ... it was founded and built on quality and integrity. Don't ever do anything to detract from its integrity. If we continue to work and follow those same principles, there are no limits to where we can go."

- **MONITORING**. In the United States, Lilly maintains an ethics and compliance monitoring program for the direct observation of field sales force interactions with health care providers. We are also developing and implementing a global monitoring program structure. This includes an aligned global-monitoring strategy, a risk assessment and monitoring plan, common monitoring processes and tools, and a process for reporting metrics to business leaders.
- **CORPORATE AUDITING.** Our internal auditing function, corporate audit services (CAS), conducts both financial and nonfinancial audits of all Lilly affiliates globally to evaluate compliance with various company policies and procedures. CAS audits include reviews of our anti-corruption program and our policies that govern ethical interactions. Other groups at Lilly routinely audit our regulatory controlled functions (e.g., manufacturing, environment, safety), as described elsewhere in this report.

### Training and Communications

We believe training is a necessary part of promoting ethical behavior and guarding against corruption. Some examples of our programs in this area include the following:

- Each year, all Lilly employees must complete training on *The Red Book* and certify they have received, read, understand, and will abide by its requirements.
- Employees receive targeted ethics and compliance training related to their specific job responsibilities.
- New employees in the ethics and compliance group participate in a training and education session, which focuses on understanding and implementing the seven elements of an effective compliance program globally. Training continues on a periodic and as-needed basis.

In addition, our leaders communicate regularly to reinforce that employees must conduct company business in an ethical and compliant manner, making decisions and taking actions in line with the company's values of integrity, excellence, and respect for people.

### Investigations and Corrective Actions

We take all reports of known or suspected violations of company policies, standards, and procedures seriously, and we appropriately investigate all claims of potential wrong-doing that are brought to our attention. We seek to address inappropriate conduct as early as possible and to prevent future recurrences. To accomplish this, a five-stage investigation process is in place globally to conduct timely, thorough, and professional investigations. All investigators are trained to understand and follow this process and to meet local procedural and privacy requirements.

### Anti-Corruption Due Diligence

Lilly uses anti-corruption due diligence processes to assess the appropriateness of interactions with certain external parties, including:

- Health care providers whom Lilly pays for services, including clinical-trial research, or to whom Lilly provides other items of value, such as educational opportunities,
- External parties whom Lilly may authorize to interact with government officials on the company's behalf,
- Prospective recipients of grants and donations, and
- Prospective business development partners.

### U.S. FOREIGN CORRUPT PRACTICES ACT INVESTIGATION

In August 2003, we received notice that the staff of the U.S. Securities and Exchange Commission (SEC) is conducting an investigation into the compliance by Polish subsidiaries of certain pharmaceutical companies, including Lilly, with the U.S. Foreign Corrupt Practices Act of 1977. The staff has issued subpoenas to us requesting the production of documents related to the investigation. In connection with that matter, staffs of the SEC and the U.S. Department of Justice have asked us to voluntarily provide additional information related to certain activities of Lilly affiliates in a number of other countries. The SEC staff has also issued subpoenas related to activities in these countries. We are in advanced discussions with the SEC to resolve their investigation.

## Transparency at Lilly

Experience has taught us that transparency in our operations can help to build trust with stakeholders. Transparency can also challenge us to view our business practices through the lens of external stakeholders and, if warranted, to change those practices. By listening and responding openly to our stakeholders' concerns, we can improve our transparency and the way we do business.

Lilly believes that transparency regarding business practices that involve financial payments to physicians helps to build trust with the public. We also believe that fair compensation is due to health care professionals for services rendered in the drug development process and medical education. However, we understand that these relationships may be misconstrued if they are viewed as secretive. As a result, we have taken a number of steps to provide information on important aspects of how we interact with key partners in the pursuit of advancements in medicine.

In 2004, Lilly was the first company to announce that we would voluntarily disclose to the public our U.S. clinical-trial results—even unfavorable ones. We were also the first company to report the results of a third-party audit of our database (see **www.lillytrials.com**). Subsequently, much of the information has been required to be reported to the U.S. government via **www.clinicaltrials.gov**, so Lilly's new information is posted there.

In 2007, Lilly became the first to publicly report the funding we provide in the United States to institutions in the form of educational grants and charitable contributions in support of medical education, patient education, and other activities that we believe increase health care knowledge and improve patient care (see **www.lillygrantoffice.com**). Since 2008, Lilly also has disclosed financial support to patient organizations based in Europe (see **www.lilly-europe.eu/corporate-responsibility/SupportPatientOrg2**).

In 2009, Lilly launched our Faculty Registry, an online listing of payments made to external U.S. health care professionals who are contracted as speakers for educational programs and who provide us with advice based on their experience and expertise. These faculty members are a key part of our efforts to inform health care professionals about various diseases and treatment options. They also help other health care professionals educate patients about how to use our medicines. The role these individuals play is an important aspect of our business—one that is critical to Lilly's vision to improve individual patient outcomes.

While we had previously announced our intent to voluntarily disclose payments to Lilly faculty, we are now obligated to disclose payments and other noncash value to U.S.-based physicians as part of the Corporate Integrity Agreement (see box below) we entered into with the Office of Inspector General of the U.S. Department of Health and Human Services in February 2009.

### U.S. CORPORATE INTEGRITY AGREEMENT

In February 2009, Lilly entered into a five-year Corporate Integrity Agreement (CIA) as part of our resolution of criminal and civil investigations regarding the historical marketing of Zyprexa® in the United States. Under the CIA provisions, Lilly is obligated to maintain our compliance program and to comply with a set of CIA obligations, including retaining an Independent Review Organization to assess and report on certain company systems, processes, policies, procedures, and practices.

Each year, the public policy and compliance committee of our board of directors must adopt a resolution that Lilly has implemented an effective ethics and compliance program as it relates to the scope of the CIA.

In 2011, we began disclosing research and other payments as well as noncash forms of value (such as business meals and business travel expenses) we provide to all U.S.-based physicians in the Lilly Physician Payment Registry (see **www.lillyphysicianpaymentregistry.com/**). Our research-related payments include those made to research and other institutions and include the name of the physician serving as principal investigator for the study at each site. The new payment registry, which replaces the Lilly Faculty Registry, is designed to help the public better understand how we work with U.S. physicians and compensate them for their services—and how these collaborations benefit patient care.

For information on our political contributions, see **page 36**.

## Privacy

At Lilly, we work hard to balance transparency and openness with the need to protect the privacy of all of those with whom we engage. We have a comprehensive privacy program, including a global privacy office and a chief privacy officer, designed to protect the privacy rights of patients, consumers, health care professionals, employees, medical research subjects, and others. As a part of this comprehensive program, we have robust privacy policies. These policies govern the collection of personal information necessary to our business operations. We have implemented reasonable technical, physical, and administrative safeguards to protect both personal and sensitive information from unlawful use and unauthorized disclosure, and we employ regular monitoring and auditing.

For more information on our privacy policies, see **www.lilly.com/privacy**.

## Marketing Practices

Our commitments to ethical business practices are reflected in how we market our products. We introduce a medicine to the market only if we believe it addresses unmet patient needs. Once a product is approved for use, we communicate its benefits and risks, market it in compliance with company policies and applicable legal requirements, and monitor results for safety concerns.

Patients and prescribers need to navigate complex medical information to understand the benefits and risks of a medicine for a particular individual and condition. Purchasers of health care services and regulators need the same kind of information to provide a macro view of patient populations' needs.

Providing trusted, timely, and accurate information about our products is a vital part of our engagement with customers. Our understanding of a drug's efficacy and safety can change over time as a result of additional research and real-world clinical experience.

We communicate product information to our customers in several ways. These include direct interaction between our sales representatives and prescribers, account managers and payers; information provided to patients and physicians through package labels and inserts; and, in some markets, product websites and other direct-to-consumer advertising (see to the right). All communications about our products are reviewed and approved internally (before use) for compliance with applicable legal requirements; in some jurisdictions, they are also submitted to regulatory authorities.

We adhere to leading trade association codes of conduct regarding interactions with health care professionals, including the codes of the Pharmaceutical Research and Manufacturers of America (PhRMA), the European Federation of Pharmaceutical Industries and Associations, and the International Federation of Pharmaceutical Manufacturers & Associations (for emerging markets), as well as individual country trade-association codes. All of these codes are very similar to PhRMA's code (see **www.phrma.org/about/principles-guidelines/code-interactions-healthcare-professionals**), which sets industry standards for appropriate sales and marketing practices in the United States.

### Direct-to-Consumer Advertising

Given the increasingly complex health care system, patients are seeking more information about diseases and treatments, asking questions, and evaluating their options before making choices. We believe that direct-to-consumer (DTC) advertising—which is legal in the United States and is permitted on a limited basis in some other countries—provides many benefits, including raising awareness of diseases and conditions that are often undiagnosed, untreated, or undertreated.

As a company responsible for developing new, innovative medicines, we are committed to providing advertising that is truthful, accurate, and balanced. To that end, we have established a series of principles to help serve as a guide when designing and launching DTC communications. For more information about these principles, see **www.lilly.com/about/compliance/practices/Pages/advertising.aspx**. We also adhere to PhRMA's Guiding Principles on Direct to Consumer Advertisements about Prescription Medicines (see **http://www.phrma.org/sites/default/files/631/phrmaguidingprinciplesdec08final.pdf**).

### ADDRESSING PARENTS' ADVERTISING CONCERNS

In October 2010, we joined an initiative with the Parents Television Council (PTC) to alert parents to broadcast television programs that will contain advertisements for erectile dysfunction drugs. The PTC receives weekly broadcast schedules from Lilly. The advertising schedules for erectile dysfunction drugs are made available to the public on the PTC's website, **www.parentstv.org/ed**.

"We are grateful to Lilly for sharing their broadcast television ads with us so we can inform our members and the public about where the ads will air. This is an important first step in addressing the concerns many parents have about advertisements for erectile dysfunction drugs," said Tim Winter, president of the PTC.

# THE IMPORTANCE OF STAKEHOLDER ENGAGEMENT

Lilly participates in dialogue with a wide array of stakeholders to understand their interests, explain ours, and address differences when they arise. We approach these discussions through several groups at Lilly: public policy; government affairs; advocacy; health, safety, and the environment; and communications. Employees from these areas work in concert to develop and promote innovative solutions that balance the needs and responsibilities of our company with the needs and responsibilities of the individuals we serve and the communities we impact.

This Corporate Responsibility report and our related website help us communicate with our stakeholders. For other examples of engagement channels and communications, see **page 32**.

## Engaging with Patient and Consumer Advocacy Organizations

We provide answers to often complex, difficult problems in two ways: through the discovery and development of breakthrough medicines and through the health information we offer. We believe it is critical for patients and their caregivers to have adequate information about their illnesses and treatment options and to be actively engaged in dialogue concerning the management of their health. We provide important information about our medicines and the diseases they treat to health care professionals, patients, and their caregivers, as appropriate. And we interact with policy makers and advocacy organizations to help shape the external environment in ways that improve patient health.

Lilly values the independence and credibility of external organizations, and we recognize that an advocacy group's scientific or educational agenda, perspectives, and legal obligations may differ from our own.

We follow our company principles and industry codes when interacting with third-party patient and consumer advocacy groups. Our principles are built upon the concepts of compliance with legal requirements; open and honest communications; transparency; and a diversity of funding recipients.

We seek to establish collaborative partnerships that:

- Engage stakeholders on matters involving public policy, improving patient access to treatment options, and supporting market-oriented solutions to the health care issues we all face,
- Build awareness about various disease states, treatment options, and the importance of adherence to treatment recommendations,
- Provide educational information, tools, and resources,
- Improve medical standards of care and foster productive communication between patients and their health care providers, and
- Serve varied populations and provide educational materials that are culturally appropriate and respect the diversity of patients and caregivers.

### LILLYPAD

In 2010, our company launched a new blog—LillyPad—to extend a dialogue with the public on matters that are of mutual interest to us and to those following our industry. (See **http://lillypad.lilly.com/**) The blog, which includes posts from a variety of professionals across Lilly, focuses on public policy issues such as health and wellness, innovation, and job creation. It also describes our corporate responsibility initiatives, advocacy efforts, and the work our employees do every day to make the world a healthier place to live. Visitors may add comments to contribute to the discussion.

# Who Are Our Stakeholders?

## STAKEHOLDER GROUPS AND EXAMPLES OF ENGAGEMENT CHANNELS

### PATIENTS

- Health care provider discussions
- Educational materials and programs
- Product package inserts and medication guides
- Patient advocacy groups
- Patient support and assistance programs
- Online product resources
- Lilly Answers Center telephone line
- Direct-to-consumer advertising

### EMPLOYEES[19]

- Live "global town hall" meetings
- Intranet social collaboration/networking tools, including CEO Blog
- Employee resource groups
- Employee surveys
- Electronic newsletters
- Hotline for ethics, compliance, and privacy questions/concerns

### INVESTORS

- Daily interactions through our investor relations function
- Industry investor conferences
- Meetings in Indianapolis and major global cities
- Quarterly earnings communications
- Annual meeting of shareholders
- Annual report and other financial disclosures
- Periodic investment community update meetings

### HEALTH CARE PROFESSIONALS

- Online medical information resources
- Disease-state educational programs
- Advisory boards
- Sales-force interactions
- Direct-mail communications
- Lilly Answers Center telephone line
- Medication guides, package inserts
- Online registries
- Publications (manuscripts, posters, abstracts)
- Medical letters
- Patient-support programs
- Lilly-sponsored symposia and scientific-exchange meetings
- Medical and commercial booths at congresses
- Interactions with Lilly physicians, scientists, and medical liaisons
- Contracting for clinical-trial investigation work

### GOVERNMENT AND REGULATORY ORGANIZATIONS

- Policy education materials
- Published policy research
- Responses to written requests for information
- Oral and written testimony
- Written comments on proposed regulations
- Policy discussions
- Advisory boards
- Meetings and conferences
- Communication of studies
- Lobbying activities
- Educational briefings
- Direct legislator and policy maker engagement

### SUPPLIERS

- Green procurement program
- Product Stewardship Standard
- Supplier self-assessments and qualification
- Supplier audits that Lilly performs
- Supplier risk-assessment process
- Policy advocacy conversations with vendors

### NONGOVERNMENTAL ORGANIZATIONS

- Partnerships to support patients and families
- Partnerships to raise awareness about certain diseases
- Advisory-board participation
- Participation in annual conferences/exhibitions
- Company communications
- Memberships

### PAYERS (INCLUDING GOVERNMENT PAYERS)

- Account-manager interactions
- Disease-state educational programs
- Lilly Answers Center telephone line
- Online medical information resources
- Advisory boards

### COMMUNITY MEMBERS

- Employee service on boards and committees of local organizations
- Participation in local volunteer opportunities
- Employee-directed philanthropy

Our business partners, including those involved in research, development, commercial, and manufacturing alliances, are also important stakeholders. Our office of alliance management performs about 15 "Voice of Alliance™" surveys per year of more than 2,000 respondents, asking both our business partners and the Lilly employees involved in those partnerships how the collaborations could be improved.

[19] Approximately 38,000 employees as of June 30, 2011

# ADVANCING PUBLIC POLICY

As a biopharmaceutical company that treats serious diseases, we play an important role in public health and its related public policy debates. We believe it is important for our company to shape public policy debates around the world on issues specific to the people we serve and to our other key stakeholders, especially shareholders and employees. Our engagement in the public policy arena helps address the most pressing issues related to ensuring that patients have access to needed medications—leading to improved patient outcomes. Through public policy engagement, Lilly provides a way for all of our locations globally to shape the policy environment in a manner that supports access to innovative medicines. We also look for ways to engage on issues specific to local business environments.

We develop our positions with the needs of patients foremost, but we also remain mindful of the requirements of civil society (including community groups, NGOs, labor unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations). We look for solutions that promote improved patient outcomes and strengthen our relationships with governments, which bear the primary responsibility for public-health issues and concerns. We also play a pivotal role in protecting public health by fighting the production and distribution of counterfeit medicines (see **page 39** for a discussion of counterfeit medicines).

## Positions on Issues Important to Lilly and Our Stakeholders

Through our policy research, development, and stakeholder dialogue activities, Lilly focuses on a number of dynamic areas that are important to our company, our industry, and the people we serve. Our public-policy efforts center on three key areas, which are described in more detail below: innovation, health care delivery, and pricing and reimbursement. In addition, we support legislation that reflects our commitment to bioethics (see the Developing Innovative Medicines section, beginning on **page 16.**)

Our positions on these policy issues are all grounded in sound business practices that reflect our efforts around transparency and our ethical interactions with the medical community. For more on our ethical business practices, see **page 26**.

### ➔ Innovation Policies

At Lilly, innovation is our driving force and the most important thing we do for the people we serve. Our policies reflect our company's dedication to the discovery and development of medicines that help people live longer, healthier lives.

Lilly's innovation-related policies and principles include the following:

- **PERSONALIZED MEDICINE:** Regulatory and reimbursement systems need to be prepared for personalized medicine, or "tailored therapeutics," which promise to deliver greater precision, higher value, and improved outcomes for individual patients. This lies at the heart of our vision at Lilly.
- **RESEARCH AND DEVELOPMENT:** Lilly supports a vibrant research and development environment that stimulates medical innovation, enables medical progress, and protects patient safety while balancing the trade-off between benefits and risks. Lilly follows our Code of Business Conduct for medical research and adheres to regulatory requirements around the world to generate important information regarding those medicines. (For more information, see **page 16** and following.)
- **INTELLECTUAL PROPERTY:** Strong intellectual property (IP) is the foundation of our industry; it is critical to driving innovation and stimulating economic growth in countries throughout the world. Strong IP systems foster an innovative culture, whereby local innovators can develop new products and technologies knowing that their inventions and creativity are secure. Moreover, strong IP protection afforded by effective patent systems and data protections provides incentives for increases in technology transfer, foreign direct investment, and local research and development (R&D) capacity. (For more on this topic, see the Access and Affordability discussion on **page 34**.)
- **FOLLOW-ON BIOLOGICS:** Globally, governments have or are developing regulatory pathways to approve follow-on biologics (FOBs) as alternatives to innovator-developed, biologic, "large molecule" medicines. An FOB is not a generic—i.e., a product approved as an identical copy of an already-approved product. Rather, an FOB is a highly similar (yet not identical)

version of an already-approved product. Any regulatory pathway to authorize FOBs should protect patient safety and product integrity, respect proprietary information, and contain intellectual property provisions that help ensure the research and development of innovative, lifesaving biological products.

### Health Care Delivery Policies

Even when governments are the primary payers for health care, Lilly believes that effective health care systems should be market-based, to best address the challenge of improving access, quality, and value for today and for the future. Lilly identifies the following principles as key elements to achieving that balance:

- Protecting and encouraging patient choice and decision-making in managing the health of patients and their families,
- Enabling patients as responsible participants in their health, while requiring all participants in the health care arena—including health care providers, regulators, insurers and other payers, and innovators—to remain accountable to patients,
- Protecting and promoting market-based competition by rewarding providers and innovators based on the quality and value provided to the patient, and
- Improving the quality and efficiency of health care delivery by reducing waste and system costs, and by closing the gap in health disparities.

Our health care delivery policies and positions focus on the following issues:

- **ROLE OF PHARMACEUTICALS:** The potential of new medicines to bring dramatic benefits to society can best be realized through the appropriate and effective use of medicines—not overuse, not underuse, just appropriate use guided by an informed health care professional. Appropriate use means supporting the right drug for the right patient and putting policies in place to support adherence to the prescribed treatment plan.
- **ACCESS AND AFFORDABILITY:** Tackling the issue of access to medicines, especially among the poorest in society, requires the best efforts of governments, the private sector, multilateral institutions, and civil society. We are committed to playing our role, predominantly through new innovation and, when possible, by developing new solutions in partnership with governments and other stakeholders. In addition, Lilly does not pursue patents in least-developed countries, enabling qualified generic companies to supply those markets. For more detailed discussion on this topic, see **page 8**.
- **NON-COMMUNICABLE DISEASES**: Non-communicable diseases (NCDs), such as diabetes, cancer, and heart disease are placing an increasing burden on patients, health care systems, and economies around the world. We believe our company has an important role to play in tackling NCDs and other critical public-health challenges, primarily through the products we make. We also support a public-policy environment that enables company-driven commercial solutions, in partnership with governments and other stakeholders, to issues associated with NCDs.
- **INTEGRATED AND COORDINATED CARE:** Lilly encourages the transition from a component-based health care system to a comprehensive, integrated health care delivery system. Too many health care systems operate in silos—for example, multiple physicians providing treatment for a patient without full knowledge of the patient's treatment plans with his or her other physicians; or payers viewing health care budgets by line items (medicines, physicians, etc.) without an appreciation of how costs and savings are interconnected across the health system.
- **PATIENT EDUCATION:** Lilly believes an informed patient is a better participant in his or her own care and can achieve better outcomes with access to approved patient information. In addition to developing patient-information programs, Lilly supports and partners with numerous local and national initiatives, including those addressing multicultural health disparities, to improve patient care. For more information, see **page 54**.
- **SUPPLY CHAIN:** Lilly believes governments around the world need to increase enforcement activities and penalties related to counterfeit and substandard medicines. To protect the health and safety of our patients, Lilly partners with governments to combat counterfeiting. Pharmaceutical counterfeiting crosses geographic boundaries, impacts patients suffering from a variety of diseases, and poses a real and growing threat to patient safety and worldwide public health. For more on our approach to counterfeit medicines, see **page 39**.

### Pricing and Reimbursement Policies

Pricing and reimbursement policies that are focused on controlling medicine costs alone can have the unintended consequence of reducing the quality of health today, impeding medical progress, and denying improved health opportunities to future patients.

Lilly's policies around pricing issues include the following:

- **HEALTH TECHNOLOGY ASSESSMENT:** Ideally, health technology assessment (HTA) is a multidisciplinary process that summarizes information about the medical, social, economic, and ethical issues

related to the use of a health technology (such as a diagnostic, procedure, drug, or device) in a systematic, transparent, unbiased, and robust manner. Its aim is to inform the formulation of safe, effective health policies that are patient-focused and seek to achieve the best value. Lilly believes HTA processes should be appropriately used by public and private health systems to improve patient care and physician decision-making. Some health systems will evaluate the value and appropriate use of pharmaceuticals and other health technologies to make their formulary and reimbursement decisions and to use their resources wisely. HTA processes should be transparent, include participation from all stakeholders with direct knowledge of the therapeutic area, and be focused on clinical and patient-reported outcomes.

- **VALUE-BASED PRICING**: Lilly believes that the prices of our medicines reflect the value they provide to patients, providers, payers, and society as a whole. We incorporate our understanding of those values, based on available data, when establishing prices.
- **DIFFERENTIAL PRICING**: Differential pricing of medicines, either by varying prices based on patient ability to pay within a country, or varying prices based on national wealth across developed and developing countries, can balance the desire to have affordable prices for low-income populations while also rewarding innovation. This enables access and continued research and development, which benefits patients, public and private health care administrators, and the industry. To be effective, differential pricing must be supported by a policy environment that is free of reference pricing and that prevents the diversion of discounted medicines to higher-income markets.

## POSITIONS ON MEDICARE/MEDICAID

Lilly believes that a competitive private market is the most effective means of delivering efficient and high-quality care for patients. The prescription-drug benefit in the U.S. Medicare program is an example of how a competitive marketplace can deliver value to both patients and payers.

The Medicare Part D program continues to provide unprecedented coverage and choice for seniors and disabled Americans. Average premiums for Part D coverage in 2011 will be $30—just $1 more per month compared to 2010 and considerably lower than originally projected when the program was established. According to 2011 Congressional Budget Office figures, Medicare will save $217.8 billion, or 32.9 percent, from 2006 to 2014, compared to 2004 projections. Part D recipients can choose the plan that best meets their needs rather than getting a one-size-fits-all government program. They have access to the medicines they need and are saving money.

Governments have a role in ensuring that high-quality care is available to vulnerable patients, such as the elderly, people with disabilities, and people with very low incomes. In the United States, the biopharmaceutical industry helps the government fulfill this obligation by participating in public-health programs, thereby offering substantial discounts to support patient access to the medicines they need.

Recently, the U.S. government greatly expanded its role in health care, not only broadening the scope of Medicaid coverage to new patient populations, but also requiring substantial increases in the rebates paid by industry. In 2010, federal health care reform legislation—the Patient Protection and Affordable Care Act—significantly increased and expanded Medicaid rebate taxes, increasing the minimum rebate percentage to 23.1 percent from 15.1 percent for innovative medicines, while also expanding rebate taxes to include medicines used through Medicaid managed-care plans. In addition, innovator biopharmaceutical companies are providing a 50 percent discount on branded pharmaceuticals for Medicare beneficiaries who reach the coverage gap (or "donut hole").

Despite these dramatic rebate increases, there is continued pressure in the United States to intensify the use of price controls over pharmaceuticals in response to budgetary pressures and the need to reduce the federal deficit. Discussed price controls include expanding Medicaid rebates into the Medicare drug program and granting the government authority to negotiate prices within Medicare. The move toward increasingly substantial price controls in Medicare and Medicaid risks future research into the treatments most needed by the patient populations those programs serve. If there is limited funding for medicines for seniors or people with disabilities, venture capital for research into new, innovative treatments targeted for these population segments will decrease, ultimately harming Medicare and Medicaid patients.

The success of the Medicare Part D program in providing participating seniors with broad access to innovative medicines while controlling costs is evidence that the private market works. Expanded government price controls in the United States threaten the ability of the biopharmaceutical industry to continue to discover new cures and treatments and jeopardizes the ability of the innovative industry to be a vibrant generator of high-quality U.S. employment opportunities.

- **PRICE CONTROLS**: Competitive market conditions are the most efficient way of allocating resources and rewarding innovation. Given the absence of genuine market conditions in many countries, Lilly is committed to engaging with governments and other parties to discuss principles and pragmatic public policy approaches that will enable the development of government pricing and reimbursement systems that reflect the value of products, include the patient perspective, and reward innovation.
- **ROLE OF GENERICS**: Lilly believes that generic drugs have an important role in the prescription drug marketplace. The use of high-quality generics may reduce expenditures in some areas, thereby freeing funds to enable access to innovative drugs for those patients who most benefit. A vibrant generic market with price competition at the end of the innovation life cycle is the most economically efficient and best serves public health.

## Political Financial Support

When engaging in lobbying efforts or making political contributions, we comply with the laws that govern such activities. All Lilly employees must also comply with the company's global policies, core values, and legal obligations, which are outlined in our written Code of Business Conduct, *The Red Book* (see **page 27**).

Elected officials, no matter what level, have an impact on public policy issues affecting Lilly. We lobby and make political contributions only where allowed under local law.

In the United States, we are committed to backing candidates of any party who support public policies that contribute to pharmaceutical innovation and the health needs of patients. When reviewing U.S. candidates for support, we consider a number of factors. For example:

- Has the candidate historically voted or announced positions on issues of importance to Lilly, such as pharmaceutical innovation and health care?
- Has the candidate demonstrated leadership on key committees of importance to our business?
- Does the candidate demonstrate potential for legislative leadership?
- Is the candidate dedicated to improving the relationship between business and government?
- Does the candidate represent a state or district where Lilly operates a facility or has a large concentration of employees or retirees?
- Would Lilly support have an impact on his or her campaign?

We are proud to have been recognized by the Center for Political Accountability as a leader in accountability and political disclosure.

### COMPARATIVE EFFECTIVENESS RESEARCH

Lilly supports the development of high-quality, timely, and relevant comparative effectiveness research (CER) in the United States to help inform individual treatment decisions made by physicians and patients, to explore opportunities for broader improvements in health care systems, and to help address public health challenges. Lilly supports an open scientific process and debate on the development of new and innovative clinical endpoints, study designs, and analytical methods. Because broader definition and communication of value are in greater demand by payers and other stakeholders, a greater range of clinical endpoints should be embraced as options within CER in the United States.

We believe:

- CER should be clinically focused to improve patient outcomes and the science and practice of medicine in a way that does not impede access to care.
- CER should not focus on short-term cost cuts. Analysis of cost-effectiveness must be separate from analyses of clinical value. Although cost factors play an important role in patient/consumer decision-making and reimbursement, this separation from clinical effect is necessary to emphasize that CER studies focus on the effectiveness and quality of health care rather than simply on cost.
- CER development should be an inclusive process. Academic centers, patient advocates, health plans, biopharmaceutical and device companies, hospitals and other providers, and other qualified research bodies can all contribute to improved standards of care and better-quality outcomes for patients.
- Comparative research can help to identify the most critical medical-care questions across the spectrum of health care products and services, including diagnostics, procedures, drugs and devices, care delivery processes, and health benefit design. CER should not be narrowly focused on pharmaceutical treatments.

Our annual *Report of Political Financial Support* provides details of our company's political contributions; our memberships in organizations that report lobbying activity to the U.S. government and to which we contribute $50,000 a year or more; and the activities of our Political Action Committee, the Lilly PAC, which is funded solely by employee contributions.

Lilly employees in the United States may choose to make voluntary contributions to the Lilly PAC. Lilly PAC donations, which are made in accordance with its budget, are determined annually by the Lilly PAC governing board, which comprises 11 U.S.-based employees from various groups within the company. Support is divided equally between the federal and state levels and allocated among various candidates according to specific recommendations from Lilly's government affairs department and employee PAC members.

In 2010, Lilly:

- Gave a total of $1,599,375 in political financial support in the United States, of which $458,250 was corporate contributions and $1,141,125 was contributed through the Lilly PAC. For the full list, visit http://www.lilly.com/sitecollectiondocuments/pdf/Lilly%20PAC%20Report%202010.pdf.
- Spent $7.46 million on federal lobbying activities in the United States. This information is reported to the U.S. Congress in accordance with the Lobbying Disclosure Act of 1995.

## Memberships

In addition to direct political contributions, Lilly maintains memberships in organizations that report lobbying activity to the U.S. federal government. We support organizations that champion public policies that contribute to pharmaceutical innovation, healthy patients, and a healthy business climate.

What follows is a list of U.S.-based organizations to which Lilly contributes a minimum of $50,000 a year. Organizations with which Lilly holds a board seat are noted to reflect our greater degree of involvement in setting priorities for these organizations.

- Biotech Industry Organization (board seat)
- Business Roundtable
- Civil Justice Reform Group (steering committee)
- Community Oncology Alliance
- Healthcare Leadership Council (board seat)
- Indiana Chamber of Commerce (board seat)
- National Patient Advocate Foundation
- National Health Council
- National Urban League (board seat)
- Pharmaceutical Research and Manufacturers of America (board seat)
- U.S. Chamber of Commerce

# MANAGING OUR SUPPLY CHAIN

At Lilly, we manage our supply chain to help maintain a safe and uninterrupted supply of our medicines. Within our own operations and the broader pharmaceutical industry, we work to support the United Nations Global Compact principles, ensure adherence to labor laws, and protect the environment. We partner with our suppliers around the world to encourage them to adopt the same global leadership standards that Lilly has set for itself. We also aspire to broaden the participation of small and diverse businesses in the Lilly supplier base to levels more reflective of the wider business community.

## Lilly's Supply Chain at a Glance

Lilly maintains relationships with thousands of suppliers of materials and services. We categorize suppliers into three tiers, which help to identify their type of impact from a supply risk perspective.[20]

In 2010, most of our bulk manufacturing occurred at Lilly-owned sites, including four in the United States as well as sites in Ireland, Puerto Rico, and the United Kingdom. Finishing operations, including labeling and packaging, take place at a number of sites throughout the world. In January 2010, we sold one of our U.S. sites, Tippecanoe Laboratories in West Lafayette, Indiana, to an affiliate of Evonik Industries AG. We entered into a nine-year supply and services agreement whereby Evonik will manufacture active final and intermediate-step active pharmaceutical ingredients for certain Lilly human and animal health products.

**LILLY SUPPLIERS BY TYPE**

**TIER A** suppliers provide goods and services that Lilly deems to pose the least risk for Supplier Code of Conduct violations. This includes general office supplies, travel services, IT equipment, catering, and other routine services.

**TIER B** suppliers provide raw materials and other common commodities used for packaging and manufacturing operations. This includes packaging materials, waste disposal services, and energy.

**TIER C** suppliers provide active pharmaceutical ingredients, including specialty chemicals. Suppliers in this tier include active ingredient suppliers, contract manufacturers, and research and development labs.

## Lilly Support of the Pharmaceutical Supply Chain Initiative

In early 2009, Lilly adopted the Pharmaceutical Industry Principles for Responsible Supply Chain Management, as set forth by the Pharmaceutical Supply Chain Initiative (PSCI), an industry group in which Lilly is an active participant. PSCI principles were designed to align with the principles of the United Nations Global Compact; they represent high-level expectations set for industry suppliers in the areas of ethics, labor, health and safety, the environment, and related management systems. Upon adopting the principles, Lilly revised and updated our Supplier Code of Conduct to reflect these principles.

Through our participation in the PSCI, Lilly is proud to stand alongside 12 other pharmaceutical companies that share a goal of providing suppliers and service providers with common health and safety, environmental, labor, ethics, and business management standards. Together with our industry peers, we are working to educate suppliers and ensure that our partners operate in a way that is consistent with our own company values.

Lilly fully embraces the PSCI vision: that through the application of the principles, better social, economic, and environmental outcomes will result for those involved in the pharmaceutical supply chain. This includes improved conditions for workers,

[20] Supply risk is the risk associated with Lilly's dependence on a third party for either services or materials that are critical to the operation of our business. Supply risk can come from many factors, including but not limited to supplier financial stability, ability to produce or provide services in a quality manner, or the impact of a natural disaster on the supplier's site. This risk is monitored on an annual basis, and mitigation plans are implemented and monitored to minimize it.

expanded economic development, and a cleaner environment for local communities. As a member of the PSCI, Lilly is committed to influencing positive social and environmental change in the pharmaceutical industry, and we will work to build our suppliers' capabilities in these areas.

To learn more about Lilly's management of environmental impacts throughout our supply chain, see the Fostering Environmental Sustainability section, beginning on **page 63**.

## Upholding Human Rights throughout the Supply Chain

Lilly maintains a long-standing practice of complying with local minimum-age laws and requirements and does not employ child labor, or forced or compulsory labor, in any of our facilities globally. In 2011, Lilly began revising our global standards and procedures to include specific language about human rights, including our expectation that vendors abide by Lilly human-rights standards as one piece of our Supplier Code of Conduct. To view the current Lilly Supplier Code of Conduct, visit **http://supplierportal.lilly.com/Suppliers/Pages/ConductCode.aspx**.

As part of Lilly's ongoing supply-chain risk management, Lilly suppliers in Tiers B and C must complete a supplier self-assessment questionnaire. Tier A suppliers must indicate that they support the PSCI principles and sign a statement testifying to this effect. Suppliers in Tiers B and C must complete the annual questionnaire and be available for audits, at Lilly's discretion. In 2011, together with the other PSCI companies, Lilly is exploring the best way to ensure and monitor compliance among suppliers.

## Supply Chain Management: Maintaining Quality, Safety, and Security of Supply

Our ability to manufacture quality medicines for patients depends on the quality and availability of the materials used in the manufacturing process. In 2008, we intensified our focus on implementing a proactive supply-chain risk management (SCRM) process. This annual process assesses the risk associated with our supplier base based on nine factors. We are also developing global maps that show supplier locations, identifying potential risks for the relevant geographic areas, and creating mitigation plans to further protect our supply chain.

Enterprise wide, our manufacturing policy committee oversees the maintenance of our inventory of critical raw materials. These inventory levels are monitored quarterly to assure they are adequate. With the SCRM plan in place, Lilly supply chain, quality, technical, and procurement resources teamed up to understand and respond to the impact on our suppliers in Japan following the tragic earthquake and tsunami that struck the country in 2011. As a result of these risk-mitigation efforts, we suffered no disruptions of supply.

## Our Approach to Counterfeit Medicines

Counterfeit medicines pose a real and growing threat to patient safety and worldwide public health. Pharmaceutical counterfeiting crosses geographic boundaries and affects patients suffering from a variety of diseases. Medicines commonly involved in counterfeiting include those used for erectile dysfunction, oncology, cardiovascular disease, and mental health, preventing the proper treatment of these conditions.

**JIM THOMSON**

CHAIR, EUROPEAN ALLIANCE FOR ACCESS TO SAFE MEDICINE

"At the European Alliance for Access to Safe Medicine, we are raising public awareness of the dangers posed by counterfeit medicines available in the legitimate supply chain and over the Internet. As we undertake major projects each year, Lilly's much-valued support helps bring our message to wider audiences and effect real change. We are tremendously proud to have Lilly stand shoulder-to-shoulder with us in this important work."

In 2010, the counterfeit-drugs market was projected to be a $75 billion industry.[21] Criminals are drawn to it by the prospect of high profits and low risk, as offenders are rarely prosecuted. Because of its unregulated environment, full anonymity, and access to patients, the Internet is a hot spot for counterfeiters. Criminal organizations dupe customers into buying counterfeit medicines through fake online "pharmacies," which use images of trademarked or branded pharmaceutical products.

In every part of the world, patients are unknowingly encountering counterfeits that look like the actual medicine—from the appearance of the package to the size and color of the pill. These are dangerous imposters that may contain inactive and

[21] Source: P. Pitts, *21st Century Health Care Terrorism: The Perils of International Drug Counterfeiting, The Center for Medicine in the Public Interest*, Sept. 20, 2005.

useless ingredients or even toxic substances.[22] In every case, they are unreliable. In some cases, they can cause harm to patients, including death.

Lilly believes that governments around the world need to increase enforcement activities and penalties related to counterfeit and substandard medicines. Lilly is actively engaged in efforts to combat counterfeiting, and we partner with governments and others to protect the health and safety of our patients. In 2006, we established an anti-counterfeit office. This office coordinates Lilly's response to counterfeit drugs, including:

- Working with global stakeholders in the supply chain to secure the integrity of Lilly products through legitimate distribution channels,
- Adding enhanced anti-counterfeiting technology for Lilly products and packaging in our retail product portfolios,
- Seeking to deter major counterfeiters of Lilly products through targeted investigations, Internet monitoring, litigation, and prosecution, and
- Working with government and non-government organizations and trade associations to strengthen, enact, and enforce anti-counterfeiting laws and raise awareness with health care professionals and patients about the dangers of counterfeit drugs.

This global problem requires a sustained, long-term commitment. To stop this dangerous trend, collaboration and cooperation are critical, and Lilly is committed to working with a wide range of public and private partners. To this end, Lilly is a founding member and steering group participant of the Alliance for Safe Online Pharmacies, a broad coalition of stakeholders who have an interest in protecting patient safety and ensuring patient access to safe and legitimate online pharmacies. In Europe, Lilly is active in the European Alliance for Access to Safe Medicines to further patient education about the dangers of counterfeit medicine.

[22] Examples of harmful ingredients recently found in counterfeit drugs include arsenic, boric acid, brick dust, cement powder, chalk dust, floor polish, leaded road paint, nickel, shoe polish (to produce the sheen on the tablet), and talcum powder. Source: G. Jackson, "Faking It: The Dangers of Counterfeit Medicine on the Internet," *International Journal of Clinical Practice*. 63 (2), pp. 181-184, Feb. 2009.

## Supplier Diversity at Lilly

Diversity in our workforce is critical, but equally important is diversity in our supplier networks. Supplier diversity development meets a business need by helping Lilly's supplier base be more reflective of the diverse marketplace. A supply base that is reflective of the changing demographic patient population fosters creativity and innovation. Since 2005, the U.S. Small Business Administration (SBA) has recognized Lilly as "outstanding" in our efforts to promote and maintain supplier diversity.

Lilly's supplier diversity development mission is to:

- Access additional expertise from small and diverse suppliers—a source of talent, fresh perspectives, and cutting-edge opportunities,
- Encourage small and diverse businesses to grow as they work with Lilly, and
- Attract diverse talent to the communities where Lilly operates—creating a greater quality of life.

Because of its contracts with the federal government, Lilly is required to comply with government contracting rules related to supplier diversity, but we strive to go beyond these mandates. One of the ways Lilly is impacting supplier diversity is by engaging not only Tier 1 but also Tier 2 vendors as part of its efforts. (Tier 1 vendors are those that have direct contracts with Lilly; Tier 2 vendors are those that have contracts with Lilly Tier 1 vendors.) Lilly's Tier 2 initiative is designed to create indirect opportunities for small and diverse vendors. Tier 2 spend expectations are communicated in Tier 1 vendor contracts and monitored quarterly. Through second quarter 2011, Lilly spent approximately $254 million with diverse and small businesses—$169 million with Tier 1 and $85 million with Tier 2 suppliers.

**JOHN C. LECHLEITER, PH.D.**
CHAIRMAN, PRESIDENT, AND CEO
ELI LILLY AND COMPANY

> "The value proposition for supplier diversity is very clear: Diversity fosters creativity. Creativity drives innovation. And innovation, ultimately, leads to business success."

Lilly requires that businesses that are included in company supplier-diversity spend reports be certified as a diverse and/or small business. Diverse and small businesses are defined as businesses with 51 percent ownership, management, and control by an ethnic minority; a woman; a gay, lesbian, bisexual, or transgendered person; a veteran; a person with disabilities; or as defined by SBA regulations based on industry-size standards.

Lilly's goal is to achieve 10 to 15 percent of its external spend with small and diverse suppliers. In 2010, our goal was to reach $445 million in diverse-supplier spending, but we actually achieved $474 million. Moving forward, Lilly will strive to maintain our "outstanding" rating from the SBA for

# SUPPORTING STRONG WORKPLACE PRACTICES

Our legacy dates back 135 years to our founder, Colonel Eli Lilly. More than a century ago, his vision and his commitment to patients, employees, and communities set a strong tone for our company that continues today. Our business has prospered because of our people—people with a talent for innovation and a passion for making a difference by finding treatments for the most stubborn diseases; people whose talent is matched by their generosity; and people with strong values and a determination to prevail, regardless of the challenges.

Colonel Lilly's values—integrity, excellence, and respect for people—continue to shape our practices today. At Lilly, we strive to provide our employees an engaging and rewarding working environment built on a foundation of trust. We believe we have created a workplace with fair labor practices, where employees are respected for their contributions.

**38,066**
TOTAL GLOBAL WORKFORCE[23]

**33%**
REDUCTION IN SERIOUS INJURY AND LOST TIME RATES SINCE 2007

**50**
APPROXIMATE NUMBER OF LANGUAGES SPOKEN AT INDIANAPOLIS HEADQUARTERS

**10%**
ESTIMATED PERCENTAGE OF WORKFORCE AT HEADQUARTERS BORN OUTSIDE THE UNITED STATES

[23] 17,409 U.S. employees and 20,657 outside U.S. Employee data as of June 30, 2011. Note also that the majority of Lilly's workforce are full-time employees.

## CREATING A SUPPORTIVE AND REWARDING WORK ENVIRONMENT

As a pharmaceutical company, our mission is to make medicines that help people live longer, healthier, more active lives. Our employees are essential to us accomplishing that mission.

The early leaders of our company recognized that actions do speak louder than words— particularly where employees were concerned. "Intellectual capital" may be the modern term for it, but even early on, Lilly management understood that the knowledge and skills of Lilly people were the company's most important assets. In 1916, the board of directors asked one of

**EXCERPTS FROM J.K. LILLY, JR.'S 1916 REPORT ON THE SUBJECT OF EMPLOYMENT**

> "The responsibility of handling employees from the time of their selection is one of the most important responsibilities of management."

> "When loyalty from above has been secured, loyalty from the ranks may readily be observed."

> "The good will of the employees is not based on wages alone."

> "... the health and well-being of his people are as fully dependent upon the conditions which confront them outside the factory as well as those existing within."

the founder's grandsons, J.K. Lilly, Jr., to seek out the best corporate practices for hiring and developing people. He tapped the premiere management experts of the time and traveled the United States visiting other organizations considered to have progressive employee policies. The result was the 150-page 1916 *Report on the Subject of Employment*, which continues to guide our company nearly 100 years later.

Today, we offer our workforce competitive compensation and benefits packages and provide a wide variety of opportunities for personal growth. Lilly welcomes and encourages a diverse, multicultural workforce, and we are committed to upholding the principles of nondiscrimination. In addition, our unwavering focus on employee well-being fosters a culture of health and safety. All of these topics are discussed in greater detail in this section of the report.

## Compensation and Benefits

We expect excellence from our employees; in return, we provide competitive compensation and benefits packages. Our pay-for-performance philosophy links individual and company performance with compensation to help employees understand the relationship between the work they do and the company's bottom line. Lilly's pay programs enable us to reward employees commensurate with performance, while managing costs through our business cycles.

Through our annual Performance Management (PM) review process, we evaluate employee performance and development, both at midyear and at year end. The review process, which is required for 100 percent of our employees, includes a set of tools and resources designed to link employee work efforts to the company's priorities and business goals. Each PM plan sets an employee's objectives for the year and expected results.

Globally, Lilly offers employees a wide array of benefits (which vary depending on location). These include health plans for individuals and spouses (including same-sex partners) and direct family members; disability benefits; life insurance; and retirement programs. In certain locations, we also offer health plan benefits to retirees and their eligible partners, spouses, or survivors. Many of the benefits are flexible and allow employees to tailor programs to individual needs. In the United States, we offer the same standard benefits to all regular-hire employees, demonstrating how we promote fairness within the company.

We recognize the importance of freedom of association in the workplace and respect the right of our employees to join associations of their choosing. Lilly interacts with works councils and unions in several countries outside the United States; we support these bodies and work productively with them. The vast majority of our workers globally are not covered under traditional collective bargaining agreements. In some countries where we operate, governments mandate working conditions, such as salary increases, minimum wages, bonuses, number of weekly working hours, vacation time, and overtime rates. These vary by country, and we follow these mandates wherever they are required. Several of our affiliates have employee councils that meet monthly with management to discuss workforce-related issues that directly impact them, such as company policies and organizational changes.

## Learning and Development

Employee development is a process—linked to performance management—that emphasizes ongoing knowledge and skill development for individual Lilly employees. Developing employees is critical to our success. By enhancing employee knowledge and skills, we help our company remain viable in an increasingly competitive environment. For that reason, we provide employees with opportunities to build careers that reward them personally and professionally, while helping our company advance its vision to improve patient outcomes.

Lilly employees receive approximately 40 hours of required training each year and may have access to additional learning and development programs based upon their functional expertise and career aspirations.

Included within employee development is a set of training programs to encourage a diverse, nondiscriminatory, and respectful working environment. We require diversity training for new hires in the United States; supervisors in the United States complete additional diversity training.

Our core diversity training includes the following programs, among others:

- **THE DYNAMICS OF TRUST**: a course that helps employees examine the trust disparity among people of different backgrounds.
- **WORKING FOR INCLUSION**: an online course divided into four one-hour sections that provides participants with insights and tools to move toward more inclusive behaviors.

Our succession-management process identifies leaders with a proven track record of success and capability in their areas of expertise. We work to develop women and diverse employees for consideration for future openings in key positions.

Managers from each division assess employees at lower levels to determine which workers have the potential to take on more senior roles. These employees are provided development opportunities, including leadership training and executive mentors. For example, more than 150 senior women leaders have participated in our Women in Leadership Retreat since its launch in 2005. Lilly also conducts leadership retreats globally for employees who represent diverse talents and backgrounds.

Lilly also sponsors a wide array of cultural and educational programs designed to develop and support women, people of diverse backgrounds, and people with disabilities both internally and externally, including the following:

- **CENTER FOR LEADERSHIP DEVELOPMENT (CLD)**: Lilly is a long-time corporate partner with the Center for Leadership Development in Indianapolis, which fosters the development of minority youth. In 2009, the Lilly CLD Achievement Center was opened, thanks in part to a $1.4 million gift from the Lilly Foundation. One of the CLD's initiatives is the annual Corporate Youth Summit, at which attendees interact with senior Lilly leaders and learn tips on how to succeed in business and in life.
- **SUMMER INTERNSHIPS**: Each year in the United States, more than 150 individuals—many nonwhite and/or female—participate in summer internship programs designed to help us recruit, retain, and develop a diverse workforce. We extend full-time job offers to about 50 percent of participants. We also have an extensive Master of Business Administration (MBA) internship program throughout Australia, Canada, China, Europe, Japan, and Latin America. In the United States, we seek to recruit female MBA talent through a partnership with the Forté Foundation, a consortium of major corporations and top business schools.

Although we do not have as many open positions as we did at times in the past, Lilly maintains a campus recruiting initiative at many of the top colleges and universities in the United States, including Historically Black Colleges and Universities. In addition, to gain exposure to diverse talent, we align with a number of national organizations, including Reaching Out MBA, National Society of Hispanic MBAs, National Black Data Processing Associates, National Black MBA Association, National Organization of Black Chemists and Chemical Engineers, National Society of Black Engineers, and the Consortium for Graduate Study in Management.

## Leadership Development

In our business environment, effective leadership is essential. Our Global Leadership Development program offers a variety of programs and activities, including experiential learning programs, online training, and teaching opportunities, designed to build leadership skills.

Other training offerings include:

- Programs to enhance employees' performance,
- Programs to increase employees' impact,
- Programs to grow employees' careers,
- Tuition reimbursement for job-related courses,
- Mentoring programs and leadership retreats, and
- An online career center.

Our long-term responsibility is to ensure Lilly has a talent pipeline for the future. Just as Lilly has to think many years in advance to plan our drug pipeline, we need to do the same for our people pipeline. Our global succession-management process identifies and develops future generations of leaders and plans for the succession of key positions, so we can place the right person in the right leadership position at the right time.

## Engaging Employees

Effective employee collaboration is critical to Lilly's success, and we use a variety of programs and tools to engage our employees and foster and promote teamwork. Even in a challenging business environment, we believe it's important to invest in employee development.

We are especially excited about our new signature employee-engagement program—Connecting Hearts Abroad—that is allowing 200 employees to volunteer, on company time, for two weeks in 10 different countries around the world. Our volunteers are working in communities where people lack access to basic resources, including quality health care. The program, which we launched in 2011, is helping employees from all different operational areas learn about the diverse populations our company is trying to serve. We are confident our colleagues who

volunteer for these experiences will return home as better employees and stronger leaders. More than 1,800 Lilly employees from 52 countries applied to the program. For more on this initiative, see **page 60**.

We also recently launched a new tool for business-oriented social collaboration. "The Loop," an internal social-networking site, offers employees a new platform for collaborating across teams, functions, and geographies. Through it, our workforce can tap into each other's expertise, insights, and creativity.

The Loop piloted in the fall of 2010 with a small group of employees and grew to more than 10,300 Lilly users by the summer of 2011. Available to all employees, this online forum has helped our employees meet new experts within the company, expand internal professional networks, and make new friends.

We recently launched another online employee-engagement and networking tool, The Bridge, aimed at creating a global conversation about the role Lilly and our people play in making the world a better place. The Bridge offers a location for Lilly employees to learn about volunteer opportunities, share their stories of volunteerism, seek a matching gift, or nominate a colleague for a company community-service award, among other topics. Our goal is to develop The Bridge into a powerful tool that will amplify what Lilly and our people are doing to strengthen communities and improve the lives of patients around the world.

## Work-Life Balance

We recognize that employees have competing needs between their work lives and their home lives. That's why we aim to create a work environment that supports efforts to balance work and personal life responsibilities. Globally, we offer a number of programs, varying by location, to assist employees in maintaining work-life balance. We take a holistic approach, offering benefits and services including flexible work arrangements, personal leaves, on-site health services and fitness centers, on-site child care, employee conveniences such as campus credit unions, and family support programs.

## Recruitment and Hiring Practices

As a global company, we search around the world for top leadership and talent. To address the medical needs of millions of people, we must have a diverse group of employees who understand the varying needs of the diverse people we serve. We transfer employees from location to location primarily for leadership development and staffing of critical skill requirements. We hire locally and promote from within whenever possible.

### RESTRUCTURING AT LILLY

In 2009, in the face of a challenging business environment, we began a company restructuring to reduce our payroll, as we looked toward the expirations of several important Lilly patents. We set a goal of reducing our global workforce by 5,500 people by the end of 2011. This figure excludes strategic additions in high-growth emerging markets and Japan, as well as additions due to acquisitions.

We intend to meet our workforce goal where possible in part through normal attrition and by slowing hiring. In the United States, reallocated employees can remain at Lilly during a 12-week transition period, during which they may look for job opportunities inside and outside the company and access outplacement and transition services. We also offer severance benefits for eligible employees.

While reductions have been spread across our global workforce, the impact on Indiana employees has been higher than in other parts of our operations. Between September 2009 and May 2011, Lilly reduced its number of full-time employees worldwide by about 4,100 people, or nearly 75 percent of the target.

Lilly strives to comply with all minimum-notice periods governing workforce reductions and other significant operational changes.

# DIVERSITY AND INCLUSION

At Lilly, embracing diversity is at the core of our long-held value of respect for people. It is the lens through which we understand and respond to the unique needs of the millions of individuals who depend on our medicines. We're proud of our diversity and the essential role it plays in helping us accomplish our mission: making medicines that help people live longer, healthier, more active lives.

## PRIVACY CONCERNS

We were the first in our industry to formally implement a policy to protect the privacy of our employees' genetic information, with the goal of ensuring that such information cannot be used to discriminate in employment and benefit-related decisions.

Lilly works to attract and retain talented employees who bring the varying perspectives and skills we need to operate on a global level. Diversity fosters creativity, creativity drives innovation, and innovation leads to better patient outcomes and enhanced business success. Without diverse ideas, we simply cannot remain viable in a rapidly changing environment.

Ensuring a nondiscriminatory work environment is a key priority for us at Lilly. For Lilly employees, embracing diversity means understanding, respecting, and valuing differences, including but not limited to race, religion, gender, sexual orientation, work style, national origin, and age.

Our commitment to diversity goes beyond our own employees. We partner with advocacy groups, professional societies, community organizations, public and private health care administrators, and others to help reduce health disparities and address the unique health care needs of all communities. Our diversity commitment extends through the full spectrum of our business, including our clinical-trial strategy and our supply chain (see **page 24** and **page 40** for more on these topics).

We are working to further embed diversity within the culture at Lilly by integrating it into every aspect of our business—from our clinical trial and marketing practices to how we hire our employees. We have been working for several years to do this, and we are seeing good results. Recently, we were honored to have been named for the first time to *DiversityInc*'s list of "Top 50 Companies for Diversity," which is widely recognized as the premiere third-party diversity assessment in the United States. In the 2011 list, Lilly ranked 39th out of 535 companies that completed the survey.

In recent years, we have increased our leaders' accountability for developing diverse talent. Our senior leaders have performance objectives focusing on mentoring and career-path planning for women and diverse employees globally. In addition, Lilly's senior

## DIVERSITY STRATEGY

**MARKETPLACE**
We must know
**OUR PATIENTS**

- Clinical trial diversity
- Patient education
- Partnerships

**WORKPLACE**
We must leverage the individual strengths of
**OUR PEOPLE**

- Recruiting and staffing
- Retention
- Employee resource groups
- Training
- Flexible work arrangements

**SUPPLIER**
We must strengthen our supplier base and invest in our community with
**OUR PARTNERS**

- Supplier networking and business events
- Partnerships with diverse supplier certification entities
- Identification of spend opportunities amid supplier rationalization

vice president of global human resources and diversity reports directly to our chief executive officer. Our top leaders also receive updates quarterly on our diversity strategy, while our board of directors receives reports annually.

Our Code of Business Conduct, *The Red Book*, guides our approach to a nondiscriminatory environment. Our code requires employees to "behave so that the workplace is free of improper conduct and harassment, and other inappropriate forms of discrimination." (For more on *The Red Book*, see **page 27**.) In addition to *The Red Book*, we have an Equal Employment Opportunity Policy and a Global Policy on Personal Information Privacy and Security.

## Employee Resource Groups

Lilly offers 10 employee-led resource groups that connect people from diverse backgrounds. These include the Lilly African American Network; the Organization of Latinos; the Lilly India Network; the Global Women's Network; the Middle Eastern Network at Lilly; the Chinese Culture Network; the Eli Lilly Asian Network; PRIDE; the Network for Emphasizing Abilities First; and Veterans and Servicemembers at Lilly. About 3,000 employees—most of them U.S.-based—are members of these organizations.

Employee resource groups help us build competencies in specific cultural areas. The purpose of the groups is to:

- Support Lilly values and business goals, including the company's commitment to creating an inclusive work environment,
- Provide networking opportunities among employees with common interests or cultures, and
- Create learning opportunities for Lilly employees at all levels.

EMPLOYEE VOICE

## Liliana Gehring

Project Management Director; Leader, Organization of Latinos

Coming to America from Argentina at 13, I didn't speak English. None of my family did. I had been an excellent student, but here I was lost. I wondered, how am I going to fit in? How will I learn the language? The culture? But, over time, I found my way.

After college, I worked for Ford, then Lilly. I started as one of very few female engineers in a male-dominated environment. I had to learn to adapt, make connections, stand up for what I believe in. The more I overcame, the more optimistic I was about what can be achieved through perseverance.

That's why I'm passionate about the Organization of Latinos at Lilly. Through community health and education outreach programs, such as Project Stepping Stone, I can share my personal story with students, showing them what they, too, can accomplish with determination.

I believe everyone deserves a chance. Throughout my 20 years at Lilly, I've been able to share this belief within the company and our community. When people are given a chance, they surprise you by doing great things.

### WOMEN IN SOUTH KOREA

South Korea, where men maintain the traditional primary earner role, is still striving toward gender equality in the workplace. Our operations in South Korea have made a strong effort to elevate women to leadership roles in our company and to make female sales representatives more comfortable in their positions.

In 2007, our Asia Women's Network (AWN) employee resource group in South Korea developed a program to foster the development of women in our Asian operations. Since it was established, the AWN has conducted gender-equality workshops, held networking meetings, and invited guest speakers to talk to employees, in an effort to boost leadership development of and retain talented female employees.

The group also created a mentoring program, pairing new female sales-force employees with more experienced female workers in an effort to lower the high turnover rate of new female sales reps. The women meet one-on-one on a bimonthly basis. The program is bearing fruit: all of the 18 new female sales reps in the country hired since December 2009 stayed with the company for a full year.

"Historically, women were untapped human resources in Korea, like in other Asian countries, in both the public and private sectors," said Eunice Kim, who helped launch the Korean women's networking group. As a result of the group's efforts, "We now see significantly higher female leadership presence, more engaged employees, and better business performance."

### HUMAN RIGHTS CAMPAIGN AWARD

In 2010, for the fifth consecutive year, Lilly received a perfect score of 100 on the Human Rights Campaign (HRC) "Best Places to Work: Corporate Equality Index." The index measures an organization's efforts toward creating an equitable environment for lesbian, gay, bisexual, and transgender (LGBT) employees. The HRC's survey questions employers about nondiscrimination policies, diversity training programs, employer-provided domestic partner insurance coverage, and employer-sponsored LGBT employee resource groups, among other criteria.

### "IT GETS BETTER"

Our employee resource group PRIDE, formerly known as GLEAM (Gay and Lesbian Employees, Advocates, and More), recently participated in the "It Gets Better" online video campaign, aimed at gay youth. Author Dan Savage launched the campaign in September 2010 following the suicides of several gay and lesbian teenagers. The campaign was designed to inspire hope for young people who were bullied and harassed because of their sexual orientation. What started as a grassroots project has grown into thousands of personal stories of encouragement delivered by celebrities, politicians, and ordinary Americans. PRIDE's eight-minute video, which was posted on YouTube in January 2011, features several Lilly employees who tell their own stories of life as a gay or lesbian person. PRIDE, which has more than 300 members, meets on a regular basis and hosts educational and networking events that are open to all employees, regardless of sexual orientation.

To view the video, go to **http://lillypad.lilly.com/life-at-lilly/from-lilly-it-gets-better**.

## Fighting for Inclusion

In the United States, anti-immigration and English-only legislation, as well as "defense of marriage" legislation, can make it difficult to recruit new and educated workers and retain good employees. We are proactive in working in the legal system to ensure that the communities in which we operate are open and welcoming. We are coming from the perspective of a large Indiana employer with a global and diverse workforce.

Many of Lilly's employees are scientists, medical doctors, pharmacists, and engineers who are critical to the research and development of new medicines. We recruit worldwide for these highly skilled people in an intensely competitive environment for excellent employees. Our ability to thrive in our home state of Indiana is dependent on an environment that is welcoming. That's why we opposed a proposed Indiana law that, among other things, would require that only English be used in official public meetings, documents, and communications from the state. While we were disappointed any version of this bill passed, we were pleased that our advocacy was part of a strong, collective voice that helped improve the final version. Incidentally, we were also pleased that the U.S. District Court for the Southern District of Indiana blocked enforcement of certain aspects of the law, including the English-only provisions.

We also have been raising our voice in opposition to legislation banning same-sex marriages and civil unions. We are profoundly concerned about the legislation's impact on our employees and on our state, and we see the issue fundamentally as one of equality and fairness.

Our CEO has publicly argued against passing an amendment that could eventually make the same-sex ban a part of the state constitution. Although Indiana already has a statutory ban on same-sex marriages, a constitutional ban would make it impossible for a court to overturn. We believe discriminatory legislation is not just bad public policy; it is also bad for business.

## Employee Diversity Data

In 2010, approximately 53 percent of our U.S. workforce was male and 47 percent was female. Global numbers were 54 percent male, 46 percent female.

Minority employees made up approximately 19 percent of our U.S. workforce, breaking down as follows: 8 percent African American;

**2010 MINORITY EMPLOYEES**
(PERCENT BREAKDOWN, U.S. ONLY)

- **8%** African American
- **7%** Asian
- **3%** Latino
- **1%** Two or more races
- **<2%** American Indian/Alaska native and Native Hawaiian/other Pacific Islander

7 percent Asian; 3 percent Latino; 1 percent two or more races; and less than 1 percent each American Indian/Alaska native and Native Hawaiian/other Pacific Islander.

Our 13-member board of directors included three women and one person of color. Overall, our senior leadership[24] is 22 percent female. For all management, women compose 36 percent. In the United States for all management, minorities make up 15 percent, while senior management make up 10 percent.

Our 14-member executive committee, which reports directly to our CEO, includes three women, one Latino, and one African American.

[24] "Senior leadership" is defined as the approximately 150 top positions at Lilly.

### DIVERSITY IN SESTO

Our manufacturing operations in Sesto, Italy, have seen terrific results following a focused and concerted effort on diversity development. In 2009, the Italian government provided about €180,000 ($260,000) in support of our Develop Female Managers initiative at the facility.

Lilly's investment in diversity development led to an increase in the percentage of women in leadership positions, including managers, senior managers, and directors, from 17 percent in 2007 to 21 percent in 2010.

Our Italian operations have been actively recruiting more women not only from the pharmaceutical industry but from a broader spectrum of companies and from universities. We have also focused on creating an environment that is supportive of working mothers, including offering six months of part-time work for women when they return from maternity leave and summer camps for children of Lilly employees.

Today, 68 percent of managers are women, and 54 percent of the manufacturing employee pipeline is female. In addition, 27 percent of our executives on the Italian leadership team are women.

# EMPLOYEE HEALTH, SAFETY, AND WELLNESS

Placing our employees' health and safety among our highest priorities is consistent with the Lilly value of respect for people. Our employees are our greatest asset, and we want them to operate in the safest environment possible.

Lilly's management systems for employee health and safety are incorporated into the broader health, safety, and environment policy we established in the early 1990s (see **page 64**). Lilly employees around the globe regularly collaborate on injury-prevention programs and activities. From reducing ergonomic risks to enhancing business processes that ensure company compliance, every organization at Lilly is involved in activities to protect employees from injury and illness.

Lilly does not formally measure the percentage of our total workforce represented in joint management/worker health and safety committees. An estimated 75 percent of our global workforce members utilize health and safety committees to assist in the management of local occupational health and safety programs. This number continues to increase.

Our health and safety programs are tailored to each of our business areas, including sales and marketing, manufacturing, research and development, and administrative global services. Successful injury prevention requires every employee to be vigilant about keeping himself or herself and others safe.

## Safety Progress and Performance

At Lilly, we recognize that the closer we get to preventing all injuries from occurring, the harder we must collectively work to improve our safety performance. This is our unwavering commitment to excellence, which drives us forward.

When we talk about preventing injuries at Lilly, we like to say: "good medicine is no accident." We can't continue to serve our patients if our employees are hurt or unable to be productive. Many of our employees spend large amounts of time driving, where they risk motor-vehicle accidents. Others are in laboratories where they work with potentially dangerous materials. Still others face ergonomic-injury risks from working in a manufacturing setting. Our ultimate goal is for no employee to ever be hurt on the job.

**INJURY PREVENTION GOALS FOR 2013**
(WITH A 2007 BASELINE)

**↓50%** reduction in serious injury rate

**↓50%** reduction in lost time injury rate

**↓50%** reduction in motor vehicle collision rate

In 2008, we established new goals to reduce employee injuries. We report our progress against these targets to senior management and the public. Lilly measures health and safety performance globally using rates of serious injuries and lost-time injuries.[25] As noted above, our goal is to reduce both rates by 50 percent by the end of 2013, compared with 2007.[26]

Our third safety goal is to reduce collisions per million miles—i.e., the rate of vehicle accidents—by 50 percent by the end of 2013, also compared with 2007. Our global sales and marketing divisions recently implemented a comprehensive health, safety, and environment program, called hseDIRECTIONS, to help our sales force achieve this goal. In addition to motor-vehicle safety, the hseDIRECTIONS initiative covers personal security, ergonomic risk, and sustainable fleets. The program has also helped to minimize distracted driving by employees.

[25] The "serious injury rate" is defined by the number of work-related injuries and illnesses that require medical treatment beyond immediate first aid per 100 employees working full time for a year. The "lost-time injury rate," which reflects the severity of serious injuries, equals the number of serious injuries that result in an employee missing at least one day of work, per 100 employees working full time for a year.

[26] Recent acquisitions are not included in the data in this report; we estimate that the impact of recently acquired entities on our overall safety and environmental performance data is minimal. We are working to integrate the performance metrics of recently acquired entities for future reporting years.

We had one motor-vehicle fatality in 2010. This event reinforced Lilly's senior leadership support for behind-the-wheel driver training for all global employees who operate company vehicles. Our motor-vehicle safety program focuses on improving defensive-driving skills.

### ➔ Injury Prevention Approach

In 2010, we took a new approach to injury-prevention education, implementing our Injury Prevention Corporate Initiative. This initiative focuses on vital behaviors for the top four causes of serious injuries at our company—ergonomic risk; slips, trips, and falls; motor-vehicle collisions; and everyday safety. It includes safety-related information in 12 languages, which was used by leaders at all levels of the company to discuss injury prevention with employees.

Each of our business areas routinely analyzes injury data to improve injury-prevention systems. We have placed significant emphasis on employee behaviors to help workers identify their own roles in preventing injuries. This approach is critical for us to achieve our 2013 injury-prevention goals.

Lilly's risk-management programs cover all aspects of the business, with intense emphasis on mitigating catastrophic events. We recently expanded our globally integrated Process Safety Management program with increased focus on dust-explosion prevention at all applicable manufacturing sites. In addition, we have increased the scope of laboratory safety at Lilly to put greater emphasis on safety risks from discovery chemistry through process development.

### ➔ Promoting Employee Wellness

As one of the world's largest providers of medicines, we strive to make people's lives better—and we want the same for our own employees. We promote the wellness of our own workforce through medical-care plans and services and programs to encourage healthier lifestyles and physical, mental, and emotional well-being. We want our employees to be healthy and productive for the work they do at Lilly and in their lives outside of the workplace.

In the United States, Lilly offers health-plan coverage to employees, retirees, and their eligible dependents, and plan participants may obtain some Lilly-manufactured medicines at no cost. In the United States, Lilly provides coverage for preventive-care services (such as annual physicals and cancer screenings) that go well beyond the requirements established under federal health care reform. Outside the United States, we deliver competitive benefit packages and health coverage that vary depending upon location. In many countries, our employees receive government-provided medical benefits.

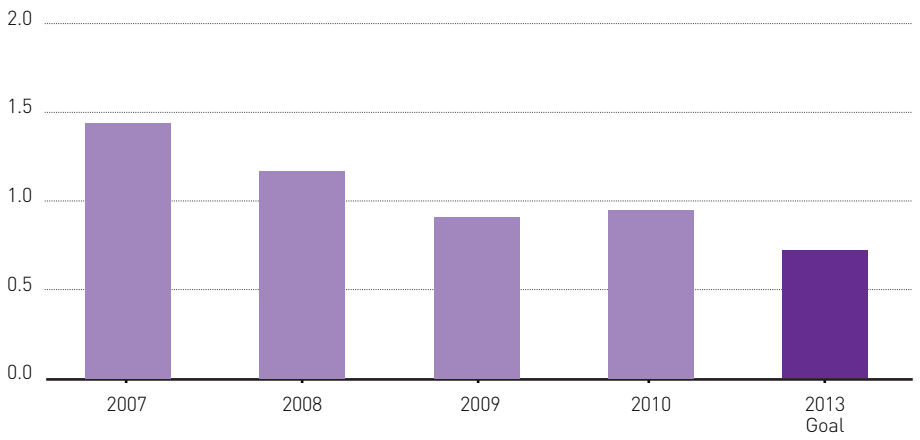
At our Indianapolis headquarters, we have on-site fitness centers and have worked with our cafeteria vendors to provide a wider range of healthier dining choices and snacks—some of which are subsidized. In 2011, we have been enhancing on-site fitness and recreation facilities. We provide showers and bike racks for our more than 150 Indianapolis employees who commute to work by bicycle. We have also made our headquarters smoke free.

Other efforts to support employee physical and emotional health include free gym memberships (both on-site and off campus), disease-management and smoking-cessation programs, support groups for new mothers, health coaching, and a comprehensive employee-assistance program, including on-site psychologists. We also promote financial well-being through a variety of financial advisory programs.

# ➔ Health and Safety Data

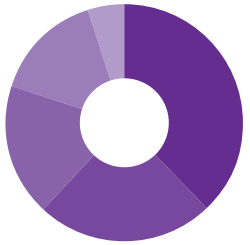
## Serious Injury Rate

per 100 employees




## Serious Injuries

percent breakdown

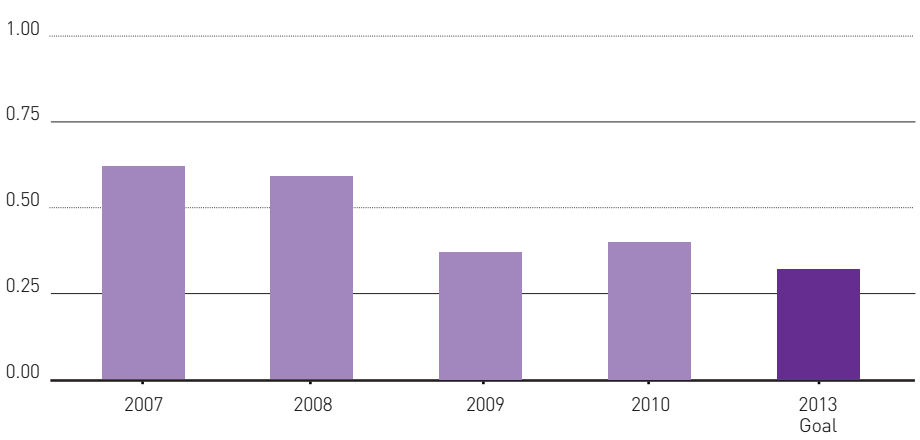


- **38%** Sprain/Strain/ Ergonomic Risk
- **24%** Slip/Trip/Fall
- **18%** Motor Vehicle Collision
- **15%** Struck by/Against/ Caught between
- **5%** Other

Our serious injury rate has dropped by 33 percent since 2007. Reductions in areas such as slips, trips, and falls and motor-vehicle collisions have been partially offset by an increase in ergonomic-risk injuries and illnesses, predominantly in administrative areas.

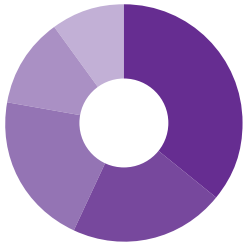
## Lost-Time Injury Rate

per 100 employees




## Lost-Time Injuries

percent breakdown

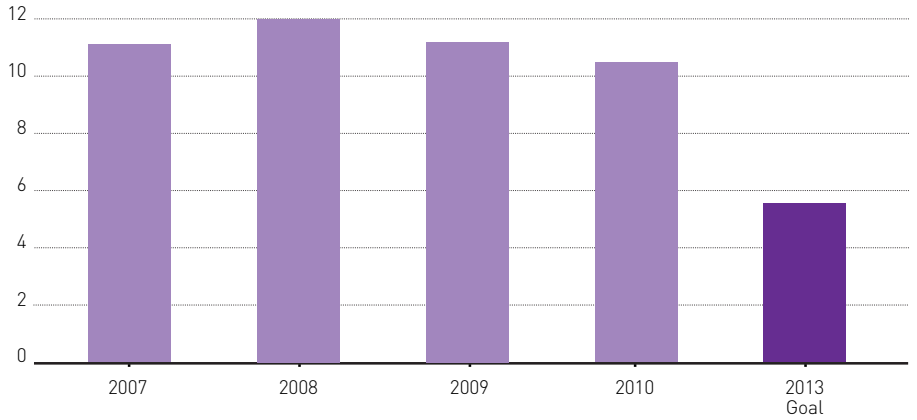


- **36%** Slip/Trip/Fall
- **21%** Sprain/Strain/ Ergonomic Risk
- **21%** Motor-Vehicle Safety
- **12%** Struck by/Against/ Caught between
- **10%** Other

Our lost-time injury rate has dropped by 33 percent since 2007. Slip, trip, and fall injuries continue to be the largest contributor to lost-time cases.

## Motor Vehicle Collision Rate

collisions per million miles driven




Motor vehicle safety is measured in collisions per million miles, and collisions are reported around the globe. Our implementation of behind-the-wheel training, our Global Mobile Electronic Device policy, and other defensive-driving techniques have begun to have a positive impact on this rate. However, we realize that it will require significant effort to reach our 2013 goal.

### FOSTERING GOOD EMPLOYEE HEALTH

Lilly is frequently recognized for the on-site health care services we provide to our workforce in the United States. Each year, our corporate health services department in Indianapolis logs more than 31,000 clinical visits for employees' personal needs, such as emergency medical services, allergy injections, preventive health care, Body Mass Index calculations, laboratory work, and care for occupational injuries and illnesses. The corporate-based Employee Health Services (EHS) staff includes board-certified physicians, clinical psychologists, a pharmacist, and registered nurses.

In certain locations, our company provides on-site mammograms, gynecology clinics, laboratory work, and physical therapy facilities. Our colonoscopy program, which has performed more than 15,000 exams since 1995, has one of the largest screening databases for colon cancer in the world.

Employee Health Services offers employees medical and other health-related services closely linked with the health insurance benefits we offer. Personal health coaches are available for assistance in managing certain diseases and lifestyle challenges. We also offer a no-cost tobacco cessation program, including nicotine replacement products, and a free healthy weight management program that includes counseling calls with a registered dietician or health educator.

Lilly has twice won the American College of Occupational and Environmental Medicine's Corporate Health Achievement Award (in 1997 and 2003) and has garnered the C. Everett Koop Award for excellence in health promotion (1998). In 2010, our health and wellness programs received the top award for large companies in Indiana from Healthiest Employers, LLC.

## Workplace Awards

Lilly is frequently ranked as one of the best companies in the world at which to work. Recent recognitions include the following global awards:

- **TOP 50 COMPANIES FOR DIVERSITY**
  Lilly ranked 39th out of 535 companies that completed the *DiversityInc* survey (2011). This was the first time Lilly made the list.
- **TOP COMPANIES FOR EXECUTIVE WOMEN**
  *National Association of Female Executives* (2009–2011)
- **TOP 100 BEST PLACES TO WORK, BEST PLACES TO WORK HALL OF FAME**
  *Working Mother* magazine (1995–2011)
- **TOP 50 EMPLOYER**
  *Careers & the disABLED* magazine (2010)
- **MOST ADMIRED COMPANIES FOR MINORITIES IN RESEARCH SCIENCE**
  24th Black Engineer of the Year Science, Technology, Engineering and Math (STEM) Conference (2010)
- **BEST ADOPTION-FRIENDLY WORKPLACES**
  (4th among pharmaceutical companies, 36th in America), the Dave Thomas Foundation for Adoption (2010)
- **BEST PLACES TO WORK (#26)**
  *The Scientist* magazine (2010)
- **50 BEST FERTILITY- AND ADOPTION-FRIENDLY COMPANIES**
  *Conceive* magazine (2010)
- **TOP 100 EMPLOYERS FOR WOMEN MBAS**
  *Fortune* magazine (2010)
- **TEN BEST COMPANIES FOR BLACKS IN TECHNOLOGY**
  Black Data Processing Associates (2006–2010)
- **TOP 50 EMPLOYERS**
  *Minority Engineer* and *Equal Opportunity* magazines (2009)
- **TOP DIVERSITY EMPLOYER FOR AFRICAN AMERICANS, TOP PHARMACEUTICAL AND BIOTECH COMPANY LIST**
  *Black EOE Journal* (2009)
- **TOP DIVERSITY EMPLOYER FOR HISPANICS, TOP PHARMACEUTICAL AND BIOTECH COMPANY LIST**
  *Hispanic Network* magazine (2009)
- **TOP DIVERSITY EMPLOYER FOR WOMEN, TOP PHARMACEUTICAL AND BIOTECH COMPANY LIST**
  *Professional Woman's Magazine* (2009)

Examples of regional awards include:

- **GREAT PLACE TO WORK® INSTITUTE,** Japan (included in top 25), best workplaces in Japan (2010)
- **GREAT PLACE TO WORK® INSTITUTE,** Spain (7th in all sectors, 3rd in pharmaceuticals), among companies with more than 1,000 employees (2010)
- **DELOITTE BEST COMPANY TO WORK FOR SURVEY**
  South Africa, voted best company in the chemical/pharmaceutical sector

### MARKETPLACE DIVERSITY AND INCLUSION AWARDS

Lilly also has earned recognition for its commitment to diversity and inclusion in the marketplace:

- **PRESIDENT'S AWARD**, National Hispanic Council on Aging (2010)
- **CORPORATE CIRCLE PARTNERS AWARD**, for advancing issues facing patients and addressing health care disparities, National Medical Association (2009)

# ENGAGING WITH PATIENTS AND COMMUNITIES

Lilly is committed to being a leader in corporate responsibility, which includes being an active participant in the communities we serve. We have a robust history of community involvement and believe we can make an impact that extends far beyond the medicines we make. Many of our donations—including those provided through the Eli Lilly and Company Foundation—focus on improving access to medicines and quality health care for millions of people around the globe. (See the "Enhancing Access to Medicines" section on **page 8** for a discussion of Lilly programs and initiatives aimed at reducing barriers to care.)

## STRENGTHENING COMMUNITIES

Globally, our company donates substantial amounts of products and cash every year, and our employees volunteer their time and skills to scores of charitable causes and programs. In 2010, Lilly gave approximately $430 million in charitable contributions, including cash, products, and other in-kind donations, up from $405 million the previous year. About 85 percent of that amount was in the form of product donations. In October 2010, Forbes ranked Lilly among America's 10 most generous companies, based on 2009 donations as a percentage of operating income.

In recent years, we have more closely aligned our investments with our business objectives to drive better results for our communities, for the people we serve, and for our company. We aim to demonstrate leadership by using our resources and our deep expertise to make a meaningful, measurable, and sustainable difference.

At the local level, we focus our community investments on programs that improve patient outcomes, especially in Lilly's therapeutic areas of expertise, such as diabetes, cancer, and mental health. In addition, we look for ways to enhance the quality of life in communities in which Lilly has a presence. In Indiana, for example, we are making significant commitments to improve K–12 education, with a priority on math and science.

**$430 MILLION**
TOTAL CHARITABLE CONTRIBUTIONS GIVEN BY LILLY IN 2010

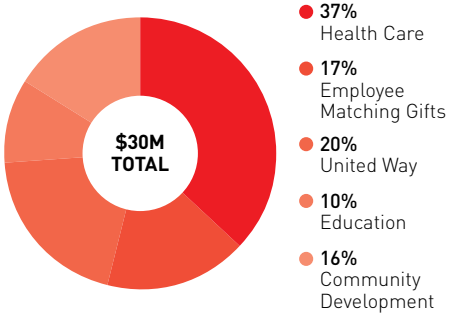
**TOP 10**
LILLY'S RANKING BY FORBES AMONG AMERICA'S 10 MOST GENEROUS COMPANIES, BASED ON 2009 DONATIONS AS A PERCENTAGE OF OPERATING INCOME

**$16 MILLION**
GIVEN BY LILLY FOUNDATION TO INDIANA ORGANIZATIONS

**24,000**
NUMBER OF LILLY EMPLOYEES WHO PARTICIPATED IN OUR 2010 GLOBAL DAY OF SERVICE

## Lilly Foundation Charitable Giving 2010

percent breakdown




### CHARITABLE DONATIONS[27]

($ MILLIONS)

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Product and Other In-Kind Donations | 240 | 297 | 335 | 373 |
| Cash Contributions | 75 | 53 | 70 | 57 |
| Total Contributions | 315 | 350 | 405 | 430 |

[27] Total charitable donations include funding from both Lilly and the Lilly Foundation.

This section of the report highlights our work in several key areas: patient assistance, patient education, community outreach, employee volunteerism and giving, and hunger relief through our Elanco animal health division.

### THINKING LOCALLY

As one of the largest employers in our headquarters state of Indiana, we have a big impact on our local economy. In 2010, for example:

- The Lilly Foundation gave more than $16 million to Indiana organizations.
- Lilly employees gave more than $7 million to charitable organizations with a presence in Indiana.[28]
- Lilly spent just over $1 billion with more than 1,300 Indiana vendors.
- Lilly paid 11,500 Indiana employees an average salary and benefits of $150,952 each.

For information on our Indiana impact, by county, visit **www.lilly.com/about/Pages/impact.aspx**.

[28] The total figure includes Lilly Foundation matching grants for employee donations.

## Patient Assistance Programs

Not everyone who needs our medicines is able to get them. In the United States, Lilly TruAssist provides access to products for eligible patients through several patient assistance programs. The majority of our product donations are made through TruAssist, which serves as the umbrella program for Lilly's many patient assistance efforts. For more information, see **page 14** or visit **www.lillytruassist.com**.

## Patient Education

We understand the health challenges patients and their families face, and we provide hundreds of millions of dollars in product donations each year to help. But product contributions tell only part of the story. Lilly goes beyond medicine to help patients improve their health and manage their diseases. Lilly believes an informed patient is a better participant in his or her own care and can achieve better health outcomes than a patient with access to less information.

We support and partner with numerous local and national organizations, including those addressing multicultural health disparities, to improve patient care. In the United States, for example, minority groups often suffer heightened rates of certain diseases, including diabetes, which is one area of therapeutic focus for us.

Our prevention-related interventions include materials printed in multiple languages for traditionally underserved communities.

We partner with a number of organizations to provide education and support—including through the programs described below—to patients and their families.

## Cancer Programs

### Oncology on Canvas

The Lilly Oncology On Canvas℠: Expressions of a Cancer Journey Art Competition and Exhibition honors the journeys people face when confronted with a cancer diagnosis. The biennial competition invites individuals diagnosed with any type of cancer—as well as their families, friends, caregivers, and health care providers—to express, through art and narrative, the life-affirming changes that give their cancer journeys meaning. The result is a compelling art collection that provides insights into the wide range of emotions experienced by those touched by cancer.

Oncology On Canvas is presented by Lilly in partnership with the National Coalition for Cancer Survivorship, a nonprofit cancer organization that advocates for quality cancer care for all people touched by cancer and provides tools that empower people to advocate for themselves. Winners are selected by an independent panel of judges, typically including past winners, cancer survivors, and representatives from media and patient advocacy groups.

In 2011, Lilly received a "Partnership in Hope" award from Cancer*Care*, a U.S. nonprofit organization that provides free, professional support services to people affected by cancer. The organization recognized Lilly's support of its counseling and education programs, especially for people diagnosed with lung, breast, and pancreatic cancers.

## Diabetes Programs

### F.A.C.E. Diabetes Campaign

The Fearless African Americans Connected and Empowered (F.A.C.E.) Diabetes campaign is a grassroots movement to help African Americans overcome key barriers to success in living with type 2 diabetes. African Americans are disproportionately affected by the disease. According to the American Diabetes Association, African Americans in the United States are 1.8 times more likely to have diabetes than non-Hispanic whites. About one-quarter of African Americans between the ages of 65 and 74 have the disease. Supported by Lilly, the F.A.C.E. Diabetes campaign offers programs and tools to help people make lifestyle changes to manage their disease. For more, see **www.face-diabetes.com**.

### Diabetes Conversations

Created by Healthy Interactions in collaboration with the International Diabetes Federation, Lilly Diabetes sponsors the Diabetes Conversations program, featuring Conversation Map™ education tools. This innovative education method uses a unique, visual approach to facilitate interactive group participation and empower people with diabetes to become actively involved in managing the disease. The education tools, available in 35 languages, have been launched in more than 105 countries since 2008. For more information, see **www.diabetes.healthyi.com**.

### Lilly Camp Care Package

For more than 10 years, Lilly Diabetes has been one of the largest providers of insulin and glucagon, educational materials, volunteers, scholarships, and special guests to diabetes camps through the comprehensive Lilly Camp Care Package. Lilly Diabetes is dedicated to providing these personalized tools and resources to help children manage everyday experiences with diabetes while they're at camp—and long after.

In 2010, 94 diabetes camps participated in the Camps in Color program, an art-therapy based initiative that gives children a creative outlet to express their feelings about diabetes individually or as a group. Requesting camps also received nearly $2 million in insulin product and more than 22,000 educational bookpacks for campers. Further, inspirational speaker and U.S. Olympian Kris Freeman (who was diagnosed with type 1 diabetes at age 19) visited approximately 1,500 youngsters during his annual diabetes summer camp tour, sharing his message of hope and determination. Lilly Diabetes employees also found meaningful ways to connect with their camp communities by volunteering support services such as camp administration, art and athletic activity planning and support, counseling, and medical services, based on their qualifications.

Lilly also provides general camp tuition support, and in early 2011 donated 88 scholarships to the American Diabetes Association's "campership" program. The camperships, equivalent to $88,000, gave low-income children with diabetes the opportunity to attend diabetes camp for approximately one week.


### Peers for Progress

In 2007, Lilly announced a $15 million commitment over five years to support Peers for Progress. This program, administered by the American Academy of Family Physicians Foundation, is designed to enhance peer support for those with diabetes. Support from peers can offer ongoing emotional, social, and practical assistance to improve outcomes. Peers for Progress advances and promotes peer-support programs around the world by extending the evidence base for peer support; establishing peer support as a core component of health care and prevention; and building a network of peer-support organizations around the world. For more information, see **www.peersforprogress.org**.

## Mental Health Programs


### Reintegration Awards and Scholarships

People who are managing or recovering from mental illness often hear the word "reintegration." It refers to the steps involved with reentering the community and getting back to living as normal a life as they can. Key to reintegration is the support of family, friends, and mental health professionals. Since 1996, Lilly has partnered with The Center for Reintegration to present Lilly Reintegration Awards and Scholarships. The goal of these programs is to recognize mental health professionals, family and friends of individuals with mental illness, and individual patients for their exceptional contributions and achievements in helping those battling serious mental illness.

Over the years, the Lilly Reintegration Awards have recognized approximately 175 individuals and programs in the mental health field. The Lilly Reintegration Scholarships are designed to assist people with schizophrenia, related schizophrenia-spectrum disorders, or bipolar disorder acquire the educational and vocational skills necessary to integrate into society, secure jobs, and regain their lives. Over the years, these scholarships have supported approximately 1,200 students. The graduation rate for the Lilly Reintegration Scholars is 85 percent—far higher than the national average of 60 percent for incoming freshmen. For more information about Lilly's Reintegration Awards or for details on the Reintegration Scholarship program, visit **www.reintegration.com**.


### In Our Own Voice

In Our Own Voice (IOOV) is a unique public education program developed by the National Alliance on Mental Illness, in which two trained consumer speakers share compelling personal stories about living with mental illness and achieving recovery. The program has been funded by Lilly since its inception. IOOV is an opportunity for those who have struggled with mental illness to gain confidence and to share their individual experiences of recovery and transformation. IOOV presentations are given to consumer groups, students, law-enforcement officials, educators, providers, faith community members, politicians, professionals, inmates, and interested civic groups.


### Give an Hour

Lilly is continuing its history of supporting programs that serve the men and women who have served the United States. The Lilly Foundation has provided a grant to Give an Hour and the American Psychiatric Foundation to heed the call of a growing public health crisis—the unmet mental health needs of returning soldiers and their families—to help U.S. veterans returning from Iraq and Afghanistan. The grant will be used to recruit and educate volunteer mental health professionals who will become part of a network aiming to bridge the gap in mental health services for soldiers returning from service, as well as their families.

### Welcome Back Awards

Our Welcome Back Awards, established in 1998, honor individuals who have persevered in overcoming depression, helped others to do the same, or dedicated significant amounts of time and effort to spread awareness of the illness. Each year, an independent panel of national mental health experts selects honorees in five categories: lifetime achievement, de-stigmatization, community service, primary care, and psychiatry. Winners receive $10,000 to be donated to the nonprofit organization of their choice; lifetime achievement honorees receive $15,000 for their preferred nonprofit.

## Other Non-Communicable Disease Programs

### Hearts in Harmony™

Sponsored by Lilly, Mended Hearts, and Daiichi Sankyo, Inc., Hearts in Harmony provides information about the physical and the often-overlooked emotional aspects of recovering from a heart attack or other heart-related event. The program gives patients and their loved ones information about the importance of fitness, nutrition, and adherence to therapies prescribed by their physicians. Unique to this program is information about the benefits of music therapy and maintaining emotional health during the recovery process. For more information, visit **www.healthyheartsinharmony.com**.

### Know Fibro

Fibromyalgia is a chronic pain disorder that affects millions of Americans, but it can be hard to diagnose. Women are more likely to be diagnosed with the disease, although men also develop it. Know Fibro offers information about the disease and provides tools to help manage symptoms. For more information, visit **www.knowfibro.com**.

## General Patient Outreach Programs

### Lilly for Better Health™

Lilly for Better Health is a patient-focused resource available to community and health advocacy organizations, public and private health care providers, policymakers, and others interested in improving the health and well-being of their communities. Lilly for Better Health includes a website, conference exhibits, and printed materials, and reaches tens of thousands of customers directly each year at community events, programs, and health care conferences, offering valuable education materials and interactive assessment tools on a variety of health topics. In 2010, we distributed more than 450,000 patient-education resources to individuals and organizations. The website, which was updated in 2011, spotlights Lilly partnerships and programs that focus on wellness, prevention, and disease management and offers on-demand access to health education materials.

Many Lilly for Better Health resources are available in both English and Spanish, with select tools in Mandarin. We have also been using multimedia platforms such as YouTube and e-reader software to further reach and engage patients and caregivers. Learn more at **www.lillyforbetterhealth.com** and **www.youtube.com/lillyhealth**.


### A Healthy You! America's Guide to Healthy Living/Buena Salud, Buena Vida

Lilly created *A Healthy You! America's Guide to Healthy Living*, a free pocket-sized health and wellness booklet that provides useful information on various health topics, as well as an extensive state-by-state listing of helpful resources throughout the country. The booklet is available in print and online at **www.lillyforbetterhealth.com** and is also available in Spanish (*Buena Salud, Buena Vida*).

Lilly recently partnered with the National Council of La Raza (NCLR) to provide the Spanish booklet to thousands of Hispanic Americans to help them lead healthier lifestyles and learn about prevention and management of chronic illnesses, such as heart disease, cancer, and diabetes. NCLR is the largest national Hispanic civil rights and advocacy organization in the United States.

### Health Education Answers

Health Education Answers is an online health-education program designed to help improve patient care through educational outreach. The program offers interactive resources, such as health screeners, quizzes, knowledge builders, and self-management tools to help individuals and families prevent or manage health conditions. Information on 13 topic areas, including depression, diabetes, heart health, and schizophrenia, is available in English and Spanish, with select topics in Mandarin. More information can be found at **www.HealthEducationAnswers.com/login/lfbhw**.

### Healthy Family Home

The YMCA of the U.S.A. and Lilly have partnered to create Healthy Family Home to help American families make small changes in habits that can make a big difference in health. Healthy Family Home is designed to work in any home and in any community and allows families to pick the actions and health goals that make the most sense for them. The expectation is that the program will empower families to make wholesome choices each day to sustain an improved quality of life.

**RENÉE D. JENKINS**

VICE PRESIDENT, CORPORATE DEVELOPMENT
NATIONAL URBAN LEAGUE

"Lilly has a stellar reputation at the Urban League, and the company is our lead partner within the pharmaceutical industry. Our relationship has been ongoing for nearly 30 years, and Lilly has supported a variety of programs with us over the decades. Currently, the Lilly Foundation is funding an education program we are piloting in several high schools, focusing on career paths in science and technology."

## Commitment to Communities

We look for ways we can make a difference, both in the communities where our facilities are based and in the broader global community in which we operate. For information about Lilly programs that are designed to improve patients' access to medicines, such as our leadership around multidrug-resistant tuberculosis, see **page 11** of this report.

In our headquarters state of Indiana, we have made significant commitments in the area of education. Our two largest investments are in The Mind Trust and the Indiana Science Initiative.

### Indiana Science Initiative

The Lilly Foundation provided $1.5 million in funding to support the Indiana Science Initiative (**www.indianascience.org**) and extend it to more schools throughout the state. This initiative helps kindergarten through eighth-grade teachers effectively integrate proven inquiry-based learning curricula into their classrooms. To further support these teachers, Lilly is establishing a Lilly Science Coach volunteer program in the Indianapolis area in which Lilly scientists will be assigned to specific teachers to help them with classroom experiments, talk about real-world science, and serve as role models for students. Lastly, to ensure the program is efficiently implemented, Lilly has provided several of its Six Sigma black belts to help optimize program processes (see **page 62** for more on the black belts).

**DAVID HARRIS**

FOUNDER AND CHIEF EXECUTIVE OFFICER
THE MIND TRUST

"To transform our schools, we need many pieces to come together to form a new dynamic in public education," said, "The Mind Trust is purposefully building an integrated network of entrepreneurial education ventures—a network whose collective impact will far exceed the sum of its parts. Lilly recognizes the importance of improving education, not only to have a pipeline of talent for its own employee base, but also to strengthen the overall fabric of the Indianapolis community. With Lilly's help, and through future investments from other community leaders, the Grow What Works campaign will lay the groundwork for lasting, positive change in public education."

### The Mind Trust

In 2011, Lilly joined with The Mind Trust, an Indianapolis-based nonprofit, to launch the Grow What Works campaign in an effort to transform public education in our headquarters city. Lilly invested $2.5 million, our largest-ever education-focused grant.

Since its founding in 2006, The Mind Trust has been strategically building a network of the nation's best education-reform organizations in Indianapolis. The organization's latest fundraising campaign has set a goal of $18 million to improve public education for underserved populations. Lilly believes that providing access to an excellent education for all children is the key to our city's future.

For more information, see **www.themindtrust.org** and **www.growwhatworks.org**

## Disaster Relief

When disasters strike, Lilly responds with cash and product contributions to help people in desperate situations. Every disaster is different, prompting a wide variety of needs. When responding, we take great care not to overburden the local infrastructure, so that our product donations are meaningful and impactful. We donate items that are specifically requested by relief agencies, partnering with them to best leverage our support.

We also join with the Partnership for Quality Medical Donations (PQMD), which brings together international medical-product companies and humanitarian organizations to advance the quality of product donations through standards, education, and research. Lilly is a charter member of PQMD—which officially incorporated in 2000—and one of our employees sits on the PQMD executive committee. (For more information, visit **www.pqmd.org**.)

In 2010, Lilly gave $4.2 million in donations in the wake of natural disasters. One of our biggest efforts followed the devastating earthquake in Haiti in January 2010. Lilly sent insulin and antibiotics—items that are critically needed following any disaster. Our support for Haiti's recovery also included a grant by the Lilly Foundation to fund the transportation of two self-contained medical clinics from the United States to rural Haitian villages. The 40-by-8-foot "container clinics" are operated by Heart to Heart International, a U.S.-based humanitarian organization.

We also partner with several government and nongovernmental organizations, providing products for special programs, such as the recent 25th anniversary of the Chernobyl nuclear power plant disaster. Through Project HOPE, we provided cancer medicines that were airlifted to Belarus by the U.S. State Department.

Finally, we recently began a pioneering partnership with the American Red Cross to provide trained Lilly nurses and medical technicians who can volunteer at natural disaster sites. Lilly will give these employees up to one paid week off to help out when needed.

### DIABETES AND DISASTERS

In the wake of natural disasters, millions of individuals can be left stranded in their homes without power, utilities, or a way out. These situations can be dangerous for anyone, but they can be especially hazardous for people with diabetes. The management of diabetes requires daily medicines, which can make individuals particularly vulnerable in an emergency.

Lilly teamed up with the American College of Endocrinology to create a disaster-preparedness plan for people with diabetes. The comprehensive checklist, available in both English and Spanish, was developed following Hurricane Katrina in 2005. In the years since, more than 10 million copies of *Power of Prevention®: Diabetes Disaster Plan* have been distributed throughout the United States. Copies of the plan are available for free download at **www.empoweryourhealth.org/**.

The disaster preparedness plan suggests the items patients should have on hand to keep themselves—and others—safe in the event of an emergency. For example, to ensure the safety of others, the kit suggests an empty water bottle or a similar container to hold used syringes, needles, and lancets used for medications.

# EMPLOYEE VOLUNTEERISM AND GIVING

Our corporate volunteer programs harness the power of our employees within their communities. In 2011, we took a new—and unique—approach to employee volunteerism, building on our long tradition of innovation and caring. And we're particularly proud of the result.

Through Connecting Hearts Abroad, we are sending 200 "Lilly Ambassadors" each year on two-week assignments to provide assistance in developing communities in Asia, Africa, and Central and South America, where people lack access to the most basic of resources. The goal is not just to help others, but to spark employees' innovative ideas to make Lilly a better company.

We selected 200 employees from 38 countries to participate in the first year of the program. (More than 1,800 Lilly employees applied for the opportunity). No specialized skills or expertise were required—just a passion for making a difference. We're giving our employees life-changing, eye-opening experiences that we believe will make them more passionate and knowledgeable world citizens. It's an investment in developing communities, an investment in our employees, and an investment in Lilly's future.

The Lilly volunteers are providing hands-on support in four categories: health care; caregiving for children and the elderly; teaching; and community development. Each service assignment includes eight or nine Lilly employees from a variety of business functions, from lab technicians to marketing associates to manufacturing specialists. Management, hourly, and salaried employees all have a chance to participate.

We're partnering with Cross-Cultural Solutions, an international nonprofit that operates short-term volunteer programs in 12 countries. The organization has sent more than 25,000 volunteers to developing countries around the world.

## Lilly Global Giving Program

Our business is global. Our company is global. And so is our role as a good corporate citizen. That's why we recently introduced the Lilly Global Giving program, in partnership with the GlobalGiving Foundation (**www.globalgiving.org**).

Through this program, Lilly employees around the world can contribute to a wide variety of projects that are personally meaningful—and have their donations matched dollar-for-dollar by the Lilly Foundation. The program, which kicked off in 2011, gave each eligible Lilly employee the opportunity to direct a $50 credit toward a project of his or her choosing through Lilly Global Giving.

Through Lilly Global Giving, employees may support hundreds of different grassroots programs, including projects that:

- Provide insulin and insulin supplies to patients in Guatemala,
- Improve the diagnosis and care of people with tuberculosis in India,
- Teach farmers in Zambia about animal management and sustainable farming,
- Provide an education for orphaned children in Cameroon, or
- Help restore acres of rainforest in Brazil, among hundreds of other projects.

**STEVEN C. ROSENTHAL**
EXECUTIVE DIRECTOR
CROSS-CULTURAL SOLUTIONS

"Lilly employees are some of the most exceptional people we've worked with. And Lilly is one of the most extraordinary companies we have ever worked with. The vision Lilly executives have shown in creating the Connecting Hearts Abroad program, and the humanity the volunteers have shown with their service, is truly inspiring and demonstrates the company's excellence and compassion. Lilly's commitment to sending 200 employees each year to serve as ambassadors in Africa, Asia, and Latin America shows Lilly's commitment to its own mission of improving the lives of people who lack resources to obtain quality health care."

**DONNA CALLEJON**
CHIEF BUSINESS OFFICER
GLOBALGIVING FOUNDATION

"Many companies struggle to find ways to ensure their employee-engagement programs reflect the increasingly multinational nature of their business footprint. Through Lilly Global Giving, Lilly employees have the opportunity to support great causes around the globe and have the company match those contributions—it's a win-win."

By participating in Lilly Global Giving, employees may select, contribute to, and follow the progress of global programs that are addressing causes they care about.

## ELANCO COMMUNITY WORK

Elanco focuses on enriching lives through food and pet companionship. We aim to transform animal agriculture and provide trusted solutions for animal production, herd management, and pet medicines. We focus our corporate responsibility work where we have the deepest expertise and interest—animal health and animal production—and can therefore have the greatest impact. Two key areas for us are fighting world hunger and providing leadership in agriculture.

### FIGHTING WORLD HUNGER

A growing wave of food insecurity threatens more than 1 billion people around the world, according to the United Nations Food and Agriculture Organization. With food costs on the rise, and the world's population continuing to increase, more and more families are living in poverty. Today, one out of every six people on the planet goes hungry. And more than 25,000 people die each day from hunger and malnutrition.

The United Nations projects that world population will jump from about 6.7 billion people today to 9 billion by 2050. This rise in population, coupled with increasing affluence and other factors, is expected to increase the demand for food by 100 percent over the next 40 years.

At Elanco, we're looking for ways to improve food production to help meet these demands. Indeed, we believe our industry has a moral obligation to provide the world with safe, healthy, and affordable food. To help us in our efforts, we're partnering with organizations that are tackling poverty and hunger issues in developing countries and in our home communities in the United States.

Our vision on hunger is twofold. We have committed to end hunger for 100,000 families—or 600,000 individuals—globally by 2025 through a partnership with Heifer International (**www.heifer.org**), a nonprofit that provides gifts of livestock and husbandry training to help families improve their daily nutritional intake and generate income in sustainable ways. We are contributing several million dollars in the next two years to begin this effort and will continually assess the funding to reach our goal of hunger relief in emerging economies. At the same time, we're working in our own backyard to help create a hunger-free community for children in Indianapolis by 2015.

Our partnership with Heifer began in 2009 in the Lampung province of Indonesia, where a five-year project is providing 2,100 families with cattle, ducks, plants, and trees. In 2010, we expanded our focus to the Copper Belt region of Zambia, where we will ultimately assist some 6,210 families. In addition to the gifts of animals, Elanco and Heifer are working jointly to establish local milk market outlets, improve production and conservation practices, and train animal health workers.

In 2011, we announced our third project—this one in the Hebei province of China, where more than 20 million families live on less than one U.S. dollar a day. In Hebei, Elanco and Heifer will deliver the gifts of livestock and hands-on training to 800 families.

Elanco employees have also been inspired by the hunger cause, donating approximately $200,000 (including a Lilly Foundation match) to Heifer International in just two years.

### FIGHTING HUNGER IN INDIANAPOLIS

We're also working to ease problems of hunger in our home state of Indiana. Our hope is that the work we do in Indianapolis will establish a model that we can mirror in other cities where we have operations.

We recently donated the time of a full-time senior staff person to help coordinate the Childhood Hunger Initiative, a public/private partnership that is creating greater awareness of summer food programs for children and is expanding a weekend "food backsack" program. Four out of every five children in the Indianapolis public schools rely on free or reduced meals at schools. These same children, however, often go hungry on the weekends and in the summer when school is not in session.

In the summer of 2011, we donated $17,500 to spread the word about the Indianapolis summer meals program, which offered free meals to any local child or teen under the age of 18. The weekend backsack program, available during the school year, sends children home for the weekend with six child-friendly meals, such as oatmeal or pasta. This program currently serves about 3,000 children, and Elanco will help extend it to support 10,000 children in 2011. Elanco contributed $100,000 to this program, which is coordinated by city and state organizations and several nonprofits, including Gleaners Food Bank (**www.gleaners.org**) and Second Helpings (**www.secondhelpings.org**).

### AGRICULTURAL LEADERSHIP

For more than 14 years, Elanco has supported the National FFA Organization, formerly known as the Future Farmers of America. FFA is a youth organization that nurtures leadership, responsibility, and personal growth and encourages students to pursue careers in agriculture. Nationwide membership is more than 500,000.

We are proud to be a "five-star sponsor," one of approximately 15 companies to provide more than $100,000 to FFA each year. We also sponsor and host the FFA's annual national convention in Indianapolis.

Our support of the organization ties in to our goal of helping to ease world hunger. To meet this challenge, we must develop agricultural leaders and visionaries who can come up with innovative solutions to feed an increasing world population.

## Employee Matching Gifts Program

Through the Employee Matching Gifts Program, the Lilly Foundation assists many qualified U.S.-based, tax-exempt public charities by matching the gifts of Lilly employees and retirees to qualified educational institutions, cultural organizations, and specific health care organizations. In addition, employee and retiree gifts to support human-services organizations are matched through an annual United Way initiative. The Employee Matching Gifts Program allows Lilly employees and retirees to help determine how the Lilly Foundation will spend a portion of its philanthropic resources.

## Employee Volunteer Recognition Program

In 1995, the Lilly Foundation established the Employee Volunteer Recognition Program to encourage and recognize Lilly employees for their volunteer service. Through the program, a $250 grant is awarded to qualified U.S.-based, tax-exempt public charities in which Lilly employees have a continuing, active involvement through their generous investment of time and expertise.

## Lilly Global Day of Service

In 2008, Lilly launched our annual Global Day of Service, which ranks among the largest single-day volunteer initiatives of any company in the United States. In 2010, more than 24,000 employees in more than 30 global locations volunteered in their communities on a single day in October.

Employees from Algeria to Venezuela donate time and energy to improve the health and well-being of communities around the world. In Turkey, employees plant trees to assist with reforestation efforts. In China, employees walk the Great Wall to raise funds to fight multidrug-resistant tuberculosis. And in Greenfield, Indiana, our Elanco animal health division takes on several projects that fight hunger, boost the human-animal bond, and improve the environment and local community in many ways.

Our largest Day of Service effort is in Indianapolis. In 2010, some 8,500 Lilly employees spent a day planting roughly 1,600 trees and 72,000 shrubs and plants along a six-mile stretch of highway between the airport and downtown, as part of a city beautification project. The fall 2010 beautification project represented the third time we had partnered with Keep Indianapolis Beautiful, Inc. Lilly contributed $1 million to the project, which was matched by a federal grant.

## United Way Campaign

Lilly has been a long-standing supporter of the United Way. In fact, our support dates back to the 1800s, when Colonel Eli Lilly sponsored the Charity Organization Society, a forerunner of the United Way. Over 92 years, Lilly has raised more than $220 million for the charity.

In 2010, we donated $11.6 million to the organization, exceeding our goal of $11.5 million. The check represented the contributions of our U.S. employees and retirees, along with a matching gift from the Lilly Foundation. The funds, which go to the Central Indiana and other chapters of the United Way, make up nearly 25 percent of the United Way of Central Indiana's 2010 annual campaign goal.

In 2009, the United Way gave Lilly its prestigious Spirit of America® Award, the organization's highest national honor that recognizes corporations and their employees for exceptional philanthropic commitment and community involvement.

## Six Sigma Programs

Lilly is one of many companies to incorporate the principles of Six Sigma, a business-management strategy that uses a set of quality-management methods to improve manufacturing processes and other operations. Recently, we began putting the skills of our Six Sigma-trained employees toward voluntary good in two different programs.

We're offering the time and talents of our Six Sigma "black belt" trained employees to volunteer (on company time) for local nonprofit (non-health care) organizations to help them improve their own operations. In 2010, 32 Lilly volunteers offered their management expertise to 29 projects, including helping the Indianapolis library system to find cost savings to cover a projected $1.5 million budget shortfall. Another project was with a local foodbank and addressed the capacity to fill "backsacks" with food for children on the weekends during the school year. The result increased project capacity from serving 2,000 kids to 8,000 kids—increasing filled backsacks from 88,000 to 352,000. As resources continue to decline and community needs continue to rise, nonprofit organizations can benefit from the expertise of our Six Sigma-trained volunteers.

In a separate Six Sigma program, we offer the skills of our black belts to partner with our health care customers where there is an identified opportunity to work together to improve patient outcomes. One example was the use of Lean Six Sigma in a hospital environment, which resulted in streamlined insulin dispensing and administration processes, a system with less variability and increased efficiency. In addition to improved patient safety, annualized overall cost savings of $75,000 were estimated following implementation, primarily due to the elimination of rework done in the pharmacy due to misplaced vials.

# FOSTERING ENVIRONMENTAL SUSTAINABILITY

## COMMITMENT AND APPROACH

Healthy lives and a healthy environment. What we do today matters tomorrow. Lilly is committed to making medicines that help people live longer, healthier, more active lives. As part of that, we aspire to contribute to a healthy environment by thoughtfully incorporating environmental sustainability into our business.

The medicines we make require the use of valuable resources, including energy, water, and raw materials. We know that the way we operate our business today can have a long-lasting impact. Lilly takes a holistic approach to understanding and managing our environmental impacts across the product life cycle. To operate most sustainably, we are committed to conducting our business in an environmentally, socially, and financially responsible manner.

Climate change is an issue that is compelling governments, companies, and citizens to act. However, we do not believe it poses significant risks or opportunities for our business. Current and anticipated regulatory requirements will have some financial implications for Lilly, but we account for these in our routine business planning, and we do not anticipate they will impact our business strategy.

Our performance in meeting our environmental goals, though—in particular increasing energy efficiency and reducing corresponding greenhouse gas (GHG) emissions—demonstrates our commitment to reduce our environmental footprint. (See the details of our approach and performance on **page 73**.) We have also set environmental goals to lessen the use of water and reduce waste. We believe that implementing cost-effective, more sustainable solutions is a powerful and ongoing source of business value.

This section covers the broad range of our environmental activities, from our approach and management systems, to our work addressing environmental issues across the value chain, to performance data and examples illustrating progress in our operations.

**6.8** MILLION kWh

AMOUNT OF ENERGY SAVED IN 2010 THROUGH INTEGRATING AND ENHANCING CHILLED WATER COMPRESSORS AT OUR MANUFACTURING FACILITY IN LIVERPOOL, UNITED KINGDOM

**93** MILLION LITERS

WATER SAVED IN 2010 AT OUR SITE IN FEGERSHEIM, FRANCE, (16 PERCENT OF TOTAL USE AT THE SITE) AFTER INSTALLING A NEW REVERSE OSMOSIS UNIT FOR WATER PURIFICATION

**84%**

RECYCLING RATE IN 2010 AT LILLY'S SITE IN CAROLINA, PUERTO RICO, UP FROM 11 PERCENT IN 2007, SAVING MORE THAN $1.3 MILLION ANNUALLY

**300** ACRES

AMOUNT OF LAND PROTECTED AT LILLY'S MANUFACTURING FACILITY IN CLINTON, INDIANA, THROUGH A PROJECT WITH THE HEALTHY RIVERS INITIATIVE THAT WILL SHOWCASE THE COMPATIBILITY OF CONSERVATION AND FARMING

## SCOPE OF HEALTH, SAFETY, AND ENVIRONMENT (HSE) DATA IN THIS REPORT

- The data in this section cover Lilly's global operations, including subsidiaries, unless stated otherwise.
- Following World Resource Institute guidance, performance data and progress toward environmental goals are reported on an adjusted basis accounting for mergers, acquisitions, and divestitures, as appropriate, to ensure comparability, unless stated otherwise.
- Years are calendar years, unless stated otherwise.
- Dollars refers to U.S. dollars.

## Life Cycle Approach

At each stage of the pharmaceutical product life cycle, there are distinct environmental, health, and safety impacts and opportunities for improvement. The graphic at right provides an overview of Lilly's impacts and how we work to minimize them. Page numbers refer to additional information about our efforts throughout this section.

## How We Manage Environmental Issues

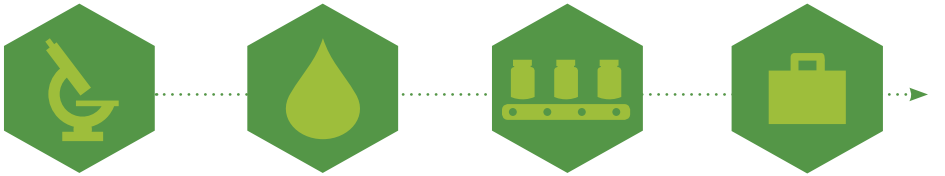
### ➡ Policies and Standards

Several policies and standards define our commitments and guide our efforts in this area.

- Our **Health, Safety, and Environment Policy** sets environmental expectations in terms of compliance and environmental protection for our people and operations (see **www.lilly.com/about/compliance/practices/Pages/health.aspx**).

## IMPROVING ENVIRONMENTAL PERFORMANCE ACROSS THE PRODUCT LIFE CYCLE

**MATERIALS, WATER AND ENERGY, HSE MANAGEMENT SYSTEMS AND STANDARDS**



### RESEARCH AND DEVELOPMENT

We consider environmental factors from the earliest stages of design and development. Our design for environment initiatives include green chemistry, environmental product risk assessments, and an Environmental Development Review (EDR) process to evaluate potential environmental issues and opportunities during the scale-up of medicine production to manufacturing levels. See **page 68** for more information.

### MATERIALS AND NATURAL RESOURCES

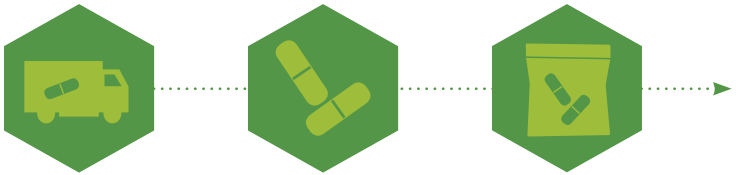
Lilly, customers, and governments worldwide are increasingly focused on the materials and chemicals used in products. We work to consume less materials, water, and other natural resources when possible, to reduce our overall environmental footprint. We comply with all relevant chemicals registration and materials management regulations. See **page 70** for more information.

### MANUFACTURING

Measuring, reporting, and reducing Lilly's environmental impacts from manufacturing are central to the company's sustainability program. This includes our most significant areas of environmental impact—energy use and greenhouse gas emissions, water use, and waste—as well as our progress in green procurement, other air emissions, biodiversity, and compliance. Our manufacturing HSE committee ensures compliance to all HSE regulations, policies, procedures, and standards, while making certain that we drive continuous improvement throughout the manufacturing organization. See **page 73** for more information.

### SALES AND MARKETING

Lilly continually works to improve the fuel efficiency of our sales force vehicles, to meet our goal to reduce overall fleet fuel use 10 percent globally by 2013. At Lilly sales and marketing offices around the world, we've also established projects to reduce energy use while increasing employee environmental awareness and action. See **page 76** for more information.



### PRODUCT TRANSPORT AND PACKAGING

Lilly's packaging guidelines—which cover areas such as reducing materials use, using materials with reduced environmental impact including recycled content, and designing packaging to enhance recyclability—provide a common basis for incorporating sustainability considerations into packaging decision-making. We track the GHG emissions of our product transportation and distribution vendors, and are committed to working with them to reduce those impacts. See **page 71** for more information.

### PRODUCT USE

Lilly is committed to understanding the potential effects of pharmaceutical products in the environment as well as in humans, and we support using science-based evaluations to assess and minimize the environmental risks of our pharmaceutical products. Through collaborations with industry partners, academic researchers, and regulatory agencies, we continually work to further understand and proactively address any potential impacts from the production, distribution, use, and disposal of our products. See **page 71** for more information.

### PRODUCT END-OF-LIFE

Medicines are intended to be used in their entirety by patients. As a result, typical models of take-back, reuse, and recycling in other sectors, designed to capture value from products after use, do not apply to our industry. We are working with customers and partners to better understand and ensure an effective approach to product end-of-life issues. See **page 72** for more information.

- Our **Environmental Standard** provides more detailed requirements and establishes the core governance requirements to manage significant environmental and energy-related aspects of our operations. This standard requires Lilly's operations to identify relevant environmental issues, evaluate impacts, and reduce risks through continuous improvement.
- Our **Management System Standard** and **Verification and Corrective Action Standard** define requirements to ensure compliance with Lilly HSE standards, applicable regulatory requirements, and other external HSE standards to which the corporation subscribes. This includes identifying, reporting, assessing, and investigating HSE-related compliance and performance gaps; implementing and evaluating the effectiveness of corrective and preventive actions; providing an effective system for verifying compliance; and notifying management of events, issues, and trends that could negatively affect Lilly, our employees, our contractors, or the communities surrounding our facilities.
- Our **Global Engineering Standards** govern many environmental aspects of our operations. Our Energy Minimization Engineering Standard, for example, ensures that Lilly's new and retrofitted construction projects minimize energy use and associated greenhouse gas emissions.
- Our **Product Stewardship Standard** covers the entire value chain—from product discovery and development, through manufacturing, sales and marketing, distribution, and use, to recycling of manufacturing by-products and final disposal. This standard provides a systematic way to manage product and process risks in our supply chain and our operations and during the use of our products. See **page 68** for more detail.

### LILLY'S HEALTH, SAFETY, AND ENVIRONMENT POLICY

Encourages and expects each employee to be environmentally responsible and to conduct work practices in a safe manner in accordance with established policies, standards, and procedures. These practices are considered an essential measure of performance for all employees.

Builds health, safety, and environment considerations into all phases of the business, including product and technology discovery and development, facility design, operation and maintenance, and product delivery.

Strives for an injury-free workforce and minimizes environmental impact through implementation of programs in our facilities and the surrounding communities that reduce risks to employees, neighbors, the public at large, and the environment.

Encourages and promotes waste minimization, the sustainable use of natural resources, recycling, energy efficiency, resource conservation, and resource recovery.

## HSE Governance

Lilly's formal HSE governance structure ensures that the management of HSE issues is integrated throughout the company's business.

Our **global HSE committee**—which includes senior executives from key areas of the business, representing research and development, manufacturing, quality, ethics and compliance, and our business units—sets the company's strategic direction in this area, ensures proper governance, and plays a central role in monitoring corporate performance and ensuring continuous improvement. In addition, the public policy and compliance committee of Lilly's board of directors monitors our performance.

The global **HSE lead team** works closely with the global HSE committee to set appropriate metrics and goals, assess company performance, and ensure compliance with all HSE regulations, policies, procedures, and standards globally. This group also serves as an advisory body to the other operational HSE lead teams.

The **manufacturing HSE committee** ensures compliance to all HSE regulations, policies, procedures, and standards, while ensuring that Lilly is using the appropriate metrics and goals to assess performance and drive continuous improvement throughout the manufacturing organization. This committee has recently adopted an operational-excellence standard that reflects the ownership of HSE by the manufacturing organization. This strategy is defined by sets of controls that assure strong process performance and high product quality; the strategy also addresses expectations for our manufacturing partners globally.

Executives and lead teams in each of our business groups as well as Lilly Research Laboratories and Lilly Corporate Center manage governance for HSE in each of those areas.

## Management Systems

All Lilly business units have an HSE management system aligned with our Management System Standard, which establishes requirements for system elements, including leadership responsibilities, identification

and prioritization of environmental aspects, metrics and targets, compliance, training, verification, and corrective action, among others. The standard is consistent with third-party standards such as ISO 14001, the Occupational Health and Safety Assessment Scheme (OHSAS 18001), and the American Chemical Council's Responsible Care Management System. Several Lilly facilities have obtained certification to these and other external standards.

Compliance with environmental regulations is central to our management of environmental issues and sets a baseline of performance. In addition to management systems and auditing (see below), we use environmental capability assessments to apply statistical process control techniques to environmental processes to reduce the number of environmental events caused by permit-limit exceedances (see **page 84** for detail). These environmental capability assessments allow us to identify opportunities to continuously improve our process controls, ensuring compliance and minimizing the chance of an environmental incident.

We manage employee health and safety issues using many of the same governance and management systems we use for the environment. See the Employee Health, Safety, and Wellness section, beginning on **page 48**, for detail about our health and safety programs and performance.

## Audits

Lilly's Management System Standard applies to all business areas globally. To ensure that our operations worldwide consistently meet these guidelines, we include external as well as internal auditors on each audit conducted to assess the performance of individual sites, following the protocols outlined in our Verification and Corrective Action Standard. This standard applies to all Lilly business areas, including manufacturing, affiliate, research and development, and general and administrative. The scope includes environmental management systems, as well as health and safety.

Each year, we audit a significant portion of our sites globally, utilizing a risk-based approach, and then reassess those sites every one to five years. When auditors identify instances of nonconformance to Lilly's Management System Standard or other requirements, the site in question is required to develop corrective and preventative actions and to demonstrate continuous improvement.

## Lilly's Environmental Goals

Setting, driving toward, and communicating our progress toward HSE performance goals is central to our HSE management approach.

In 2008, Lilly established six HSE goals to minimize our impact on the environment and reduce employee and contractor injuries. These goals follow from an earlier set we achieved ahead of the target date, demonstrating our drive for continuous improvement. See **page 49** for progress toward our health and safety goals.

| **2013 GOALS** (WITH A 2007 BASELINE) | **PROGRESS**[29] |
|---|---|
| ⬇15% reduction in energy use and corresponding greenhouse gas emissions[30] (both per square foot of facility space) | In progress.<br>Through the end of 2010, we improved energy efficiency by more than 12 percent, and reduced corresponding greenhouse gas emissions by more than 9 percent (see **page 73** for detail). |
| ⬇25% reduction in water intake (in absolute terms) | Achieved in 2009, four years early.<br>Through the end of 2010, we've reduced our water intake by more than 30 percent (see **page 76** for detail).<br>Our new goal is to reduce water intake by 5 percent by 2013 (2010 baseline). |
| ⬇40% reduction in waste to landfill[31] (in absolute terms) | Achieved in 2009, four years early.<br>Through the end of 2010, we've reduced our waste to landfill by 50 percent (see **page 77** for detail).<br>Our new goal is to reduce waste to landfill by 20 percent by 2013 toward the ultimate goal of "zero landfill" (2010 baseline). |

[29] Following World Resource Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions, and divestitures, as appropriate, to ensure comparability, unless stated otherwise.

[30] This goal covers Lilly's Scope 1 and Scope 2 emissions.

[31] Lilly's former and current waste-to-landfill goals do not include construction and demolition debris, biosolids from wastewater treatment plants, incinerator ash, coal ash if reused for mine reclamation or road base, and mycelia and urea reused for fertilizer.

## Energy, Waste, and Natural Resource Reduction Fund

Making capital investments in technology and physical plant operations can have a substantial, positive impact on achieving overall environmental goals. However, these projects compete for funding with other essential projects at each facility—for example, those directly related to product manufacturing. To address this challenge, we established an Energy, Waste, and Natural Resource Reduction Fund. The fund helps pay for capital projects at our facilities globally and promotes the development of environmentally superior, efficient technologies and the sharing of best practices across our facilities.

A total of more than $29 million has been approved for investment in nearly 100 projects since 2006. This is in addition to the amounts that are spent by those facilities independent of the global fund. These projects have collectively saved more than 840 billion BTUs of energy, avoiding approximately 100,000 metric tons of carbon dioxide equivalent of greenhouse gas emissions. Examples include transforming energy use at the Speke, United Kingdom, manufacturing facility (see **page 75**) and conserving water at our Fegersheim, France, facility (see **page 77**).

The actual amounts spent each year are included in the following table. In 2010, Lilly realized a return of about $16 million for all projects implemented so far.

**ENERGY, WASTE, AND NATURAL RESOURCE REDUCTION FUND EXPENDITURES[32]**
($ MILLIONS)

| 2008 | 2009 | 2010 |
|---|---|---|
| $6.5 | $5.7 | $4.1 |

[32] The sum of the data in the table differs from the total approved noted above because some approved funding has not yet been spent.

## Sustainable Culture at Lilly

Supporting our employees' commitment to sustainability is essential to our ongoing success. Lilly has dozens of "green teams" globally, launched during the last decade by our employees who are passionate about the environment and reducing their impact on local communities. These teams meet periodically to discuss environmental developments at their site and how they can make a difference, and HSE management and employees actively support them in their efforts.

Lilly's green teams engage internal and external experts to provide insight on environmental issues. The teams also take educational field trips (for example, to a recycling facility or an organic-food market), and implement projects such as employee carpooling programs, energy-efficiency projects, beverage-container and cardboard recycling, and others. During 2010, several hundred Lilly employees participated in green teams globally.

**EMPLOYEE VOICE**

> "It's a false dichotomy to think that you have to choose between what's good for the environment and what's good for the business."

Our employees also serve as a great source of ideas, and they often make suggestions directly to the management team of their local facilities, to their HSE team, or via online services such as our internal social-networking platform. Management evaluates all recommendations based on potential benefit to the environment and cost savings, and we implement several each year. During the past year, for example, these teams have initiated, sponsored, or volunteered to implement employee-run gardens, on-site farmers' markets, bike-to-work initiatives, and river cleanup programs.

To extend the benefits of strong environmental performance beyond our operations, we also encourage and provide employees the knowledge to act as better stewards of the environment outside of work. Examples include expanding composting and recycling in their homes, upgrading to more efficient lighting, and using public transport when feasible to decrease impacts from commuting.

# PRODUCT STEWARDSHIP

Lilly is committed to reducing environmental impacts across the product life cycle. This improves our own performance and demonstrates our values, while also meeting the expectations of customers and other stakeholders who are increasingly focused on Lilly's progress in this area. Product stewardship practices provide a systematic way to respond to these concerns by identifying, mitigating, and managing product and process risks. Integrating these practices into our business protects people and the environment and enhances compliance with regulatory requirements.

Lilly's Product Stewardship Standard defines our health, safety, and environment requirements for assessing Lilly products across the value chain (see box to the right). This standard covers the entire value chain—from product discovery and development, through manufacturing, sales and marketing, distribution and use, to final disposal. The scope covers both internal and external value-chain elements globally and distributes accountability to numerous Lilly business and functional groups. This approach is intended to integrate product stewardship deeply into Lilly's business.

Our main areas of focus in product stewardship include the following:

- Using green chemistry to reduce the use of hazardous materials in our development and manufacturing processes (see **page 69**),
- Improving materials use in devices (see **page 70**),
- Reducing the environmental impact of product manufacturing (see the Environmental Development Review box on **page 70**),
- Decreasing the environmental impact of packaging (see **page 71**),
- Using science-based environmental risk assessments to evaluate the potential impact of our products in the environment (see **page 71**), and
- Disposing of products responsibly at end-of-life (see **page 72**).

In addition to this company-wide approach, some business units now have their own product stewardship teams as well.

## Design for Environment

Across many industries, the majority of product environmental impacts are determined at the design stage. The pharmaceutical industry is no exception. We consider environmental factors from the earliest stages of design and development—taking into account the materials and processes we will use to make products as well as how we will package those products to distribute to customers. This integrated approach enables us to identify opportunities to improve product environmental performance.

### LILLY'S PRODUCT STEWARDSHIP STANDARD

Reflecting the breadth of product-related sustainability issues, our Product Stewardship Standard covers the following areas:

- **EMERGING ISSUES:** Identifying, analyzing, and managing new and emerging issues
- **PROCUREMENT:** Considering environmental factors in purchasing decisions
- **PRODUCT DISCOVERY:** Reviewing internal and external research operations to foster high HSE standards
- **PRODUCT DEVELOPMENT:** Using inherently safer design principles such as green chemistry to identify and reduce HSE hazards from new products or processes where possible, and using appropriate safeguards throughout these activities
- **PRODUCT PACKAGING:** Reducing the amount of packaging and using environmentally preferable materials when possible, while satisfying regulatory and customer requirements, meeting marketing objectives, and preserving product integrity
- **DISTRIBUTION:** Ensuring safe product transport and warehousing while reducing associated environmental impacts
- **MARKETING AND SALES:** Decreasing the environmental impact of promotional materials, and communicating with customers about sustainability
- **SUPPLIERS, CONTRACT OPERATIONS, AND ALLIANCES:** Evaluating and influencing the HSE performance of suppliers, contract operations, and alliances (see **page 38** for more information about supplier management)
- **SUPPLY CHAIN MANAGEMENT:** Establishing plans to ensure business continuity and appropriate emergency response if needed

## Green Chemistry

In the early 1990s, Lilly was one of the first pharmaceutical companies to recognize the potential of green chemistry to transform our manufacturing processes to be inherently safer, more efficient, and more environmentally friendly. Traditionally, pharmaceutical manufacturers viewed the use of hazardous materials as a necessary part of making medicine. Green chemistry, by contrast, works to reduce or eliminate the use of hazardous materials where possible so that protections, controls, and treatment are reduced or no longer needed.

Today, our approach to protecting the environment begins with using our knowledge of green chemistry to design more efficient manufacturing processes that avoid or reduce the use of hazardous substances in the manufacturing of our active pharmaceutical ingredients. By building these considerations into the earliest stages of product and process development, we can reduce both environmental impacts and safety concerns.

Lilly's approach to green chemistry is twofold. First, we seek improvements by reducing the amount of hazardous material used to make a product, increasing overall materials efficiency, evaluating chemical alternatives, and avoiding use of the riskiest substances. Second, we seek more fundamental changes—ones that can result in order-of-magnitude improvements—by advancing the state of the art in chemistry and developing and implementing new reactor technologies. One example of the latter is continuous processing, which replaces chemical reactions performed in larger batches with smaller-scale operations in series. Using this approach, commercial scale may be in the range of 10–22 liters, replacing the 2,000–8,000 liter reactors used in batch processing. This can substantially decrease resource use while also enhancing safety (see examples below).

Providing our scientists with useful information at key decision points helps them make the best decisions when using chemistry to design processes. To accomplish this, we have developed electronic lab notebooks, used by chemists within the company, which include information and tools regarding process efficiency, solvent selection, and materials of concern. When any researcher adds information to the notebook, it is easily available to all Lilly researchers worldwide.

We have also established accountability for the routine use of green chemistry principles in our business. Expectations to use green chemistry are built into our product-development objectives along with other important criteria, such as quality and cost. Development teams are accountable for process efficiency and safety from the point when candidate molecules are selected through the development of a manufacturing process, and we monitor progress at major development milestones.

To measure progress in this area, we have established material use efficiency standards at critical steps in the product-development process, including the Process Mass Intensity (PMI) factor, a ratio of the total mass of raw materials (including water) put into a process for every kilogram of drug produced. Failure to meet these standards triggers management review.

We created a goal in 2004 to cut hazardous material purchases normalized by sales by one-third by 2010, compared with those in 2003. By 2007, our hazardous material purchases were more than 50 percent below the 2003 baseline. We attained this goal due to efficiency gains, solvent recovery, changes in our product mix, and supply chain decisions.

EMPLOYEE VOICE

> "We have a broader set of obligations—to foster healthy communities, healthy families, and a healthy environment."

During 2010, our scientists produced numerous innovations in green chemistry (see examples below).

We work with others in the industry to leverage our own efforts, share best practices, and advance the field of green chemistry. Lilly was a founding member in 2005 of the American Chemical Society's Green Chemistry Institute Pharmaceutical Roundtable, now 17 members strong. Through this group, from 2008 to 2010 we helped develop the **ACS GCI Pharmaceutical Roundtable Solvent Selection Guide**, which was publicly released in 2011. Our scientists have published extensively in this area, and Lilly supports academic grants focused on research related to green chemistry, such as through the Roundtable for work related to green oxidation processes (2010) and the Grignard reaction[33] (2011).

While we have made significant progress in using green chemistry to drive HSE improvements, major improvements in the future will require additional scientific advances. Carrying out the research needed to accomplish this is hard, time-intensive, and expensive. But, we believe it is worth pursuing.

[33] The Grignard reaction has been applied to the synthesis of numerous intermediates in the preparation of food additives, industrial chemicals, and pharmaceutical products since the beginning of the 20th century.

### ➡ Continuous Processing Enables a Convergent Route to a New Drug Candidate[34]

The commercial production of an investigational new drug candidate, currently in Phase II clinical trials, illustrates the importance and impact of designing green processes. The original synthesis of this drug, which Lilly gained through an acquisition, enabled early development. However, that approach was not amenable to large-scale manufacture.

Lilly discovered an alternative and much more efficient synthesis route. Continuous processing proved critical to this option, which represented a 94 percent improvement in PMI compared to the original approach. Lilly implemented this new route on a pilot-plant scale during 2009 and on a commercial scale during 2010.

### ➡ Grignard Reactions Decrease Environmental Impact with Continuous Processing[35]

Since the start of the 20th century, the Grignard reaction has been applied to the synthesis of numerous intermediates for food additives, industrial chemicals, and pharmaceuticals. Despite these successes, the hazards of the Grignard reaction make it one of the more challenging reactions to bring to commercial scale.

Lilly developed inherently safer Grignard chemistry using a novel, continuous stirred tank reactor (CSTR) that allows continuous formation of Grignard reagents, as opposed to producing larger stand-alone batches. This strategy reduces hazards by operating at a small reaction volume, performing metal activation only once during each campaign, and using a superior reagent and reaction solvent that may be derived from renewable resources. Relative to batch processes, the continuous approach reduces metal use by 43 percent and decreases the PMI ratio by 30 percent overall. The continuous approach also reduces reaction impurities substantially.

Lilly is using its CSTR Grignard approach to produce two key materials. We anticipate commercial production of these materials on a 22-liter scale, which will replace the 2,000-liter reactors used in batch processes.

[34] Based on information published in *Presidential Green Chemistry Challenge Awards Program: Summary of 2011 Award Entries and Recipients*, page 41.

[35] As published in *Presidential Green Chemistry Challenge Awards Program: Summary of 2011 Award Entries and Recipients*, page 42.

### ENVIRONMENTAL DEVELOPMENT REVIEW

Lilly uses an Environmental Development Review (EDR) process to evaluate potential environmental issues and opportunities during the scale-up of medicine production to manufacturing levels. The EDR process helps us identify and address potential impacts of manufacturing and waste treatment, suggest process improvements, and share learning as new medicines come through the pipeline and transition into manufacturing.

An EDR conducted in 2010 identified significant opportunities for the recovery and reuse of solvents for the manufacture of a product that could begin in 2019, depending on the approval of the product by regulatory authorities. Compared to disposing these solvents, this would decrease greenhouse gas emissions associated with waste incineration by more than 75 percent while saving tens of millions of dollars annually. See more information about our environmental performance in manufacturing on **page 73**.

## Chemicals Use

Lilly, customers, and governments worldwide are increasingly focused on the materials and chemicals used in products. For example, the European Union (EU) Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) Regulation, beginning in 2007, requires manufacturers and importers of chemicals to collect and register information about the chemicals they use and to replace the most dangerous chemicals when safe alternatives are available. Lilly's corporate and local REACH teams have assessed the impact of REACH on substances manufactured and imported by Lilly in the EU as well as those of our EU and non-EU suppliers. Through this process, we have confirmed that we and our suppliers are in compliance with REACH. During 2011, we are working to ensure that our facilities remain in compliance with and informed about the quickly evolving REACH landscape.

As REACH further develops and new guidance is released, we will continue to engage with the highest levels in the European Commission and the European Chemicals Agency, through our national and EU pharmaceutical industry bodies and chemical associations, to further improve the effectiveness of the regulation.

## Materials Use

Lilly produces medicines that may be injected by patients using a syringe and needle or a pen-type injection device, and our environmental design and materials selection efforts extend to this area.

EMPLOYEE VOICE

"By 'going green,' we save green."

At this time, Lilly does not use post-consumer recycled materials in the manufacturing of these devices. Patient safety is our first priority, and to ensure the highest standards of quality and reliability, we currently use only virgin raw materials. However, to enhance product environmental performance, we are evaluating the use of renewable-based plastics (produced using corn, soybeans, or sugar cane) that could eventually replace the petroleum-based plastics now in use. Lilly will only consider use of these materials in its devices when suitable, after they are tested to have the same performance, safety, and reliability of the plastics currently being used.

## Packaging

Pharmaceutical packaging is highly regulated and must fulfill many functions, including protecting product integrity during transit and storage, providing information, resisting counterfeiting, and protecting the contents from tampering or access by children.

Packaging is also a source of cost and waste. To address this, Lilly operations around the world have developed innovative packaging approaches that contribute to the bottom line while improving our environmental performance.

Incorporating sustainability into packaging decisions is motivated by several other factors as well. Legislation is a key driver, as almost 40 countries have implemented regulations requiring companies to reduce packaging and associated waste. Increasing customer demand for information about packaging is another trend. For example, large outlet pharmacies have requested pharmaceutical companies to submit product packaging information. Some pharmacy customers intend to use this information to evaluate their pharmaceutical suppliers.

To assist in meeting these objectives, Lilly developed packaging guidelines to provide a common basis for incorporating sustainability considerations into packaging decision-making. The guidelines cover areas such as reducing materials use, using materials with reduced environmental impact, including recycled content, and designing packaging to enhance recyclability.

Our Product Stewardship Standard, which is another consideration within our procurement processes, also requires that we consider the use of post-consumer recycled materials, products from certified sustainable forests, and materials derived from renewable resources. Our goal is to ultimately use less material, as well as to use materials with reduced environmental impact.

Recent examples of packaging innovation in 2010 include the following:

- During 2011, we implemented several packaging-process improvements at our Giessen site in Germany for the launch of one of our products. These improvements reduced the reject rate, decreasing waste by nearly four metric tons per year and saving an estimated $1.5 million annually.
- Our packaging engineers in Indianapolis, Indiana, worked with brand teams to simplify the product sample packaging for two products. Redesigning the blister (the protective plastic sleeve that covers each individual pill) for one product sample, removing the external carton for the sample bottle for another product, and eliminating the wallet (the protective cardboard sleeve for blister packs) for both products will save an estimated $1.3 million yearly.

Lilly also collaborates with other companies to advance sustainable packaging through our membership in the Sustainable Packaging Coalition (SPC). Involvement in the SPC also provides Lilly the opportunity to engage with manufacturers of sustainable packaging materials and learn about possible applications.

## Pharmaceuticals in the Environment

Pharmaceutical products, like some foods and nutritional supplements, may not be completely absorbed or broken down by the human body. Pharmaceutical residues and their metabolites are eliminated by patients and can make their way through sewage-treatment facilities into surface water and groundwater at extremely low levels. Modern advances in chemical measurement techniques have allowed detections of pharmaceutical residues in water at concentrations usually in the range of parts per trillion, or lower. The detection of such pharmaceutical residues has raised concerns about their potential for adverse impacts on human health and aquatic organisms. Information published to date shows that the extremely low concentrations in surface waters are very unlikely to be harmful to human health or have short-term impacts on aquatic organisms. The potential for subtle and long-term effects on aquatic organisms is still being studied by the scientific community.

Lilly is committed to understanding the potential effects of pharmaceutical products in the environment as well as in humans, and we support using science-based evaluations to assess and minimize the environmental risks of our pharmaceutical products. Through collaborations with

industry partners, academic researchers, and regulatory agencies, we continually work to further understand and proactively address any potential impacts from the production, distribution, use, and disposal of our products.

As a precautionary measure, pharmaceutical products are subjected to environmental and other testing as part of registration protocols before the product is marketed. We thus test and assess our medicines for potential effects on the environment to meet current regulatory requirements and internal standards before launching new medicines. We regularly update our testing protocols for new and existing pharmaceuticals as knowledge and testing methods improve.

As part of our involvement in this area, Lilly supports industry efforts to make information about pharmaceuticals in the environment and the environmental characteristics of medicines readily available. Our scientists have published articles and presented on these topics; they have also participated in discussions about the safety of pharmaceutical residues in water at scientific meetings held by the U.S. National Academies' National Research Council, the World Health Organization, the U.S. Environmental Protection Agency, and European governmental sponsors. Summary results from environmental fate and effect studies are available in our material safety data sheets (**http://ehs.lilly.com/msds/msds_index.html**) and are routinely updated.

To see Lilly's Position on Pharmaceuticals in the Environment, visit **www.lilly.com/responsibility/es/Pages/wherewe.aspx**.

## Product End-of-Life

Medicines are intended to be used in their entirety by patients. As a result, typical models of take back, reuse, and recycling in other sectors, designed to capture value from products (such as paper, beverage containers, or electronic equipment) after use, do not apply to our industry. We are working with customers and partners to better understand and ensure an effective approach to product end-of-life issues.

In cases where patients do not finish their medication, reuse or recycling is not a safe option due to the nature of our products. Therefore, we support nationally sanctioned disposal guidelines for patients for unused medicines. In the United States, we promote efforts to educate the public about proper drug disposal methods for unused medicines. For example, both Lilly and the PhRMA trade association sponsor the SMARxT DISPOSAL™ program (**www.smarxtdisposal.net**). Also, see Lilly's Position Statement on the Disposal of Unused Medicines in the United States: **www.lilly.com/responsibility/es/Pages/wherewe.aspx**.

Lilly does produce some medications, such as insulin, that patients inject using syringes with needles or pen-type injection devices. In those cases, we support the proper disposal of syringes, needles, and other "sharps" to mitigate potential public-health risks. We are taking numerous steps to communicate proper sharps-disposal techniques to patients, including revising many of our product user manuals as well as website content to provide more explicit instructions. We will also add content on sharps collection and disposal to our diabetes patient-education programs and hospital in-service activities and educate representatives in our retail and hospital sales forces to better address sharps-related questions from health care providers.

# PERFORMANCE IN OPERATIONS

At Lilly, we are committed to measuring, reporting, and reducing our environmental impacts from operations. This section details our performance in the company's most significant environmental areas of impact—energy use and greenhouse gas emissions, water use, and waste. It also describes our progress in green procurement, other air emissions, biodiversity, and compliance. In addition to performance data in each area, we include numerous examples that illustrate strong practices across the company.

## Energy Use and Greenhouse Gas Emissions

Energy use and greenhouse gas emissions are a significant focus area for reducing our environmental impacts. Energy usage also represents a substantial operational cost for Lilly, especially as it relates to our manufacturing and distribution activities.

Energy assessments are central to our approach. Since 2006, we have conducted 27 such assessments, focusing on our energy-intensive sites. During these analyses, internal experts detail energy consumption to identify opportunities for improvement. As a result, we have uncovered an estimated $22.4 million in potential annual savings, nearly $7 million of which we realized by the end of 2010. These changes have reduced energy use by 1,560,000 million BTUs, avoiding more than 200,000 metric tons carbon dioxide equivalent ($CO_2e$) of greenhouse gas emissions.

To expand these benefits company wide, Lilly employees share best practices in energy efficiency through several channels, such as our annual health, safety, and environment workshop and our Engineering Tech Center. The latter is a group of engineers who provide consultation on operational issues, including energy forecasting and efficiency initiatives to manage projected demand. We also conduct a yearly internal awards presentation for HSE performance (which, similar to the initiatives described above, also address water savings and waste reduction). Other educational opportunities include energy-focused webinars and collaboration sites on the Lilly intranet; use of our internal social networking site to share best practices and make suggestions related to environmental activities; and widespread employee participation in Energy Day, a yearly event to promote awareness of and action toward Lilly's company-wide energy goal. On Energy Day, Lilly sites around the globe conduct energy-awareness activities to promote energy-efficient behaviors among employees. Poster presentations, videos, contests, guest speakers, and energy-focused informational booths make Energy Day fun and engaging.

Solar panels at our site in Sesto, Italy.

At several facilities, we use renewable energy to diversify our energy sources and decrease GHG emissions. For example:

- Solar panels on two of the largest buildings at our Sesto manufacturing site in Italy produce 160,000 kilowatt hours (kWh) per year of electricity. As a result, the majority of the site's energy demand is met by a combination of renewable and low-carbon energy generation technologies.

### ENERGY PROGRAM

We are committed to using energy in the most efficient, cost-effective, and environmentally responsible manner. To do so, we establish energy-efficiency goals and implement energy management practices globally. Our approach includes the following elements:

- Design for energy efficiency in new or updated processes and facilities,
- Operate our facilities and equipment efficiently,
- Monitor and report energy consumption and resulting GHG emissions,
- Conduct energy assessments and implement initiatives to enhance energy efficiency,
- Utilize alternative energy sources, new technologies, and best practices, and
- Participate in local, regional, and/or national forums to influence responsible and cost-effective decision-making and policy development relative to energy.

- At our Giessen site in Germany, we installed a solar system that generates 25,000 kWh of electricity annually, saving about €12,500 ($16,500) each year.
- At our facility in Fegersheim, France, we installed a system of solar panels that produces about 50,000 kWh of electricity annually. A geothermal heat pump, installed in 2009, provides the facility with heating and cooling and paid for itself in just one year.

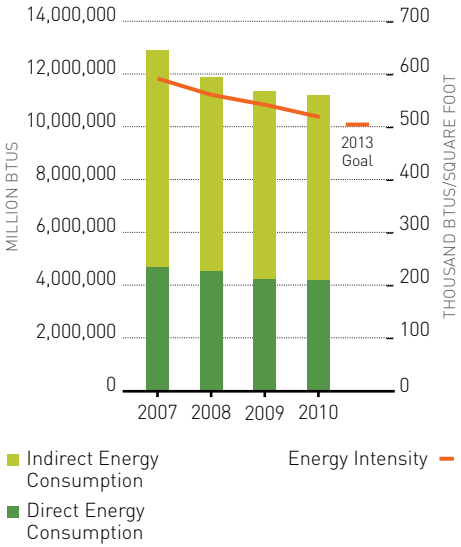
Cogeneration, which involves using an on-site engine to generate electricity as well as recovering usable heat, is another important part of our approach. By making productive use of heat that would otherwise be wasted, this technology can increase the overall efficiency of the generation of electric power and thermal energy from 49 percent by conventional means to 75 percent.[36] We use cogeneration or waste heat recovery at several Lilly facilities worldwide, including in Kinsale, Ireland; Sesto, Italy; and Speke, United Kingdom. We are evaluating possible use at other locations.

Optimizing our IT environment also offers opportunities to reduce energy use. Between 2006 and 2010, Lilly IT saved an average of 5,300 megawatt hours of electricity per year, equivalent to emissions of more than 3,700 metric tons $CO_2e$.

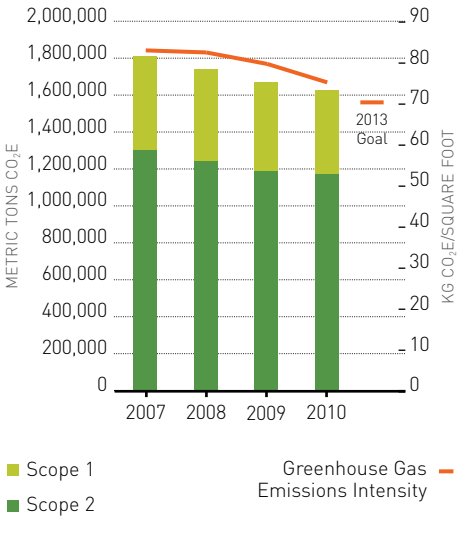
**EMPLOYEE VOICE**

> "Sustainability is about being a better company, about doing the right thing—not just now, but for the future."

## Progress Toward Goal — Energy Use




## Progress Toward Goal — GHG Emissions




### Progress Toward Goal

In 2010, Lilly's energy use equaled 11,200,000 million BTUs, compared with 11,300,000 million BTUs in 2009 (see graph above). Since 2007, our energy intensity has improved more than 12 percent, from 593 kBTUs/square foot to 520 kBTUs/square foot in 2010, keeping us on track to meet the company's goal of a 15 percent improvement by 2013.[37] These changes were due primarily to increased awareness of our energy goal and the implementation of energy conservation measures identified through energy assessments, including improvements in boiler efficiency, chiller optimization, HVAC system enhancement, the addition of laboratory fume hoods, and many others.

During 2010, the company's Scope 1 and Scope 2 GHG emissions equaled 1,620,000 metric tons $CO_2e$, compared with 1,670,000 metric tons $CO_2e$ in 2009 (see graph above). This change was due primarily to reduced energy usage. Lilly's GHG emissions intensity improved by more than 9 percent compared to that in 2007, keeping us on track to meet the company's goal of a 15 percent improvement by 2013.[38]

Lilly also calculates Scope 3 GHG emissions, as summarized in the table on the following page (and not included in the graph above). We are continuing to refine our approach in this area.

[36] According to the U.S. Environmental Protection Agency. See www.epa.gov/chp/basic/efficiency.html.

[37] Following World Resource Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions, and divestitures, as appropriate, to ensure comparability, unless stated otherwise.

[38] This goal covers Lilly's Scope 1 and Scope 2 emissions.

We do not believe that climate change poses significant risks or opportunities for Lilly, given the nature of our operations and the locations of our facilities. See our submission to the Carbon Disclosure Project for more details as well as additional discussion about Lilly's approach to managing GHG emissions (see **www.cdproject.net**).

### ➔ Reducing Energy Use at Clinton Labs in Indiana, United States

Our Clinton Labs facility, in Clinton, Indiana, United States, focuses on animal health product manufacturing that makes extensive use of a fermentation-based production process. This manufacturing is energy intensive, and purchased utilities accounted for a significant amount of the site's expenses in 2010. The facility's corresponding greenhouse gas emissions footprint is about 470,000 metric tons $CO_2$e/year.

After a comprehensive energy assessment in 2006, the site's energy team implemented a series of energy-reduction projects. To help identify the most promising energy-saving ideas, team members also asked frontline employees for recommendations. The energy team also forged strong links with the site's process optimization steering team. As a result, employees are able to monitor the site's electrical load in real-time and take actions to reduce monthly peaks in electrical usage.

In 2010, Clinton Labs completed eight projects, including evaporator process changes, boiler efficiency enhancements, agitation reduction, and others. These saved 27 million kWh during the year, equivalent to 27,000 metric tons of $CO_2$e and nearly 9 percent of the site's total electricity use. Several new projects are planned for 2011.

**SCOPE 3 ESTIMATED EMISSIONS FROM OTHER LILLY ACTIVITIES[39]**
(METRIC TONS $CO_2$e)

| ACTIVITY | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Employee business travel (personal car, taxi, rental car, rail, and air travel) | 65,000 | 65,000 | 63,000 | 72,000 |
| Employee commuting | 76,000 | 76,000 | 76,000 | 72,000 |
| Product transportation and distribution (contracted) | 30,000 | 26,000 | 39,000 | 43,000 |
| Waste generated in operations[40] | 18,000 | 14,000 | 11,000 | 17,000 |
| Non-Kyoto compound emissions (refrigerants, VOCs, etc.) | 14,000 | 33,000 | 15,000 | 23,000 |

[39] These data do not include sales force travel using company vehicles, use of Lilly aircraft, or product distribution with Lilly vehicles. Those items are Scope 1 and are included with Scope 1 and Scope 2 emissions in the GHG Emissions graph above.

[40] This refers to GHG emissions related to wastewater treatment and the incineration of solid and liquid wastes by third parties. It does not include GHG emissions associated with wastes sent to landfill or applied to land.

### ➔ Optimizing Air Compressor Use in Guayama, Puerto Rico

Following analysis of the air compressor systems at Lilly's Guayama, Puerto Rico, site in 2010, employees determined that two air compressors delivering air to the site's facilities and equipment and two air compressors dedicated to the site's nitrogen generators were operating well under capacity, at a cost of $450,000 per year. Connecting the two systems enabled the nitrogen generator air compressors to run at higher utilization and meet all of the compressed air needs for the site, which in turn allowed for the other compressors to be turned off and kept in reserve as backups. This decreased overall energy consumption by nearly 150 kW per hour, saving $220,000 per year and reducing GHG emissions by about 900 metric tons of $CO_2$ annually.

### ➔ Transforming Energy Use at Our Speke, United Kingdom, Manufacturing Facility

Lilly's Speke facility in Liverpool, United Kingdom, which uses fermentation-based production processes extensively to manufacture animal health products, is in the middle of a multi-year energy transformation. This broad effort focuses on numerous aspects, including the following:

- Improving management systems through quarterly updates to the senior leadership team, use of leading and lagging indicators, and an enhanced energy purchasing strategy,
- Conducting energy assessments, using Six Sigma and other techniques,
- Performing infrastructure upgrades,
- Developing a site energy model,
- Implementing real-time energy metering, and

- Engaging employees through awareness events, energy newsletters, "Energy Day" events, suggestion schemes, and other means.

In one example, the site's chilled water compressors, which use roughly 20 million kWh of energy per year, were integrated into one system and replaced with more efficient units. Lilly Speke received a grant of £700,000 ($1.1 million) in 2009 from the Lilly Energy, Waste, and Natural Resource Reduction Fund, to cover nearly half the total project cost. The initiative saves £300,000 ($460,000) and 6.8 million kWh of energy yearly, while decreasing annual greenhouse gas emissions by 1,200 metric tons $CO_2e$. (See **page 67** to learn more about the fund.)

### ➡ Switching to Natural Gas at Our Kinsale, Ireland, Manufacturing Facility

Lilly's site near Kinsale, County Cork, manufactures active ingredients for human health medicines on a 140-acre campus. In 2009, the site relied on heavy fuel oil to generate 60 million kWh of steam for HVAC and process use. While the environmental impacts of this fuel use were recognized, the economic case for switching to cleaner natural gas was weak, as the nearest supply was about seven miles away.

That year, a Lilly employee worked with the gas grid operator to facilitate approval of a new gas pipeline for the town of Kinsale, with Lilly as the primary user. The pipeline was completed in early 2011. In anticipation of natural gas becoming available early that year, Lilly installed gas distribution infrastructure and two high-efficiency boilers on the campus and converted other equipment as needed.

This transition has produced several environmental benefits, including an 18 percent reduction in GHG emissions at the site (equaling 4,210 tons of $CO_2e$ annually). These enhancements have also decreased the facility's $NO_x$ emissions by 85 percent, while eliminating $SO_x$ emissions as well as the risks associated with transporting, storing, and handling heavy fuel oil.

### ➡ Decreasing Energy Use and Climate Impact in Sales and Marketing

Lilly's global sales and marketing affiliates are committed to helping us achieve our environmental objectives. We're continually looking for opportunities to improve the fuel efficiency of our sales-force vehicles, to meet our goal to reduce overall fleet fuel use 10 percent globally by 2013. For example:

- In 2008, the Lilly U.S. fleet initiated a process to replace existing vehicles with new midsize, four-cylinder sedans that will reduce our U.S. fleet fuel use by 11 percent.
- The vehicle selector used by Lilly's U.K. affiliate includes only diesel-fuel vehicles and encourages employees to select models with carbon-emission ratings of less than 130 grams/km.
- Lilly's Spain affiliate has established a fleet carbon-emissions target of 130 grams/km for sales vehicles, and all affiliate drivers have completed an online training course that promotes environmentally responsible driving practices.

At Lilly sales and marketing offices around the world, we've established projects such as LED lighting, heating and air conditioning improvements, and energy awareness days to reduce energy use while increasing employee environmental awareness and action.

For example, our sales office in Surrey, England, has reduced energy consumption by 25 percent since 2007 by using more energy efficient data center cooling, installing timed lighting controls, and implementing meters to measure and display electricity efficiency around the campus. Low-impact commuting initiatives include a bike-to-work program, carpooling, and shuttles from the office to the local train station. Employees can enter a monthly "Green Travel to Work" raffle and win a prize for using these programs.

## Water Use

Water is becoming more of an important issue for Lilly, due to trends in availability, quality, and cost. We consume water in our manufacturing and production activities and also for domestic uses in our offices (such as cafeterias, bathrooms, and landscaping). We also require exceptionally high-quality water to produce injectable products.

In 2011, we used the World Business Council for Sustainable Development's Water Tool and the United Nations Environment Programme's Vital Water Tool to refine our evaluation of water-stressed areas where we operate. Each of our facilities is required to have a local business-continuity plan that addresses all sources of business interruption, including water availability. Water availability and quality are of increasing concern particularly in emerging markets (such as China, India, and Russia), and we are continuing to assess how to address these challenges.

Our manufacturing and administration groups as well as Lilly research laboratories have developed plans to reduce water consumption and measure progress against targets that contribute to our overall water-use reduction goal. Facilities collaborate with Lilly's engineering technical center to find technologies that reduce water intake and with our global HSE environmental affairs group to explore financing for water-reduction projects (see **page 77**).

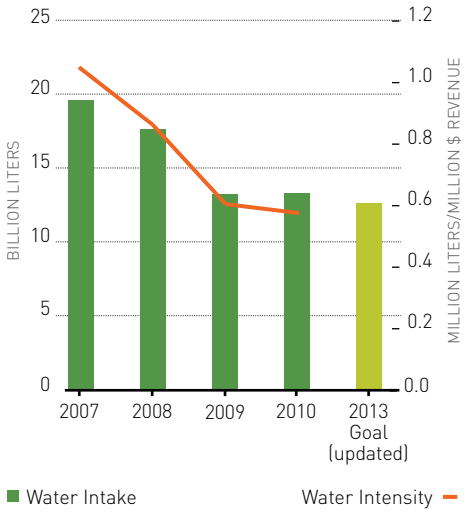
### ➡ Progress Toward Goal

In 2010, Lilly's water intake[41] was 13.3 billion liters, compared with 13.2 billion liters in 2009 (see graph below).

Examples of how we have reduced our water intake since 2007 include identifying and repairing leaks in water systems, improving purified water production efficiency, and treating and reusing water in cooling tower systems.

After meeting our 2013 water-intake reduction goal four years early[42] (see **page 66**), we have established a new goal to reduce water intake by 5 percent in absolute terms by 2013, compared to 2010. Meeting the new goal will be challenging, as we are facing production increases that will elevate water intake rates.

### Progress Toward Goal — Water Intake




### ➡ Improving Reverse Osmosis to Conserve Water in Fegersheim, France

At Lilly's manufacturing site in Fegersheim, France, employees formulate, fill, and finish injectable products. Exceptionally clean water is required for these processes, so water purification is the leading driver of water use at the site.

In 2008, the facility used 310 million liters of city water to produce 155 million liters of purified water. Working toward a goal to decrease wastewater by 50 percent in the water purification process, the site installed a new reverse osmosis unit that recycles about half of the water rejected by three other existing units, with no impact on purified water quality. In 2010, due to these enhancements, the site saved more than 93 million liters of city water, equivalent to 16 percent of the facility's total water consumption and 63 percent of its purified water process rejects. Following an initial investment of $228,000, yearly financial benefits are estimated at $87,000.

[41] "Water intake" as used in evaluating our progress toward our water-reduction goal is the total amount of water coming into a facility, including water pumped from bodies of surface water and groundwater, and water provided by a utility. It includes water used in processes, utilities, and other ancillary operations, such as irrigation. The term does not include groundwater pumped solely for treatment to satisfy regulatory actions or requirements (e.g., remediation activities where the water is not used for another purpose). Values do not include the water extracted from wells solely for the purpose of lowering the groundwater table(s) to maintain the physical and structural integrity of building foundations.

[42] Following World Resource Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions, and divestitures, as appropriate, to ensure comparability, unless stated otherwise.

## Waste

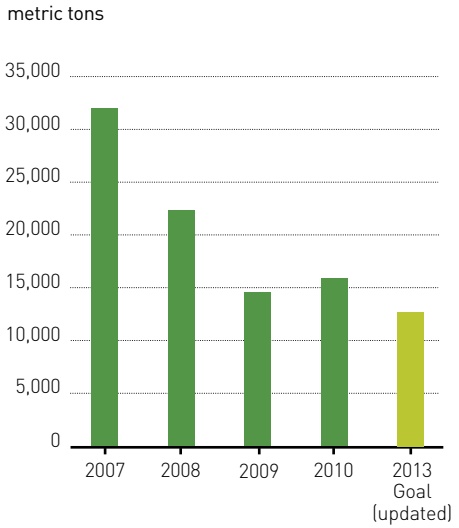
To increase business value and reduce the impact of our operations on the environment, Lilly uses the following hierarchy for waste treatment:

- Eliminate or reduce the amount of waste produced,
- Reuse materials when possible (often multiple times),
- Recycle used materials to make new products,
- Recover energy from waste,
- Treat waste to reduce toxicity and volume, and
- Send waste to landfill only when the options above are not feasible.

### ➡ Progress Toward Goal

In 2010, Lilly sent 15,900 metric tons of waste to landfill, up from 14,800 metric tons in 2009 and a decrease of 50 percent compared to 2007 (see graph below).

### Progress Toward Goal — Waste to Landfill



## Waste Generation


After meeting our 2013 waste-to-landfill reduction goal four years early (see **page 66**), we have established a new goal to reduce the amount of waste sent to landfills by 20 percent, with a baseline of 2010.[43] Our ultimate goal is to send zero waste to landfill.[44]

See a summary of total waste generation and disposition on **page 86**.

During 2010, total waste at Lilly was managed in the following ways:

- **REUSED** (65 percent): For example, mycelia, a solid material left after a fermentation process, is being used as a soil conditioner on farmland. Spent urea, a material used in insulin production, is used as an ingredient in fertilizer manufacturing. See Applying Fermentation Waste to Land in Indiana, United States, at right for more detail.
- **RECYCLED** (20 percent): This includes solvent recovery in development and manufacturing processes, the recycling of construction and demolition debris, and "waste-to-energy," in which steam and electricity are produced from waste to provide power to several of our facilities.
- **TREATED** (5 percent): This includes incineration and other waste treatment, but not wastewater treated on-site or at public facilities.
- **LANDFILLED** (10 percent): The proportion of waste sent to landfill increased from 7 percent in 2009 to 10 percent in 2010.[45] Six sites globally reported achieving zero-landfill status, including Lilly's U.S. distribution centers in Fresno, California; Enfield, Connecticut; and Plainfield, Indiana; our research and development center in Surrey, United Kingdom; and manufacturing sites in Suzhou, China, and Giessen, Germany.

See **page 86** for historical waste-disposition data.

### ➡ Promoting the Reuse of Surplus Equipment and Supplies at Our Global Headquarters in Indiana, United States

In Indiana alone, Lilly operations produce an average of 12 to 14 pallets of surplus equipment and supplies every business day. Over the past 10 years, Lilly's Indianapolis facilities management asset recovery department (ARD) has implemented a process to receive and evaluate these assets for reuse, donation, sale, or recycling, as follows:

- **REUSE:** An internal website, launched in 2010, enables Lilly employees and affiliates to access information about surplus equipment online, to easily identify materials needed for their department.
- **DONATION:** Since 2000, ARD staff has worked with Lilly volunteers to conduct a community outreach program called "Teacher's Day," at which teachers invited from 90 schools statewide "shop" from approximately 100 pallets stocked with free lab equipment and office supplies. In 2010, the donated goods were estimated to be worth more than $100,000, and the program diverted more than 10 metric tons of waste from landfills.
- **SALE:** Equipment that is not redeployed or donated is sold through a network of non-Lilly equipment brokers.
- **RECYCLING:** ARD works with several recycling vendors to handle metal, electronic waste, cardboard, plastic, glass, wood pallets, refrigerators, and freezers.

### ➡ Applying Fermentation Waste to Land in Indiana, United States

Fermentation was first implemented at Lilly in the 1950s to produce the polio vaccine. It continues to play a central role in manufacturing several Lilly animal health products.

Using large fermentation vats and inputs such as grain, sugar, and starches, the process uses significant amounts of energy and water and also creates substantial amounts of nontoxic, organic by-products.

[13] Our former and current waste-to-landfill goals do not include construction and demolition debris, biosolids from wastewater treatment plants, incinerator ash, coal ash if reused for mine reclamation or road base, and mycelia and urea reused for fertilizer. Following World Resource Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions, and divestitures, as appropriate, to ensure comparability. However, unlike our energy, GHG emissions, and water-intake goals, performance data used to calculate progress against our waste-to-landfill goal do not exclude data from our Tippecanoe Laboratories facility in Indiana, United States, which Lilly divested in 2009, because the data at that site did not have a significant impact on our worldwide waste-to-landfill total.

[44] "Zero landfill" refers to eliminating, reusing, or recycling waste to the point that it is no longer sent to a landfill. A site may achieve "zero landfill" status if less than 0.5 percent of the waste it generates is sent to landfill.

[45] This change was due largely to our divestiture of Tippecanoe Laboratories in 2009. Because that site sent almost no waste to landfill, removing it from our data set increased the overall proportion of waste to landfill even though it didn't significantly impact the absolute amount.

To enhance environmental performance, save money, and benefit local farmers, beginning in 1977 Lilly has applied fermentation by-products to local farmland in Indiana, and more recently at our site in Augusta, Georgia, both on property Lilly owns and in cooperation with local farmers.

This waste provides essential plant nutrients to the soil, and the amount that Lilly applies has a value of $70 to $90 per acre per year. This approach also saves Lilly substantial amounts of money in avoided waste-disposal costs. In 2010, Lilly land-applied about 68,000 cubic meters of this material in Indiana.

Lilly is also working to improve energy and water use in fermentation processes through technological and process innovations such as upgrading fermentation equipment and recycling non-contact cooling water.

### ➡ Increasing Recycling in Carolina, Puerto Rico

Lilly's site in Carolina, Puerto Rico, has dramatically increased its recycling rate in recent years, from 11 percent in 2007 to 84 percent in 2010. Initiatives have included the following:

- Constructing and operating a urea evaporator, which concentrates the quantity of spent urea (a material used in the manufacture of insulin) to 50 percent and allows it to be beneficially reused in the manufacture of fertilizers,
- Installing recycling stations and containers in office areas, parking lots, and cafeterias throughout the site,
- Reusing materials, including fiber drums used to ship and store raw materials, and
- Recycling nearly 100 percent of waste acetonitrile (a solvent commonly used in manufacturing at Lilly, especially in insulin production), instead of incinerating it.

Waste urea storage and evaporator facility.

The facility also realizes more than $1.3 million in annual savings due to these initiatives, and has been recognized by the Puerto Rico Manufacturing Association and the local government for its waste-reduction efforts.

### ➡ Demonstrating Strong Environmental Performance in Surrey, United Kingdom

At our Erl Wood R&D site in Surrey, United Kingdom, employees have implemented innovative programs recently to demonstrate strong environmental progress toward our environmental goals related to energy and GHG emissions, water use, and waste generation.

#### IMPROVING ENERGY EFFICIENCY

At Erl Wood, employees conduct R&D for our product pipeline. One research building was used only 12 hours a day, Monday through Friday; historically it was heated, cooled, lit, and ventilated all day and night, seven days a week.

In 2008, employees set a target to decrease energy consumption at the site by 15 percent. A cross-functional team with representatives from chemistry users, HSE, and engineering identified more than 69 ways to improve energy efficiency, including modifications to lighting, temperature control, optimization of lab equipment, and more. The team prioritized potential projects based on the estimated impact on safety, productivity, and energy use, as well as their cost, time to implement, and the likelihood that employees would actually adopt the changes.

Enhancements implemented in 2010 included replacing faulty variable air volume controllers, allowing temperatures to rise or fall during off hours, optimizing lighting activation controls, and others. During the year, the building used 4,930,000 kWh of energy, 24 percent less than during the baseline year of 2007, saving $100,000. In February 2011, the building recorded its lowest electricity consumption since October 2005, when it opened.

#### SAVING WATER WITH AUTOMATED MONITORING AND TARGETING

To improve understanding and control of water use at the Erl Wood facility, in 2007 facility managers installed a site-wide automated water monitoring and targeting system. Each building now has a meter to record consumption of domestic water

and process water. These meters— which paid for themselves in a matter of a few months—provide valuable information regarding anomalies of usage that can indicate leaks or other system flaws, such as excessive night-time consumption and sudden changes in usage.

For example, after identifying an unexpected increase in water flow in one part of the building, employees located and repaired a broken pipe, saving 11 million liters of water that would have been wasted annually. By the end of 2010, the site had reduced water intake by 50 percent compared with 2006, saving more than 20 million liters of water annually.

### ACHIEVING ZERO WASTE TO LANDFILL

Through numerous initiatives, the Erl Wood site has reduced waste sent to landfill by 62 percent from 2003 to 2010. In 2009, employees implemented a "wormery" to compost food waste. They also created on-site composting bays to treat garden and grounds maintenance waste.

In 2010, in an effort to reduce overall waste and increase recycling, the site rolled out centralized recycling points to replace all individual collection bins (the contents of which had gone to incineration with heat recovery), replaced paper and plastic cups with glass and china, and diverted residual landfill waste to a waste-to-energy facility. Due to these efforts, since the fourth quarter of 2010 the site has sent zero waste to landfill, compared to more than 60 metric tons in 2009, while increasing the volume of materials (such as cans, bottles, and paper) that the site recycles.

The "wormery" at our Erl Wood site.

## Green Procurement

Historically, decisions about purchasing to support Lilly's operations did not consider the company's sustainability initiatives. For example, in 2009 only an estimated 13 percent of the office supplies Lilly purchased by volume in the state of Indiana qualified as "green,"[46] even though a substantially higher percentage of such products were available.

During 2010, Lilly worked with our main office supply vendor to assess opportunities to improve in this area. After challenging the vendor to provide more information about cost-competitive alternatives, we modified our selections in several categories, including pens, binders, memo pads/notebooks, envelopes, file folders, and laminate end tabs. This increased our green purchasing level to 33 percent across Indiana.

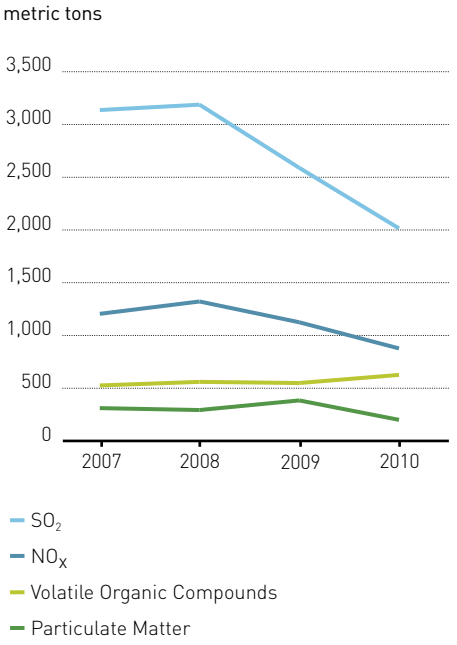
We are currently implementing several additional initiatives that will further elevate our green purchasing rate during 2011 throughout Indiana, including:

- Offering as an option a new brand of office copier paper that contains 30 percent post-consumer recycled content,
- Substituting "green" alternatives for more items, and
- Removing selected non-green alternatives from the e-catalog used by our clerical staff.

For information about Lilly's standards in product packaging, see **page 71**.

[46] According to the definition of environmentally preferable at www.epa.gov/epp/pubs/guidance/finalguidanceappx.htm#AppendixA.

## Air Emissions




| POLLUTANT | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Volatile Organic Compounds (metric tons) | 526 | 560 | 549 | 626 |
| Particulate Matter (metric tons) | 311 | 293 | 384 | 200 |
| $SO_2$ (metric tons) | 3,137 | 3,188 | 2,589 | 2,015 |
| $NO_x$ (metric tons) | 1,205 | 1,322 | 1,125 | 877 |
| Ozone-Depleting Substances (potential) (kg CFC-11 equivalent) | 795 | 2,376[47] | 749 | 790 |

[47] The value during this year was elevated compared to other years due to a high amount of chiller maintenance at two manufacturing sites.

## Other Air Emissions

During the last decade, Lilly has reduced emissions of volatile organic compounds (VOCs) by 53 percent, particulate matter by 67 percent, and ozone-depleting substances by 54 percent. Today, the company's other significant air emissions include nitrogen oxides ($NO_x$) and sulfur dioxide ($SO_2$) resulting from the combustion of natural gas, oil, and coal. Lilly's continued focus on improving energy efficiency and reducing GHG emissions is expected to further decrease the levels of $NO_x$ and $SO_2$ emissions during the coming years.

Emissions decreased from 2007 to 2010 in all categories reported except VOCs (see graph above). That increase was due to increased production rates for selected products.

## Biodiversity

Lilly recognizes that biodiversity is an increasingly important sustainability issue. Lilly has a long history of working collaboratively to protect habitat and minimize the impact of our operations on ecosystems. We pursue a decentralized approach, recognizing the variation in biodiversity challenges and opportunities based on location, and we engage in conservation projects and habitat enhancements at many sites worldwide. We also support conservation efforts in the communities where our facilities are located.

Based on studies such as the one conducted at Kinsale Harbor, discussed below, we believe that Lilly operations have limited impact on biodiversity.

View of Kinsale Harbor.

### Understanding Aquatic Life in Kinsale Harbor, Ireland

We have commissioned a long-term study of Kinsale Harbor near our manufacturing site in southern Ireland. This study, ongoing since 1978 and conducted by researchers at National University of Ireland, Galway, has suggested that the minor changes observed in the aquatic life of Kinsale Harbor are associated with natural stresses, such as storm events, rather than any discharge effects from our facility. Overall, the ecologic system of the harbor has shown a high measure of resilience and an ability to thoroughly handle wastewater discharges.

### Preserving Ecological Habitat in Guayama, Puerto Rico

Our facility in Guayama, Puerto Rico, includes about 10 acres within its grounds as an ecological habitat conservation area, to help preserve and restore the vibrant plant life in this country. The space is divided into three areas:

- **EDUCATION**—This zone, about two acres, features a system of paths that students and others use to observe and learn about the ecological services provided by native trees such as Ceiba, Dormilón, Guácima, Mamey, and Ucar.

Walking paths in the education area at our site in Guayama, Puerto Rico.

At Lilly's site in Augusta, Georgia, several ponds provide water for wildlife species.

At the Augusta property, sunflowers provide food, pollination, and cover for many different species.

- **REFORESTATION**—In this four-acre section of the property, we are restoring vegetation that previously thrived locally before being cleared for farming. This includes a mosaic of endemic and exotic native trees such as Guayacán, Higüero, and Ortegón, as well as several species of cactus.
- **PRESERVATION**—This area, also about four acres, has no paths or other infrastructure, and is only viewable from a distance. It is designed to be undisturbed and allow natural processes to take their course.

Employees who have received training provide interpretive services at the site as a part of guided environmental tours.

### ➡ Assessing Biodiversity in Surrey, United Kingdom

Lilly's research and development site in Surrey, United Kingdom, is located in a rural area that includes substantial numbers of trees and shrubs. Lilly has undertaken several biodiversity studies at the site over the last 10 years, including audits of trees, bats, small mammals, and badgers. The facility gained certification to the Wildlife Trusts' Biodiversity Benchmark in March 2010. The Biodiversity Benchmark is a management process that enables any organization that owns or manages land to assess its impact on the natural world, improve its contribution to the environment, and demonstrate its commitment to biodiversity. (See **www.wildlifetrusts.org/index.php?section=corporate:biodiversity:whatisit** for more on the Wildlife Trusts.)

### ➡ Enhancing Biodiversity in Georgia, United States

Lilly's manufacturing site in Augusta, Georgia, manages a 650-acre farm in Burke County. The facility's wildlife habitat committee focuses on enhancing biodiversity at the site through the implementation of its wildlife management plan. We recently exceeded our habitat challenge goal to enhance or restore at least 10 acres, by improving more than 25 acres through activities such as removing and replacing non-native plants with native perennials and increasing watershed buffers.

Some of the land is farmed using conventional planting methods. In addition:

- 30 acres are cultivated using primarily no-till methods to prevent erosion and decrease soil disturbance. We also broadcast (distribute seeds from a distance) cover crops into existing areas so as not to disturb already established habitat. This includes 28 different types of seeds—such as wildflower mix, corn, sunflowers, Egyptian wheat, Japanese millet, switch grass, and chicory—to provide food and cover all year long.
- 40 acres are covered by reclaimed native grasses and open shrubs.
- 35 acres are left fallow for future development, and are covered with several types of weeds and shrubs to provide bedding, escape cover, nesting, and brood-rearing areas for quail and other native species of birds.
- 105 acres of open areas provide habitat development.
- 110 acres are covered in large trees.
- 20 acres are covered in ponds.

The property was certified to the Wildlife Habitat Council's Wildlife at Work and Corporate Lands for Learning certifications in 2009 and recertified in 2010. Educational activities have included demonstrating habitat enhancement techniques to local farmers, hosting events for youth and Lilly employees at the site, and others.

Great blue heron and egrets flying over the wetland habitat at Lilly's manufacturing site in Clinton, Indiana.

An 8,700-square-foot green roof at Lilly's corporate center in Indianapolis, Indiana.

### ➡ Demonstrating the Affinity of Conservation and Farming in Indiana, United States

In early 2011, we introduced a project that will showcase the compatibility of conservation and farming, while protecting more than 300 acres at Lilly's manufacturing facility in Clinton, Indiana.

A conservation easement will forever protect approximately 300 acres between Lilly's Clinton Laboratories and the Wabash River. The site will feature several wildlife habitat and buffer areas, including:

- 46 acres of native grass plantings,
- 31 acres of restored wetlands,
- 28 acres of tree plantings,
- four acres of research area plantings,
- three miles of trails, and
- 126 acres in the center of the restoration that will continue to be farmed.

The demonstration project, which is part of the state of Indiana's Healthy Rivers Initiative along the Wabash River, will show how wildlife habitat can be created to buffer the river and allow farming to continue on land prone to flooding.

During the next year, Lilly, the Indiana Department of Natural Resources, and other environmental partners will work with employee volunteers to plant at least 20,000 flood-tolerant trees along the banks of the river, flood and maintain the wetland areas, and plant grasses among prairies. These areas are targeted to be accessible to the public via parking areas and hiking trails in the fall of 2012.

### ➡ Supporting Biodiversity at Global Headquarters in Indiana, United States

At our global headquarters in Indianapolis, Indiana, Lilly's Sustainability Garden occupies nearly four acres of land where alleys, roads, and buildings used to stand. In 2009, Lilly reclaimed and reused 10,000 bricks and recycled 327 metric tons of asphalt and 163 metric tons of concrete to develop the garden. The site contains more than 32,000 native plants, trees, and shrubs, which require less water and chemical fertilizer to thrive. The walking path through the garden acts as a biofilter and channels storm water into the subsoil. The garden reduces storm-water runoff into city sewers by an estimated 13.2 million liters per year.

Also at the corporate headquarters, Lilly has installed four green roofs on buildings since 2009, representing a total of 21,000 square feet. These roofs lessen weather's eroding effects on buildings and reduce the urban

### THE INDIANAPOLIS PRIZE

The Lilly Foundation has provided funding for the prestigious Indianapolis Prize, the world's leading award for animal conservation, since the award's founding in 2006. The recognition is given every other year to an individual who has made extraordinary contributions to conservation efforts involving a single animal species or multiple species. In addition to the $100,000 unrestricted cash prize, the winner receives the prestigious Lilly Medal.

In 2010, Save the Elephants founder Iain Douglas-Hamilton, Ph.D., received the award in recognition of his lifetime achievements. During the last four decades, Dr. Douglas-Hamilton's efforts have included breakthrough scientific studies in elephant social behavior, GPS-based elephant tracking methods, leadership of emergency anti-poaching efforts in Uganda, testifying before the U.S. Congress about elephant issues on numerous occasions, and extensive other activities benefitting the species.

Other finalists in 2010 included Gerardo Ceballos (National Autonomous University of Mexico), Rodney Jackson (Snow Leopard Conservancy), Laurie Marker (Cheetah Conservation Fund), Carl Safina (Blue Ocean Institute), and Amanda Vincent (Project Seahorse).

Iain Douglas-Hamilton (left) taking blood and hair samples from an anaesthetized elephant, in preparation to add a GPS collar as part of a project to track elephants and protect them from poachers and land-use conflicts in Africa. Credits: Photographer Matt Mays and the Indianapolis Zoo.

A walkway provides employee and visitor access to explore one of the green roofs.

**ENVIRONMENTAL COMPLIANCE**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Reported Permit Limit Exceedances[48] | 43 | 27 | 16 | 11 |
| Number of Significant Spills[49] | 0 | 0 | 0 | 0 |
| Environmental Fines Paid ($) | $96,900 | $0 | $12,000 | $1,200 |

[48] "Reportable permit-limit exceedances" are environmental releases to air, water, or land outside of regulatory limits. These do not necessarily result in harm to people or the environment.

[49] "Significant spill" in this report refers to any unexpected, unintended, abnormal, or unapproved dumping, leakage, drainage, seepage, discharge, or other loss of a substance that resulted in damage to the environment (i.e., human health, aquatic life, or wildlife) or a material event requiring reporting to the U.S. Securities and Exchange Commission. Damage means the actual or imminent alteration of the environment so as to render the environment harmful, detrimental, or injurious.

heat island effect commonly seen in cities. A green roof also improves air quality and promotes biodiversity by providing another place for plants to thrive. The plants on Lilly's green roofs include 11 types of drought-resistant sedum plants, specially selected for the Midwest climate. Not only do these roofs prevent approximately 1.7 million liters of stormwater from entering the city's sewer systems annually, they also extend the lives of the roofs' infrastructure by up to 10 years.

## Environmental Compliance

Lilly's policy is to comply with all health, safety, and environment regulations wherever we do business. We believe compliance is foundational in maintaining our facilities' "right-to-operate" in their local communities. (See **page 64** for more information about our HSE policies, standards, and management systems.) If it is determined that we are out of compliance, we work to remedy the situation as quickly as possible.

We use environmental capability assessments to apply statistical process-control techniques to environmental processes to reduce the number of environmental events caused by permit-limit exceedances. These processes include wastewater collection and treatment, air pollution control, incineration, and steam generation at Lilly facilities.

Reportable permit-limit exceedances decreased from 43 in 2007 to 11 in 2010, a 74 percent reduction and the lowest level ever reported by the company. Of the exceedances in 2010, one related to air and 10 related to water. Four occurred in the United Kingdom, three in Puerto Rico, two in the United States, and one each in France and Ireland.

During routine inspections in 2006 and 2007, the U.S. Environmental Protection Agency identified potential weaknesses in our leak detection and repair program at our Lilly technology center facility in Indianapolis, Indiana. In addition, in 2006 we voluntarily reported to the state and city environmental agencies that we had exceeded an annual limit for air emissions. In response to these events, we have implemented numerous corrective actions and enhancements to our environmental programs. We paid a penalty of $337,500 in early 2011 to settle the case. There was no harm done to employees, neighbors, or the environment as a result of these events.

## Awards and Recognition

- Newsweek Green Rankings, listed as the 58th greenest U.S. company (2010)
- Keep Indianapolis Beautiful, Donor of the Year (2010)
- Indiana Governor's Environmental Excellence Award, Land Use category winner (2010)
- Chemical Industry Awards, EDF Energy Low Carbon Award, U.K., short-listed (2011)
- SustainIndy Finalist in two categories (Land and Water) (2011)
- Puerto Rico Manufacturing Association, Gold and Silver Medal award winner for non-hazardous waste reduction and recycling (2011)

# FOSTERING ENVIRONMENTAL SUSTAINABILITY SUMMARY DATA TABLE[50, 51]

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **ENERGY USE** | | | | |
| Energy Consumption (million BTUs) | 12,900,000 | 11,900,000 | 11,300,000 | 11,200,000 |
| Energy Intensity (thousand BTUs/square foot) | 593 | 562 | 543 | 520 |
| Energy Intensity (million BTUs/million $ revenue) | 692 | 584 | 517 | 485 |
| Direct Energy Consumption (million BTUs) | 4,670,000 | 4,510,000 | 4,230,000 | 4,190,000 |
| Coal (million BTUs) | 1,410,000 | 1,290,000 | 1,140,000 | 1,280,000 |
| Natural Gas (million BTUs) | 2,480,000 | 2,400,000 | 2,400,000 | 2,200,000 |
| Fuel Oil (million BTUs) | 768,000 | 801,000 | 661,000 | 687,000 |
| Liquid Propane (million BTUs) | 18,600 | 21,500 | 29,600 | 22,700 |
| Indirect Energy Consumption (million BTUs) | 8,240,000 | 7,360,000 | 7,120,000 | 7,000,000 |
| Purchased Electricity (million BTUs) | 4,630,000 | 4,500,000 | 4,350,000 | 4,310,000 |
| Purchased Steam (million BTUs) | 2,990,000 | 2,610,000 | 2,310,000 | 2,200,000 |
| Purchased Chilled Water (million BTUs) | 619,000 | 254,000 | 449,000 | 491,000 |
| **GREENHOUSE GAS EMISSIONS** | | | | |
| Greenhouse Gas Emissions (Scope 1 and Scope 2) (metric tons $CO_2e$) | 1,810,000 | 1,740,000 | 1,670,000 | 1,620,000 |
| Scope 1 | 513,000 | 500,000 | 478,000 | 455,000 |
| Scope 2 | 1,300,000 | 1,240,000 | 1,190,000 | 1,170,000 |
| Greenhouse Gas Emissions Intensity (kg $CO_2e$/square foot) | 83.1 | 82.6 | 79.8 | 75.3 |
| Greenhouse Gas Emissions Intensity (metric tons $CO_2e$/million $ revenue) | 97.1 | 85.4 | 76.5 | 70.2 |
| Scope 3 Emissions (not included in metrics above)[52] | | | | |
| Employee Business Travel (personal car, taxi, rental car, rail, and air travel) (metric tons $CO_2e$) | 65,000 | 65,000 | 63,000 | 72,000 |
| Employee Commuting (metric tons $CO_2e$) | 76,000 | 76,000 | 76,000 | 72,000 |
| Product Transportation and Distribution (contracted) (metric tons $CO_2e$) | 30,000 | 26,000 | 39,000 | 43,000 |
| Waste Generated in Operations (metric tons $CO_2e$) | 18,000 | 14,000 | 11,000 | 17,000 |
| Non-Kyoto Compound Emissions (refrigerants, VOCs, etc.) (metric tons $CO_2e$) | 14,000 | 33,000 | 15,000 | 23,000 |
| **WATER USE** | | | | |
| Water Intake (billion liters)[53] | 19.6 | 17.6 | 13.2 | 13.3 |
| Municipal (billion liters) | | | | 10.4 |
| Surface (billion liters) | | | | 0 |
| Groundwater (billion liters) | | | | 2.9 |
| Water Intensity (million liters/million $ revenue) | 1.05 | 0.864 | 0.605 | 0.576 |

See footnotes on following page.

(cont'd)

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **WASTE** | | | | |
| Waste Generation (metric tons) | 379,000 | 387,000 | 287,000 | 228,000 |
| Hazardous Waste Generation (metric tons) | 53,800 | 55,500 | 46,400 | 31,000 |
| Non-Hazardous Waste Generation (metric tons) | 325,000 | 331,000 | 241,000 | 197,000 |
| Waste Generation Intensity (metric tons/million $ revenue) | 20.3 | 19.0 | 13.1 | 9.88 |
| Waste Disposition | | | | |
| Beneficially Reused (metric tons) | 253,900 | 198,700 | 201,600 | 148,800 |
| Recycled (includes incineration with energy recovery) (metric tons) | 31,500 | 102,000 | 28,800 | 45,000 |
| Treated (includes incineration without energy recovery) (metric tons) | 49,100 | 49,700 | 35,600 | 12,300 |
| Landfilled (metric tons) | 44,700 | 32,600 | 21,200 | 22,100 |
| Landfilled (related to goal) (metric tons)[54] | 32,000 | 22,300 | 14,800 | 15,900 |
| **OTHER AIR EMISSIONS** | | | | |
| Volatile Organic Compound Emissions (metric tons) | 526 | 560 | 549 | 626 |
| Particulate Matter (metric tons) | 311 | 293 | 384 | 200 |
| $SO_2$ Emissions (metric tons) | 3,137 | 3,188 | 2,589 | 2,015 |
| $NO_x$ Emissions (metric tons) | 1,205 | 1,322 | 1,125 | 877 |
| Ozone-Depleting Substances Potential (kg CFC-11 equivalent) | 795 | 2,376 | 749 | 790 |
| **ENVIRONMENTAL COMPLIANCE** | | | | |
| Reportable Permit-Limit Exceedances[55] | 43 | 27 | 16 | 11 |
| Number of Significant Spills[56] | 0 | 0 | 0 | 0 |
| Environmental Fines Paid ($) | $96,900 | $0 | $12,000 | $1,200 |
| **ENERGY, WASTE, AND NATURAL RESOURCE REDUCTION FUND** | | | | |
| Expenditures ($ millions) | $0 | $6.5 | $5.7 | $4.1 |

[50] Some segments do not add up to totals due to rounding.

[51] Energy use, greenhouse gas emissions (except Scope 3), and water-use data are reported on an adjusted basis accounting for mergers, acquisitions, and divestitures. The other data in this table are nonadjusted.

[52] These data do not include sales-force travel using company vehicles, use of Lilly aircraft, or product distribution with Lilly vehicles. Those items are Scope 1 and included in the data above.

[53] "Water intake" as used in evaluating our progress toward our water-reduction goal is the total amount of water coming into a facility, including water pumped from bodies of surface water and groundwater, and water provided by a utility. It includes water used in processes, utilities, and other ancillary operations, such as irrigation. The term does not include groundwater pumped solely for treatment to satisfy regulatory actions or requirements (e.g., remediation activities where the water is not used for another purpose). Values do not include the water extracted from wells solely for the purpose of lowering the groundwater table(s) to maintain the physical and structural integrity of building foundations. Data for breakdown of water intake by source are not available prior to 2010.

[54] Our former and current waste-to-landfill goals do not include construction and demolition debris, biosolids from wastewater treatment plants, incinerator ash, coal ash if reused for mine reclamation or road base, and mycelia and urea reused for fertilizer.

[55] "Reportable permit-limit exceedances" are environmental releases to air, water, or land outside of regulatory limits. These do not necessarily result in harm to people or the environment.

[56] "Significant spill" in this report refers to any unexpected, unintended, abnormal, or unapproved dumping, leakage, drainage, seepage, discharge, or other loss of a substance that resulted in damage to the environment (i.e., human health, aquatic life, or wildlife) or a material event requiring reporting to the U.S. Securities and Exchange Commission. Damage means the actual or imminent alteration of the environment so as to render the environment harmful, detrimental, or injurious.

# ABOUT THIS REPORT

This is Eli Lilly and Company's 2010 Corporate Responsibility Report. It is an important expression of our commitment to transparency and accountability and a tool for dialogue with our stakeholders. The report builds on Lilly's recent Communication on Progress to the United Nations Global Compact (UNGC), issued in December 2010. Lilly will continue to report annually its Communication on Progress and will update its Corporate Responsibility Report on a regular basis.

Data contained in this report are for the 2010 calendar year and include global operations, unless otherwise noted. We also discuss significant events that occurred in the first half of 2011. This report does not include joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, or other items, unless such business arrangements would affect the intent of this report.

Our financial information is prepared according to the Generally Accepted Accounting Principles (GAAP) in the United States and is subject to our own internal accounting control systems as well as external third-party audits. Unless otherwise noted, all dollar amounts given are in U.S. dollars.

The content and data in this report have not been externally verified. Lilly follows structured processes to collect, evaluate, and calculate the data we report, to ensure appropriateness and accuracy. We consider external standards in deciding what data to collect and report. For example, following guidance from the World Resources Institute, we report progress toward environmental goals on an adjusted basis accounting for mergers, acquisitions, and divestitures as appropriate, to ensure comparability, unless stated otherwise. Our global health, safety, and environment management system is certified by an independent, accredited auditor in accordance with the American Chemistry Council's Responsible Care Management System requirements.

In some parts of the report, such as the Fostering Environmental Sustainability section, we have significantly expanded the metrics we include. This provides a more complete description of the company's performance and addresses our stakeholders' increasing interest in this information.

This report is aligned with the Global Reporting Initiative (GRI) G3 Guidelines, at the B application level. The GRI is a network-based organization that produces a comprehensive sustainability reporting framework widely used around the world. The GRI's core goals include the mainstreaming of disclosure on environmental, social, and governance performance. An index to GRI indicators in this report is included on **page 88**. More information about the GRI and the application levels can be found at **www.globalreporting.org**.

This report also serves as Lilly's annual Communication on Progress for the United Nations Global Compact, of which Lilly is a signatory. The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, the environment, and anti-corruption. An index to the UNGC indicators in this report can be found on **page 103**. More information about the UNGC can be found at **www.unglobalcompact.org**.

We welcome feedback on this report, as it helps us to improve future reports. Please contact:

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# GLOBAL REPORTING INITIATIVE INDEX

## Standard Disclosures Part I: Profile Disclosures

Reporting Key: ● Fully ◒ Partially ○ Not

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **1. STRATEGY AND ANALYSIS** | | | |
| 1.1 | Statement from the most senior decision-maker of the organization. | ● | page 2 |
| 1.2 | Description of key impacts, risks, and opportunities. | ● | page 2<br>2010 10-K, pages 11-13 |
| **2. ORGANIZATIONAL PROFILE** | | | |
| 2.1 | Name of the organization. | ● | page 4 |
| 2.2 | Primary brands, products, and/or services. | ● | page 4 |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | ● | The Board of Directors of Eli Lilly and Company are elected by the company's shareholders to oversee the actions and results of the company's management. Lilly's operational structure includes five main business units: Lilly Bio-medicines, Lilly Diabetes, Lilly Emerging Markets, Lilly Oncology, and Elanco Animal Health. Lilly Research Labs and the Development Center of Excellence compose the research and development areas of the organization. Manufacturing and Quality have responsibility for producing medicines and monitoring safety throughout our products lifecycle. Additionally, the company is supported by general and administrative capabilities including key organizations such as finance, information technology, corporate affairs, and legal.<br><br>For more information about our products and partners, consult the 2010 Annual Report on Lilly.com. |
| 2.4 | Location of organization's headquarters. | ● | **page 4** |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | ● | **page 4** |
| 2.6 | Nature of ownership and legal form. | ● | **page 4** |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | ● | **pages 4, 32** |
| 2.8 | Scale of the reporting organization. | ● | **page 4** |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | ● | N/A |
| 2.10 | Awards received in the reporting period. | ● | **pages 47, 51, 52, 55, 62, 84** |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | ● | **page 87** |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| 3.2 | Date of most recent previous report (if any). | ● | **page 87** |
| 3.3 | Reporting cycle (annual, biennial, etc.). | ● | **page 87** |
| 3.4 | Contact point for questions regarding the report or its contents. | ● | **page 87** |
| 3.5 | Process for defining report content. | ● | **page 5** |
| 3.6 | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance. | ● | **page 87** |
| 3.7 | State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope). | ● | **page 87** |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | ● | **page 87** |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols. | ● | **pages 64, 66, 86** |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/ acquisitions, change of base years/periods, nature of business, measurement methods). | ● | **pages 66, 86** |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | ● | Expanded data reported in Fostering Environmental Sustainability section |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | ● | **pages 88-102** |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | ● | **page 87** |
| **4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT** | | | |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | ● | **Proxy Statement, page 10** |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | ● | **Proxy Statement, page 7** |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| 4.3 | For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members. | ● | **Proxy Statement, page 11** |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | ● | Shareholders can communicate with the board of directors in writing via the corporate secretary's office. In general, formal mechanisms are not in place for employees to make recommendations directly to the board; however, the leadership team encourages employees to provide feedback to management through a variety of communication channels, including a compliance hotline, internal town hall style meetings, and on the CEO's blog. In addition, under the company's processes for reporting suspected ethics or compliance breaches, under certain circumstances designated employees are allowed or required to report the suspected breach directly to the relevant committee of the board of directors. |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance). | ● | **Proxy Statement, page 17**; There is no explicit linkage between compensation and social and environmental performance |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | ● | **page 26**<br>**2010 10-K, page 73** |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics. | ● | **Proxy Statement, page 19** |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | ● | **pages 27, 64-65**<br>**Proxy Statement, page 13** |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | ● | page 5 |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | ● | Proxy Statement, page 15 |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | ● | pages 71-72 |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | ● | pages 2,17 |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic. | ● | page 37 |
| 4.14 | List of stakeholder groups engaged by the organization. | ● | page 32 |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | ● | page 31 |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | ● | pages 31-32 |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. | ● | pages 31-32 |

## Standard Disclosures Part II: Disclosures on Management Approach (DMAs)

Reporting Key: ● Fully ◒ Partially ○ Not

| G3 DMA | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **DMA EC** | **DISCLOSURE ON MANAGEMENT APPROACH EC** | | |
| | Economic performance | ● | pages 2, 8<br>2010 10-K, page 17<br>2010 Annual Report, Executive Letter |
| | Market presence | ◒ | pages 8-9 |
| | Indirect economic impacts | ◒ | pages 53-54 |
| **DMA EN** | **DISCLOSURE ON MANAGEMENT APPROACH EN** | ● | |
| | Materials | ● | pages 69-71 |
| | Energy | ● | pages 67, 73 |
| | Water | ● | pages 67, 76 |
| | Biodiversity | ● | page 81 |
| | Emissions, effluents and waste | ● | pages 67, 73, 77, 81 |
| | Products and services | ● | pages 68-72 |
| | Compliance | ● | page 84 |
| | Transport | ◒ | page 76 |
| | Overall | ● | pages 64-67 |
| **DMA LA** | **DISCLOSURE ON MANAGEMENT APPROACH LA** | ● | |
| | Employment | ● | pages 41-42 |
| | Labor/management relations | ● | pages 42, 48 |
| | Occupational health and safety | ● | pages 48-49 |
| | Training and education | ● | pages 42-43 |

| G3 DMA | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| | Diversity and equal opportunity | ● | pages 45-46 |
| **DMA HR** | **DISCLOSURE ON MANAGEMENT APPROACH HR** | ● | |
| | Investment and procurement practices | ● | pages 38-40 |
| | Non-discrimination | ● | pages 45, 47 |
| | Freedom of association and collective bargaining | ● | page 42 |
| | Child labor | ● | page 39 |
| | Forced and compulsory labor | ● | page 39 |
| | Security practices | ○ | |
| | Indigenous rights | ○ | |
| **DMA SO** | **DISCLOSURE ON MANAGEMENT APPROACH SO** | ● | |
| | Community | ● | pages 53-54 |
| | Corruption | ● | pages 26-28 |
| | Public policy | ● | page 33 |
| | Anti-competitive behavior | ○ | |
| | Compliance | ● | pages 26-27 |
| **DMA PR** | **DISCLOSURE ON MANAGEMENT APPROACH PR** | | |
| | Customer health and safety | ● | pages 16, 24-25 |
| | Product and service labelling | ● | page 25 |
| | Marketing communications | ● | page 30 |
| | Customer privacy | ● | page 29 |
| | Compliance | ● | pages 19, 28-29 |

## Standard Disclosures Part III: Performance Indicators

Reporting Key: ● Fully ◒ Partially ○ Not

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **ECONOMIC** | | | |
| **Economic performance** | | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | ◒ | page 54<br>2010 10-K, pages 12, 35 |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | ◒ | page 63 |
| EC3 | Coverage of the organization's defined benefit plan obligations. | ● | 2010 10-K, pages 67-68 |
| EC4 | Significant financial assistance received from government. | ○ | |
| **Market presence** | | | |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation. | ○ | |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | ○ | |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | ○ | |
| **Indirect economic impacts** | | | |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | ◒ | pages 8, 11, 14 |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | ◒ | page 54 |
| **ENVIRONMENTAL** | | | |
| **Materials** | | | |
| EN1 | Materials used by weight or volume. | ○ | |
| EN2 | Percentage of materials used that are recycled input materials. | ◒ | pages 70-71 |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **Energy** | | | |
| EN3 | Direct energy consumption by primary energy source. | ● | **pages 73-76, 85** |
| EN4 | Indirect energy consumption by primary source. | ● | **pages 73-76, 85** |
| EN5 | Energy saved due to conservation and efficiency improvements. | ◒ | **pages 73-76** |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | ○ | |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | ◒ | **pages 73-76** |
| **Water** | | | |
| EN8 | Total water withdrawal by source. | ● | **pages 76-77, 85** |
| EN9 | Water sources significantly affected by withdrawal of water. | ◒ | **page 76** |
| EN10 | Percentage and total volume of water recycled and reused. | ○ | |
| **Biodiversity** | | | |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | ○ | |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | ◒ | **pages 71-72, 81** |
| EN13 | Habitats protected or restored. | ● | **pages 81-84** |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | ◒ | **pages 81-84** |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | ○ | |
| **Emissions, effluents and waste** | | | |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | ● | **pages 73-76, 85** |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | ● | **pages 73-76, 85** |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. | ◒ | **pages 73-76** |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| EN19 | Emissions of ozone-depleting substances by weight. | ◒ | pages 81, 86 |
| EN20 | NOx, SOx, and other significant air emissions by type and weight. | ● | pages 81, 86 |
| EN21 | Total water discharge by quality and destination. | ○ | |
| EN22 | Total weight of waste by type and disposal method. | ● | pages 77-80, 86 |
| EN23 | Total number and volume of significant spills. | ● | pages 84, 86 |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. | ○ | |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. | ○ | |
| **Products and services** | | | |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. | ● | pages 68-72 |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category. | ○ | |
| **Compliance** | | | |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. | ● | pages 84, 86 |
| **Transport** | | | |
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. | ◒ | pages 73-76, 85 |
| **Overall** | | | |
| EN30 | Total environmental protection expenditures and investments by type. | ◒ | page 67 |
| **SOCIAL: LABOR PRACTICES AND DECENT WORK** | | | |
| **Employment** | | | |
| LA1 | Total workforce by employment type, employment contract, and region. | ◒ | page 41 |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| LA2 | Total number and rate of employee turnover by age group, gender, and region. | ○ | |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. | ● | page 42 |
| **Labor/management relations** | | | |
| LA4 | Percentage of employees covered by collective bargaining agreements. | ● | page 42 |
| LA5 | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. | ● | page 44 |
| **Occupational health and safety** | | | |
| LA6 | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. | ● | page 48 |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. | ● | pages 49-51 |
| LA8 | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | ● | pages 49, 51 |
| LA9 | Health and safety topics covered in formal agreements with trade unions. | ● | pages 42, 48 |
| **Training and education** | | | |
| LA10 | Average hours of training per year per employee by employee category. | ◒ | page 42 |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | ● | pages 42-43 |
| LA12 | Percentage of employees receiving regular performance and career development reviews. | ● | page 42 |
| **Diversity and equal opportunity** | | | |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. | ◒ | pages 47-48 |
| LA14 | Ratio of basic salary of men to women by employee category. | ○ | |
| **SOCIAL: HUMAN RIGHTS** | | | |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **Diversity and equal opportunity** | | | |
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. | ○ | |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. | ● | None of Lilly's suppliers and contractors have undergone a formal screening on human rights, **pages 38-39** contain a discussion on human rights in the supply chain. |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | ● | Every year, Lilly employees spend approximately 40,000 hours—a minimum of one hour per person—undergoing mandatory training on our code of conduct. *The Red Book* covers a broad spectrum of basic human-rights issues. |
| **Non-discrimination** | | | |
| HR4 | Total number of incidents of discrimination and actions taken. | ○ | |
| **Freedom of association and collective bargaining** | | | |
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | ○ | |
| **Child labor** | | | |
| HR6 | Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. | ◒ | **pages 38-39** |
| **Forced and compulsory labor** | | | |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. | ◒ | **pages 38-39** |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **Security practices** | | | |
| HR8 | Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. | ● | All security personnel worldwide, including contractors in the United States, are required to undergo our code of conduct training, which covers topics directly related to Lilly's core values of integrity, excellence, and respect for people. The training is not specifically directed at the topic of human rights but is closely associated. Security personnel participate in diversity training to sensitize them to the uniqueness of each individual worker and the value they bring to our workforce. Security personnel are also expected to act in a professional and unbiased manner. Corresponding positive performance is valued and appropriately recognized. |
| **Indigenous rights** | | | |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | ○ | |
| **SOCIAL: SOCIETY** | | | |
| **Community** | | | |
| SO1 | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. | ◒ | **page 44** |
| **Corruption** | | | |
| SO2 | Percentage and total number of business units analyzed for risks related to corruption. | ● | **pages 26-28** |
| SO3 | Percentage of employees trained in organization's anti-corruption policies and procedures. | ● | **pages 26-28** |
| SO4 | Actions taken in response to incidents of corruption. | ○ | |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **Public policy** | | | |
| SO5 | Public policy positions and participation in public policy development and lobbying. | ● | **pages 33-37** |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | ● | **page 37** |
| **Anti-competitive behavior** | | | |
| SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. | ○ | |
| **Compliance** | | | |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. | ◒ | **pages 84, 86** |
| **SOCIAL: PRODUCT RESPONSIBILITY** | | | |
| **Customer health and safety** | | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | ● | **page 25** |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | ○ | |
| **Product and service labelling** | | | |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | ● | **page 25** |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. | ○ | |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | ○ | |

| PROFILE DISCLOSURE | DESCRIPTION | REPORTED | CROSS-REFERENCE/DIRECT ANSWER |
|---|---|---|---|
| **Marketing communications** | | | |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | ● | pages 18, 24-25, 30 |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. | ○ | |
| **Customer privacy** | | | |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | ○ | |
| **Compliance** | | | |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | ○ | |

# UNITED NATIONS GLOBAL COMPACT INDEX

| UNGC PRINCIPLE | INFORMATION IN REPORT |
|---|---|
| Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights. | Upholding Human Rights throughout the Supply Chain, **page 39** |
| Principle 2: Businesses should make sure they are not complicit in human rights abuses. | Upholding Human Rights throughout the Supply Chain, **page 39** |
| Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. | Compensation and Benefits, **page 42** |
| Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour. | Upholding Human Rights throughout the Supply Chain, **page 39** |
| Principle 5: Businesses should uphold the effective abolition of child labour. | Upholding Human Rights throughout the Supply Chain, **page 39** |
| Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation. | Diversity and Inclusion, **page 45** |
| Principle 7: Businesses should support a precautionary approach to environmental challenges. | Fostering Environmental Sustainability, **pages 71-72** |
| Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility. | Fostering Environmental Sustainability, **pages 63-86** |
| Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies. | Fostering Environmental Sustainability, **pages 67, 69-70, 73-80** |
| Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. | Conducting Our Business Ethically and Transparently, **pages 27-28** |