

Lilly

Communication On Progress

To the United Nations Global Compact

Eli Lilly and Company
2010 Report

Lilly

Answers That Matter.

Contents

| | |
|--|-----------|
| ABOUT LILLY | 2 |
| EXECUTIVE MESSAGE | 3 |
| PRINCIPLES 1-6: HUMAN RIGHTS AND LABOR | 5 |
| Access to Medicine | 6 |
| Protection of Patients' Rights and Well-Being | 10 |
| Workplace | 14 |
| Labor Standards | 20 |
| Nondiscrimination, Diversity, and Inclusion | 22 |
| PRINCIPLES 7-9: ENVIRONMENT | 27 |
| PRINCIPLE 10: ANTI-CORRUPTION | 36 |

About Lilly

At Lilly, we make medicines that help people live longer, healthier, more active lives. Founded in 1876, we are the tenth largest pharmaceutical company in the world. Around the globe, we have forged productive alliances and partnerships that advance our capacity to develop innovative medicines at lower costs for some of the world's most urgent medical needs.

Lilly has a long history of medical innovation, most notably in the treatment of infectious diseases, diabetes, and depression. For additional information about our corporate history and significant medical breakthroughs, visit the "About Lilly" pages on www.Lilly.com.

Facts at a Glance

- Founded in 1876
- Headquartered in Indianapolis, Indiana, United States
- More than 38,000 employees worldwide
- Nearly 7,000 employees engaged in research and development
- Research and development facilities located in 8 countries
- Clinical research conducted in more than 50 countries
- Manufacturing plants located in 13 countries
- Products marketed in 143 countries
- Net sales of \$21.8 billion in 2009
- Listed on the New York Stock Exchange with the symbol LLY



Executive Message

Lilly's commitment to the United Nations Global Compact reflects the core values of integrity, excellence, and respect for people that have animated our company since its founding more than 130 years ago. These values can be seen not only in our innovative medicines but also in the way we conduct our business and the contributions we make to the communities where we live and work.

We're proud to voice our continued support for the Global Compact's 10 Principles related to human rights, labor, the environment, and anti-corruption. One year after joining, this is our first Communication on Progress.

Our employees play an indispensable role in our corporate responsibility efforts. Through their work, they make essential contributions toward improving the health of others every day. We promote their efforts by maintaining a supportive workplace and by providing opportunities for employees to share their expertise and resources with others. For example, over this past year:

- We continued to earn recognition for our record of supporting diversity. In 2010, we were named one of the "Top Companies for Executive Women" by the National Association of Female Executives and a "Most Admired Company" for minorities in research science by the Black Engineer of the Year Science, Technology, Engineering, and Math Conference. And for the fifth consecutive year, we received a perfect score of 100 on the Human Rights Campaign's "Best Places to Work: Corporate Equality Index."
- Through intensive safety education, we improved employee health and safety as we work toward reducing the rates of serious injuries, lost time injuries, and motor vehicle collisions by 50 percent from 2007 to 2013. Since we started this effort, we've reduced our serious and lost time injury rates by more than 30 percent.

At the same time, we continue to use our assets, expertise, and partnerships to improve access to health care for people around the world. For example:

- Our signature program, the MDR-TB Partnership, offers education, training, and improved care to people worldwide fighting deadly multidrug-resistant tuberculosis (MDR-TB).
- In 2009, we donated \$405 million in cash and pharmaceutical products—more than \$1 million every day and an increase of more than 15 percent from the previous year—to help children, families, and communities around the world.
- In the United States, we expanded access for our most widely used patient assistance programs by allowing eligible patients with incomes up to 300 percent of the U.S. Federal Poverty Level to enroll. As a result, more than 195,000 patients received help through Lilly patient assistance programs in 2009, 13 percent more than the prior year.

Finally, Lilly is committed to making our communities worldwide better places to live and work. A critical component is advancing sustainability throughout our operations. For example:

- By 2009, we had reduced our water intake by more than 25 percent and the amount of waste sent to landfills by 54 percent compared to 2007, thereby exceeding our 2013 goals. During the same period, we improved our energy efficiency by 5 percent and cut our greenhouse gas emissions density by more than 6 percent.
- Our Energy, Waste, and Water Reduction Fund helps advance sustainability projects at our facilities globally. One example is the installation of solar panels on two of the largest buildings at our Sesto manufacturing site in Italy. Since 2006, we've invested more than \$29 million in a range of projects that have reduced our environmental footprint and saved more than \$16 million annually.
- We were one of the first in the pharmaceutical industry to recognize the value of “green chemistry”—designing our manufacturing processes to reduce or eliminate the use and generation of hazardous substances.

Lilly believes transparency is critical to helping our industry build trust with the people we serve. Over the years, we were the first company in our industry to make public our clinical trials data as well as our U.S. educational grants and charitable contributions. And in 2009, we began disclosing payments to U.S. doctors for any speaking or consulting services they provide our company for commercial purposes. So my colleagues and I are pleased to share with you Lilly's progress and performance on the wide range of issues you'll see covered in this report.

We know there is much work yet to do to improve our operations and more fully address global health and sustainability challenges. We are committed to doing our part, informed and inspired by the Global Compact Principles. We welcome your feedback and look forward to providing future updates.



John C. Lechleiter, Ph.D.
Chairman, President, and Chief Executive Officer
November 30, 2010



Human Rights and Labor

The United Nations Global Compact has established two unique sets of principles within the context of human rights (Principles 1 and 2) and labor (Principles 3 through 6). At Lilly, we see these two groupings as very much intertwined. For this, our first Communication on Progress, we have therefore chosen to address all six human rights and labor principles within one overarching umbrella.

Our commitment and activities in these areas cut across a range of broad societal issues—issues such as enhancing access to medicines for underserved populations and ensuring the safety and integrity of our medicines and our product research and development processes. That same commitment extends to our workplace, where we uphold the freedom of association, protect the health and safety of our employees and their families, and fight against discriminatory behaviors. And it stretches throughout our supply chain, where we work with our suppliers to encourage them to ensure that their business practices guard against forced, compulsory, and child labor.

There are sizable challenges as we work to improve the health and well-being of those in our immediate communities and around the world. The solutions we develop will continue to be rooted in the commitments we outline in the following pages of this report.

Access to Medicine

.....
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.
.....

.....
Principle 2: Businesses should make sure that they are not complicit in human rights abuses.
.....

OUR COMMITMENT

Access to medicines is a critical factor in the health and well-being of individuals, communities, and, indeed, entire societies. Around the globe, widely varying approaches to providing health care affect the accessibility of medicines. Barriers to access are numerous and include measurement, evaluation, and regulatory capabilities, as well as the complex coordination of health care tools, professionals, and infrastructure.

Improving access to medicines is a challenge. Sustainable improvements in this complex area require the best efforts of governments, the private sector, and civil society, working in concert.

At Lilly, we have an important role to play in addressing this issue. We focus our efforts where we can have the biggest impact globally.

OUR APPROACH

We intend to make a significant contribution to humanity by improving global health in the 21st century. Starting with the work of our scientists, we place improved outcomes for individual patients at the center of what we do. We are also focusing on philanthropic and other related investments to promote sustainable access to health care outcomes for underserved populations and are working collaboratively with partners to achieve measurable results.

Lilly partners with governments, as well as public and private health care administrators, to identify approaches to improve access to medicines in least developed and moderately developed countries. These approaches include donations of cash and products for patient assistance programs, international humanitarian causes, and other charitable endeavors, as well as public-private partnerships. Lilly identifies solutions that we believe will deliver a measurable, positive impact on patient care and that are designed to help provide long-term solutions that address limits in the infrastructure of these geographies. We also promote access to medicines and health and wellness strategies for patients of diverse ethnicities and backgrounds. For more on this, see page 25.

HOW WE MANAGE ACCESS TO MEDICINES

Public–Private Partnerships

Lilly believes public–private partnerships are a key means of addressing access to health care issues. One example is the Lilly TB Drug Initiative, a public–private partnership launched in 2007 with the Infectious Disease Research Institute and the National Institute of Allergy and Infectious Diseases, which is part of the U.S. National Institutes of Health. Lilly supported the initiative with in-kind and cash donations totaling \$15 million and a goal to help fill the early-stage pipeline for MDR-TB drug development.

For this initiative, Lilly has opened access to a library of 500,000 compounds and is contributing drug-discovery technologies and expertise in the search for new TB medicines. The initiative has acquired two compounds that show potential in initial testing as TB drug candidates. We support continued efforts to engage and partner with stakeholders in seeking sustainable ways to increase research on TB and to share our expertise with nonprofit organizations and other medical professionals.

THE LILLY MDR-TB PARTNERSHIP

The global health community is battling one of the oldest diseases in the world—tuberculosis, or TB. Fueled by poverty and the HIV/AIDS epidemic, TB, a curable disease, claims the lives of 2 million people each year—99 percent of them in the developing world.

The cure includes a regimen of several medicines that must be taken daily for six to nine months. But many patients fail to complete the treatment, which can lead to drug resistance. Of the 9.5 million new cases of TB every year, about 450,000 are multidrug-resistant tuberculosis (MDR-TB), which cannot be treated by standard methods.

In 2003, Lilly created The Lilly MDR-TB Partnership, a public–private initiative that takes a comprehensive, integrated approach to combating MDR-TB and mobilizes more than 20 partners on five continents to assist in the fight.

Two of the antibiotics used to treat TB and MDR-TB were Lilly innovations. We make these medications available at concessionary prices through the World Health Organization’s (WHO) Stop TB program to countries facing outbreaks of the resistant strains. Most importantly, we are transferring our technology free of charge and training local manufacturers in hard-hit regions so they can make these two medicines themselves.

Highlights from The Lilly MDR-TB Partnership’s work include the following:

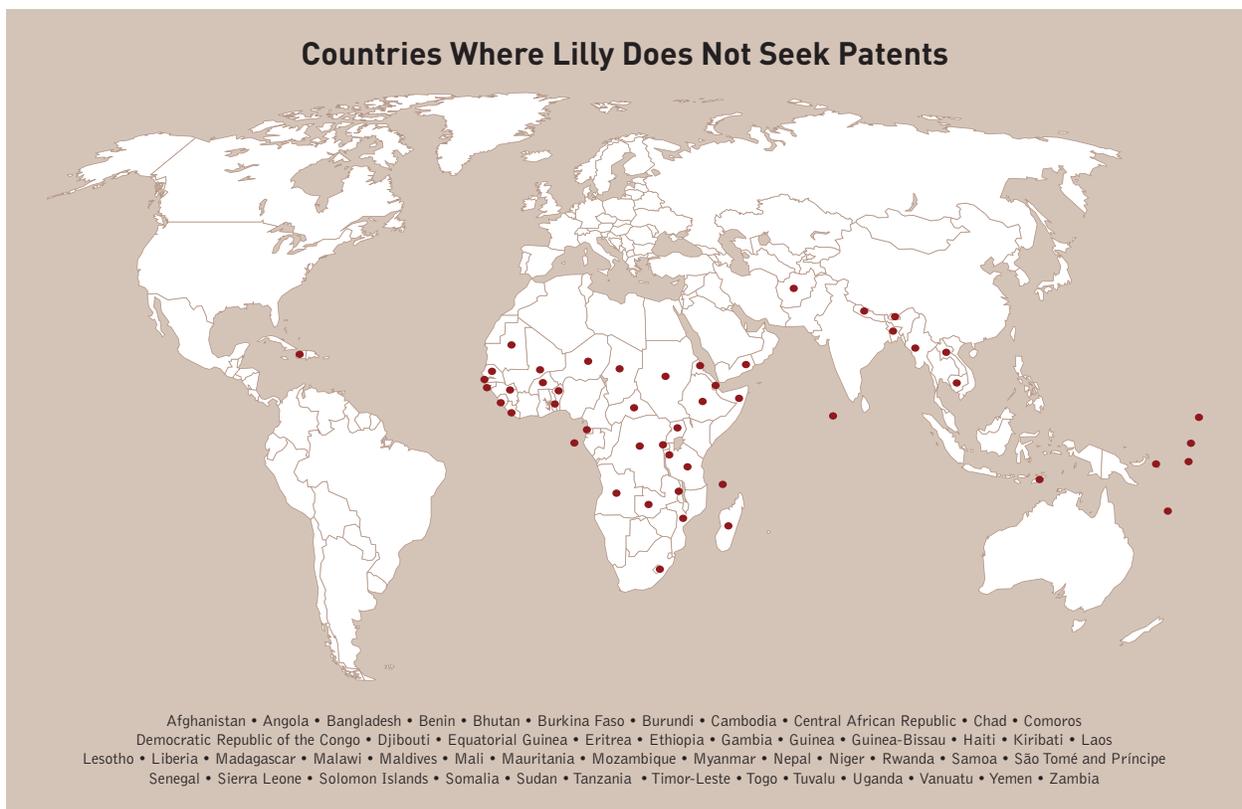
- The Partnership works in more than 80 countries and through more than 20 partnerships to tackle the problem of MDR-TB. In addition to providing life-saving medication, the Partnership works to transfer technology so medicines can be made locally, where they are needed, and to build health care system capacity by training area doctors and nurses to treat the disease. The Lilly MDR-TB Partnership also works to increase awareness and prevention, advocate for patients, and reduce the stigma related to the disease.
- To date, Lilly has supported The MDR-TB Partnership with \$120 million in cash, medications, and technology to increase access to treatment and focus global resources on prevention, diagnosis, and the treatment of patients with MDR-TB.
- When the Partnership began its work in 2003, the WHO set a goal of treating 20,000 MDR-TB patients by 2010—a goal that has already been achieved. We’re working now as part of an overall effort to meet a new target of treating a cumulative 800,000 MDR-TB patients by 2015.
- In 2010, the program was awarded a World Business and Development Award from the International Chamber of Commerce.

Differential Pricing

In many developing countries, Lilly does not seek nor enforce patents for medicines, to further assist in making these medicines accessible. For example, Lilly does not seek patents in any of the “least developed countries,” as defined by the United Nations.

Recognizing the varying ability of patients and governments in least developed and moderately developed countries to afford medicines, Lilly is piloting a number of alternative pricing strategies to broaden access to our medicines in these geographies.

Because many barriers to accessing medicines in the developing world are associated with public policy issues, Lilly has engaged a number of leading academics to explore the challenges associated with balancing access to medicine (for example, through differential pricing) with the need to fund future biopharmaceutical research and development. The resulting research is expected to be published soon.



Product Donations

In the United States, we provide access to products for eligible patients through several patient assistance programs. The two main programs are as follows:

- **Lilly Medicare Answers™**: This program provides eligible Medicare recipients access to affordable medications outside of their Medicare Part D plan.
- **Lilly Cares™**: This program is provided by the Lilly Cares Foundation, Inc., a private operating foundation that provides access to Lilly products for U.S. residents. Through physicians, eligible, low-income patients who are otherwise unable to obtain Lilly medications may qualify for free medicines.

In 2009, we expanded access to our most widely used patient assistance programs in the United States by adjusting income requirements to allow enrollment of eligible patients with incomes up to 300 percent of the U.S. Federal Poverty Level. As a result of this expansion, more than 195,000 patients received help through Lilly patient assistance programs that year, 13 percent more than in 2008.

Globally, our signature program, the MDR-TB Partnership (see page 7), offers education, training, and improved care to people worldwide who have fallen victim to deadly multidrug-resistant tuberculosis. Lilly has also 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, which focus on nine countries in sub-Saharan Africa, 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 of free insulin in the 85 years since we introduced the world's first mass-produced insulin. For more information, visit: www.lifeforachild.org.

“Lilly’s patient education programs are one way we help connect patients with resources that will help them make healthier choices and overcome barriers to care. We are honored to be selected as a winner of the National Health Information Awards program because it validates our commitment to producing high-quality patient education resources.”

**— Jack Harris, MD,
Vice President, U.S. Medical
Eli Lilly and Company**

Patient Education and Outreach

Lilly recognizes that good health care is more than medicine. We work to improve patient care through partnerships and other outreach initiatives that promote patient awareness and education. One example is Lilly's *Journey to Wellness Collection*, a series of education materials that help patients living with diabetes to improve their health. The materials are designed to maximize patients' understanding of the effects the disease can have on the body and to promote behavioral changes that can lead to healthier living.

Lilly's *Journey to Wellness Collection* was selected in the 17th annual National Health Information Awards as a Silver Award winner in the “Total Health Information Program” category. The program recognizes the nation's best consumer health information programs and materials.

DISASTER AID

When disasters strike, Lilly responds with cash and product contributions to help people in desperate situations. To respond to the immense need following the earthquake in Haiti in 2010, Lilly donated nearly \$500,000 in cash contributions to multiple charitable organizations—including the American Red Cross, Mercy Corps, Partners in Health, World Vision, Project Hope, Heart to Heart, and the United States Fund for UNICEF—for help in reconstruction efforts. Later in 2010, Lilly also provided \$50,000 in relief funds to assist after powerful earthquakes struck Chile and Pakistan. We also worked to send appropriate donations of medicines.

In 2009, Lilly contributions included \$50,000 in the wake of typhoons in the Philippines and Taiwan and an earthquake in Indonesia. In 2008, Lilly gave \$1.1 million in cash and products to victims of two major events in Asia: the earthquake that destroyed parts of China's Sichuan Province, and the devastating cyclone that ravaged the southern coastal region of Myanmar. In China alone, our donation totaled \$800,000 worth of medicines, including antibiotics, insulin, and mental health medications.

Protection of Patients' Rights and Well-Being

OUR COMMITMENT

Lilly strives to maintain the highest standards of ethical behavior in all aspects of the company's business, consistent with our values. This is reflected in our commitment to safeguarding the health and protecting the rights of people who participate in our research and use our products. We are also committed to using animals in research only when needed and ensuring their humane treatment. Below we discuss how we uphold these commitments through the life cycle of the development and use of our medicines.

OUR APPROACH

Principles of Medical Research and Clinical Trial Registry

Protecting the rights and well-being of research subjects—as well as patients who use our medicines—begins with our Principles of Medical Research (<http://www.lilly.com/about/compliance/practices/principles/>). The Principles provide an overarching guide about how and why Lilly conducts research, the company's relationship with researchers, and how we share research and development results. Lilly has established company standards and procedures that facilitate adherence to these medical research principles.

In 2004, Lilly was the first pharmaceutical company to launch a clinical trial registry website to enable public access to results data from our clinical trials (www.lillytrials.com). The database provides a portal to access all Phase I through Phase IV clinical trials of Lilly's marketed products conducted anywhere in the world.

Bioethics Program

Because the process of drug discovery and development stands at the intersection of scientific advancement, global social values and norms, and business decisions, Lilly has established a dedicated and systematic program in bioethics to identify, evaluate, and communicate bioethics issues related to pharmaceutical research and development (R&D) activities. The primary goal for the Lilly Bioethics Program is for our bioethical principles and positions to be understood and applied throughout the company so that ethics is built into all phases of R&D. To accomplish this goal, our program has several components.

Lilly was one of the first pharmaceutical companies to establish a standing bioethics committee. The Lilly Bioethics Advisory Committee (BEAC), formed in 1999, includes senior leaders from various functional areas within and outside of R&D, including medical, regulatory, patient safety, discovery research, legal, corporate affairs, and global brand development. In addition, two academic bioethicists serve on the committee. To further support bioethics priorities and activities, we have a full-time internal bioethics consultant and an associate, both of whom are formally trained in bioethics. In addition, a Bioethics Specialists Team (BEST) comprised of Lilly employees with graduate training in bioethics supports the work of the BEAC.

The Lilly BEAC has developed positions on several key bioethics issues that affect the rights and well-being of research subjects, including but not limited to:

- The conduct of clinical trials globally,
- The circumstances under which a clinical trial may be discontinued, and
- When and how investigational medicines should continue to be made available to study participants after the conclusion of a trial.

Positions developed by the BEAC are used to inform the policies, standards, procedures, and practices of Lilly Research Laboratories. Employees involved in clinical research are trained on these items, and refresher courses are provided as policies, standards, and procedures are updated.

Protecting Research Subjects' Rights in Clinical Trials

We apply a single global standard to the conduct of clinical trials. Medical research involving human subjects is conducted in accordance with consensus ethics principles derived from global ethics guidelines, including:

- The Declaration of Helsinki and the Council for International Organizations of Medical Sciences' International Ethical Guidelines,
- The International Conference on Harmonisation's Guideline for Good Clinical Practice (E6), and
- Applicable laws and regulations of the country or countries in which a study is conducted.

Our practices are also consistent with the Pharmaceutical Research and Manufacturers of America's Principles on Conduct of Clinical Trials. It is a further expectation that the Lilly bioethics positions and accompanying guidance developed by the BEAC will be followed for all global trials. Taken together, these external and internal guidance documents help 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.

One key aspect of research participant protection is the informed consent process. The informed consent process is 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 they are 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. The individual's consent to participate in a study is documented by a signature of agreement.

Animal Care

Discovering new medicines through pharmaceutical R&D is a complex and lengthy process. To demonstrate the safety and efficacy of a medicine, by law it must be tested in the laboratory, in living cells and organisms, in laboratory animals, and finally, in humans. 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 employees and all individuals and organizations with which Lilly contracts for animal research services or the supply of animals to be used in Lilly research to comply with all applicable country and local laws, regulations, and standards regarding the care and use of animals. We also require application of the Lilly

Animal Care and Use Principles, even if these Principles are more stringent than applicable local laws. Lilly also actively encourages animal research and animal supply companies globally to obtain and maintain accreditation from the Association for Assessment and Accreditation of Laboratory Animal Care. Through active engagement, we are helping to raise the standards of animal care and use.

OUR ANIMAL CARE AND USE PRINCIPLES

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. In addition:

- 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
 - » avoiding or minimizing discomfort and distress to the animals

Protecting Patients Who Use Our Medicines

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 data and maintain the safety profile of all Lilly products. As required by law, we collect adverse event¹ reports from all over the world—from sources including health care providers, patients, medical literature, and regulatory agencies—and we enter the information into a database to further evaluate the safety and risks of our medications.

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 in this area, including pharmacovigilance, the continuous monitoring of the benefit/risk balance of Lilly's products.

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

- Updates to the investigator brochure and/or informed consent document for clinical trials
- Revision of labeling (package insert) for marketed products
- Provision of safety information to physicians via letter, to consumers via Patient Package Inserts and Medication Guides, or to the public via publications, press releases, and other means

¹ The FDA defines an *adverse event* as any undesirable experience associated with the use of a medical product in a patient.

ASSESSING THE BENEFIT/RISK BALANCE OF PHARMACEUTICALS

Everyone is unique; therefore, individuals may respond quite differently to the same medication. When a regulatory agency approves a medicine, it concludes that, for the overall public, the medication's benefits outweigh its risks for the conditions outlined in the product label.

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 patients about the role that they, their health care providers, the pharmaceutical industry, and the U.S. Food and Drug Administration (FDA) play in ensuring medicines are safe and effective.

Workplace

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

OUR COMMITMENT

Lilly's philosophy about how we treat employees began with our founder, Colonel Eli Lilly, more than 130 years ago. His values—integrity, excellence, and respect for people—continue to shape our practices today and help us achieve our goal of securing long-term trust and commitment from our employees.

We recognize the importance of freedom of association in the workplace, and we respect the right of workers to join associations of their own choice. (See page 18 for more detail.)

At Lilly, we place tremendous value on providing 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.

OUR APPROACH

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

Long before Lilly started articulating its values, the early leaders of our company recognized actions do speak louder than words—particularly where employees were concerned. Lilly management understood the knowledge and skills of Lilly people were the company's most important asset.

In 1916, the Board of Directors asked one of 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. Out of this came the 1916 "Report on the Subject of Employment," which continues to guide our company nearly 100 years later.

"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."

— Excerpts from J.K. Lilly, Jr.'s 1916 "Report on the Subject of Employment"

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 work hard to uphold the principles of nondiscrimination. (For more on diversity and nondiscrimination, see page 22.) In addition, our unwavering focus on employee well-being fosters a culture of safety.

Employee Health and Safety

Prioritizing our employees' health and safety 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.

We offer health plan coverage in the United States to employees, retirees, and their eligible dependents, and employees may obtain certain Lilly-manufactured medicines at no cost, once they satisfy their annual deductibles. In the United States, Lilly provides coverage for preventive care services, such as annual physicals and cancer screenings, to employees, retirees, and their eligible dependents. Outside the United States, health coverage varies depending upon location. In many countries, our employees receive government-provided medical benefits.

Lilly's management systems for employee health and safety are incorporated into broader health, safety, and environmental policies we established in the early 1990s. (For more information, see the environment section on page 27.)

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 hosts more than 31,000 clinical visits for employees' personal needs, medical leaves, and emergency medical services. The corporate-based Employee Health Services (EHS) staff includes board-certified physicians, clinical psychologists, a pharmacist, registered nurses, and contracted services provided by a staff of physical therapists and mammography technicians.

In certain locations, our company provides on-site mammograms, gynecology clinics, and physical therapy facilities. Our colonoscopy program, which has performed more than 13,000 exams since 1995, has one of the largest screening databases for colon cancer in the world.

EHS 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 and has garnered the C. Everett Koop Award for excellence in health promotion. In 2010, our health and wellness programs received the top award for large companies in Indiana from Healthiest Employers, LLC.

Safety Progress and Performance

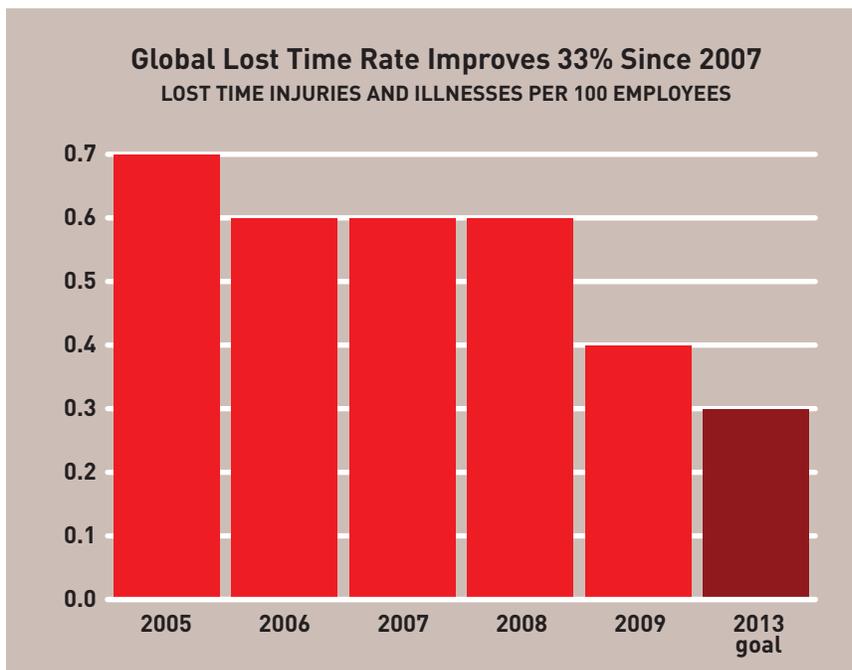
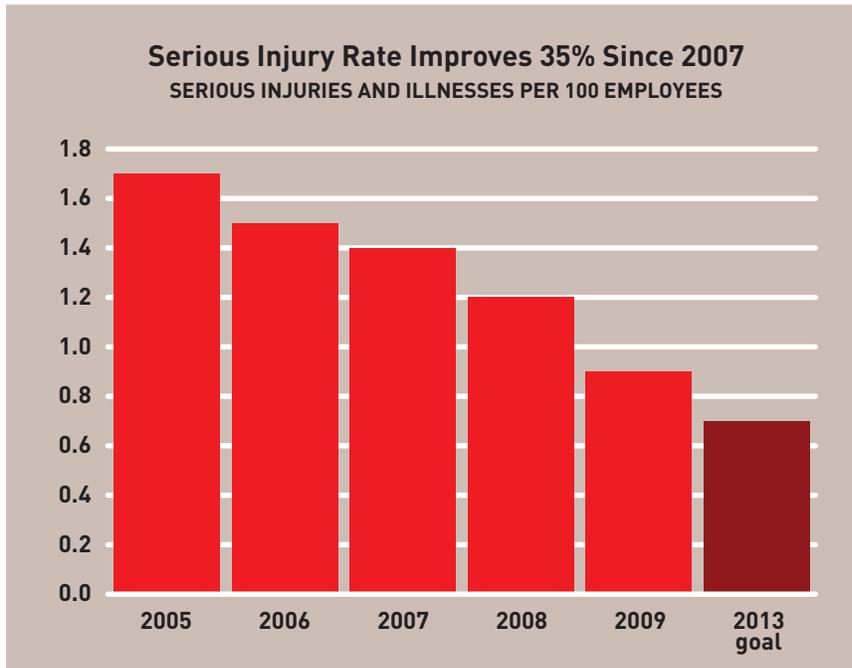
In 2008, we established new goals to reduce employee injuries. We report our progress against these targets to senior management and the public.

Lilly measures health and safety performance globally using rates of serious injuries and lost time injuries². Our goal is to reduce both rates by 50 percent by the end of 2013, compared to 2007.³

GOALS

Injury prevention goals for 2013 (with a 2007 baseline)

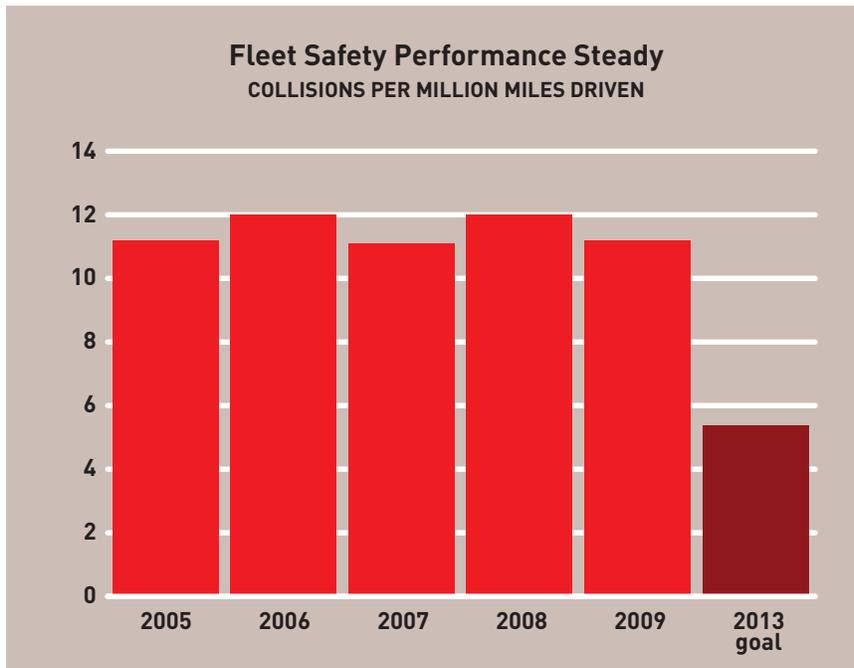
- 50% reduction in serious injury rate
- 50% reduction in lost time injury rate
- 50% reduction in motor vehicle collision rate



² The *serious injury rate* is defined by the number of work-related injuries and illnesses that require medical treatment beyond first aid per 100 employees equivalent working full-time for a year. The *lost time injury rate*, which reflects the severity, or significance, of serious injuries, equals the number of serious injuries that result in an employee missing at least one day of work, per 100 employees equivalent working full-time for a year.

³ Recent acquisitions are not included in the data in this report; we estimate 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.

A third safety goal focuses on reducing the rate of vehicle collisions involving our sales force by 50 percent by the end of 2013, also compared to 2007. This past year, we implemented a comprehensive health and safety program for our sales force to help us meet this target. The initiative also covers personal security and ergonomic risk and emphasizes ways to eliminate distracted driving. On a related note, in 2010 we implemented a policy covering the use of mobile electronic devices while driving in the United States.



Other recent employee safety initiatives include the following activities.

- In 2010, we undertook a new global initiative to educate every employee about injury prevention, focusing on the vital behaviors each employee needs to understand and practice to prevent injuries from occurring. As part of this effort, we translated a compilation of injury prevention facts into 12 languages and distributed it to employees worldwide.
- We developed and implemented a process safety management program for our manufacturing and development facilities to reduce the potential for catastrophic accidents at sites using hazardous materials.
- Our comprehensive Ergo Answers program educates employees about ergonomic risks, in an effort to prevent musculoskeletal disorders. Related injuries and illnesses have dropped by 50 percent since we launched the program in 2004.

Training and Development

We provide opportunities for employees to build careers that reward them personally and professionally, while helping our company advance its vision to improve outcomes for individual patients. Ongoing employee development is critical to our success.

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.

Our training offerings may include:

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

Pay and Benefits

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. Our performance-based compensation and salary bonus programs enable us to reward top-performing employees and manage costs through our business cycles.

Globally, Lilly offers employees a wide array of benefits (which vary depending on location), including health plans, 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 our benefits are flexible and allow employees to tailor programs to individual needs. In the United States, we offer the same benefits to all employees, demonstrating how we promote fairness within the company.

We respect the right of our employees to join associations of their own choice. Lilly has works councils in several countries outside the United States. Lilly supports these bodies and works productively with them.

RESTRUCTURING AT LILLY

In 2009, we began a company reorganization to maintain our competitiveness. We set a goal of reducing our global workforce by 5,500 by the end of 2011. The 5,500 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 considerably slowing hiring. In the United States, reallocated employees can remain at Lilly during a transition period, during which time 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.

Work-Life Balance

Lilly is committed to creating a work environment that supports employee efforts to manage both work and personal life responsibilities. Globally, we offer a variety of programs, varying by location, that assist employees in maintaining their work-life balance. These include flexible work arrangements, personal leaves, on-site health services and fitness centers, on-site childcare, employee conveniences such as campus credit unions, and family support programs.

Workplace Awards

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

- **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)
- **Great Place to Work® Institute, Spain** (7th in all sectors, 3rd in pharma), among companies with more than 1,000 employees (2010)
- **Great Place to Work® Institute, Japan** (included in top 25), best workplaces in Japan (2010)
- **Top 100 Employers for Women MBAs**, *Fortune* magazine (2010)
- **Deloitte Best Company to Work For Survey, South Africa**, voted best company in the chemical/pharmaceutical sector

Labor Standards

.....
Principle 2: Businesses should make sure they are not complicit in human rights abuses.
.....

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor.
.....

Principle 5: Businesses should uphold the effective abolition of child labor.
.....

OUR COMMITMENT

Lilly maintains a longstanding practice and position of complying with local minimum age laws and requirements and does not employ child labor nor forced or compulsory labor in any of our facilities globally.

We have also launched initiatives to ensure that suppliers maintain high standards. To view the Lilly Supplier Code of Conduct, visit: <http://supplierportal.lilly.com/Suppliers/Pages/ConductCode.aspx>.

OUR APPROACH

In early 2009, Lilly adopted the Pharmaceutical Industry Principles for Responsible Supply Chain Management. These principles were designed to align with the principles of the United Nations Global Compact, and they represent high-level expectations for business performance in the areas of ethics, labor, health and safety, the environment, and related management systems. We have revised and updated our Supplier Code of Conduct to reflect our adoption of these principles.

The principles grew out of the Pharmaceutical Supply Chain Initiative (PSCI), which formed in 2007. Lilly is proud to stand alongside 10 other pharmaceutical companies committed to supporting our suppliers to ensure they operate in a manner consistent with high industry and stakeholder expectations about labor, health and safety, the environment, ethics, and management systems.

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, 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. In the future, we also intend to implement a process that solicits feedback from stakeholders outside of our company.

Management Systems

In early 2009, Lilly initiated a four-phase approach to define and communicate our corporate responsibility expectations throughout our supplier base. This took the form of a refreshed Supplier Code of Conduct, consistent with the PSCI principles.



Lilly has begun work on Phase 4 of the new Supplier Code of Conduct. In Phases 1 through 3, Lilly developed an action plan for internal communication of the Code, mailed letters to all global suppliers, and did follow-up presentations with key suppliers. These activities highlighted the new Code, Lilly expectations that this Code be met, and the possibility of audits in the future to ensure compliance.

Working in conjunction with the other members of the PSCI in Phase 4, Lilly is developing supplier self-assessment questionnaires for defined levels of suppliers: from low risk (general, office supplies) to very high risk (suppliers of active pharmaceutical ingredients used to make Lilly products).

In 2011, together with the other PSCI companies, Lilly will begin exploring the best way to ensure and monitor compliance among suppliers, including the possibility of shared audits.

Nondiscrimination, Diversity, and Inclusion

.....
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.
.....

OUR COMMITMENT

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.

Ensuring a nondiscriminatory work environment is a key priority for Lilly, and we recognize the value of—and seek to strengthen—the diversity of our workforce. 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.

OUR APPROACH

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, along with it, enhanced business success. Without diverse ideas, we simply cannot remain viable in a rapidly changing environment.

Policies

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 37.)

In addition to *The Red Book*, we have an Equal Employment Opportunity Policy and a Global Policy on Personal Information Privacy and Security. We were the first in our industry to formally implement a specific policy to protect the privacy of our employees' genetic information, ensuring such information cannot be used to discriminate in employment and benefit-related decisions.

Management Systems

Our focus is to strengthen diversity within our own company and better serve the increasingly diverse marketplace in which we operate. We are working to further embed diversity within the culture at Lilly by integrating it into every aspect of our business—from our marketing practices to how we hire our employees.

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 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.

WORKING TOWARD DIVERSITY IN CLINICAL TRIALS

In the United States, minority populations have historically and consistently been underrepresented in clinical trials, which evaluate the safety and efficacy of new medicines and treatments. 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, respectively, more likely to die from diabetes than non-Hispanic whites,⁴ yet they represent only 15 percent of diabetes trial participants.⁵

More diverse representation in clinical trials is needed to gain insights that will make medicines most effective for all people who use them. Lilly has been taking a leadership role within the pharmaceutical industry, boosting enrollment of diverse populations and making trials more accessible to minority communities.

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. At Lilly, we have goals across our therapeutic and product lines to achieve greater diversity among patients enrolling in new clinical trials. The goals vary by trial and are based on factors such as the disease prevalence in a certain population.

Since 2008, we have introduced 157 new clinical trial sites in locations with diverse populations. In addition, we have partnered with a number of organizations to develop educational materials designed to raise awareness of the need for diversity in clinical trials.

Our Clinical 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
- Providing assistance with patient transportation and travel reimbursement to and from certain trial sites

⁴ 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.

⁵ 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.

OUR PROGRESS AND PERFORMANCE

Training and Recruitment

Lilly has 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 training programs include the following, among others:

- **The Dynamics of Trust**, which 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 women and diverse employees for future openings in key positions. These employees are provided development opportunities, including leadership training and executive-level mentors. For example, more than 150 senior women leaders have participated in our Women in Leadership Retreat program 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, diverse people, 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. 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, where 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 175 individuals—nearly half of them non-white and more than half of them women—participate in summer internship programs designed to help us recruit, retain, and develop a diverse workforce. About 35 percent of those eligible to enter the workforce (many of the participants return to school to finish their degrees) accept job offers from Lilly. We also have an extensive MBA internship program throughout Australia, Canada, China, Europe, Japan, and Latin America that focuses in particular on gender diversity.

Resource/Support Networks

In the United States, Lilly offers 10 employee-led resource groups that connect people from diverse backgrounds. These include: the African American Network; the Organization of Latinos; the Lilly India Network; the Women's Network; the Middle Eastern Network; the Chinese Culture Network; the Eli Lilly Asian Network; Gay and Lesbian Employees, Advocates, and More; the Network for Emphasizing Abilities First; and Veterans and Servicemembers at Lilly. About 3,000 employees are members of these organizations.

The 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.

EXTERNAL DIVERSITY EDUCATION AND OUTREACH

Lilly seeks to expand our impact on diversity through education and outreach beyond our company. We have developed a number of patient education programs to help reduce health disparities and increase access to health care information, particularly among minority groups. In the United States, these include:

- The Diabetes Atlas, a tool developed in partnership with the National Minority Quality Forum that maps the prevalence of diabetes and obesity by categories including race, gender, age, and congressional district.
- CLAShealth.org, a free online resource guide Lilly developed in collaboration with the National Committee for Quality Assurance. The guide is geared toward health care organizations working to improve culturally and linguistically appropriate services for minority populations.
- The Fearless African Americans Connected and Empowered (F.A.C.E.) Diabetes Campaign, developed by Lilly to help individuals, families, and neighborhoods overcome key barriers to success in living with diabetes. African Americans have nearly twice the risk of developing diabetes as do Caucasians. More than 21,000 people have participated in F.A.C.E. programs since we launched the initiative in 2008.
- A Healthy You! – a resource guide developed in cooperation with the National Council of La Raza that provides information and resources on how to lead a healthy life and prevent chronic diseases such as heart disease, cancer, and diabetes. A Healthy You! can be found at www.lillyforbetterhealth.com.

Diversity Data

In 2009, approximately 53 percent of our U.S. workforce was male and 47 percent was female. The numbers globally were similar—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; 7 percent Asian; 3 percent Hispanic; 1 percent two or more races; and less than 1 percent each American Indian/Alaska native and Native Hawaiian/other Pacific Islander.

Diversity Awards

Lilly's record as a diverse employer consistently earns us praise from third parties in the United States. Recent recognitions include the following:

- **DiversityInc's 25 Noteworthy Companies** (2010)
- **Most Admired Companies for Minorities in Research Science**, 24th Black Engineer of the Year Science, Technology, Engineering and Math Conference (2010)
- **Top 100 Best Places to Work, Best Places to Work Hall of Fame**, *Working Mother* magazine (1995-2010)
- **Top Companies for Executive Women**, National Association of Female Executives (2009, 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)

LILLY RECEIVES PERFECT SCORE ON HRC INDEX

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.

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

- **Partner of the Year**, National Hispanic Council on Aging (2010)
- **Corporate Circle Partners Award**, for advancing specific issues facing patients and addressing health care disparities, National Medical Association (2009)

OUR SUPPLIER DIVERSITY INITIATIVES

In the United States, Lilly's Supplier Diversity Development (SDD) initiative is focused on broadening the participation of minority-owned, woman-owned, and other diverse and small businesses in our supplier base to levels that better reflect the broader business community.

Through SDD, we identify and develop diverse suppliers, matching their capabilities with our business needs. All areas of our business are engaged in supplier diversity, with a "supplier diversity champion" who partners with procurement to establish targets and action plans and monitor progress.

As a supplier to the U.S. federal government, Lilly is required to achieve spending goals with several different categories of diverse suppliers.

In 2010, we expect to spend more than \$450 million with diverse suppliers, and we have averaged \$400 million per year for the last five years. For three consecutive years (2005-2008), we were recognized by the U.S. Small Business Administration for our supplier diversity efforts, placing us among the top tier of U.S.-based companies.

Environment

.....
Principle 7: Businesses should support a precautionary approach to environmental challenges.
.....

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.
.....

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.
.....

OUR COMMITMENT

We value a healthy environment for our patients, our customers, our employees, and our business. Making medicines that help people live longer, healthier, more active lives requires the use of resources, including energy, water, and materials.

We're monitoring issues such as climate change and water scarcity that may pose risks for the communities in which we operate and for our business; these issues also present opportunities to improve our processes, reduce costs, and forge stronger links with stakeholders. From business improvements such as "green chemistry" to employee-driven activities like carpooling and recycling, we are working hard to reduce the impact of our operations on the environment and make sustainability part of our corporate culture.

We have established goals to help ensure we are good stewards of the natural resources we need to run our business today and in the future. Based on 2009 data, we have already achieved two of our goals well ahead of the target year of 2013.⁶

OUR APPROACH

Lilly's approach to protecting the environment begins with our use of green chemistry to design more efficient manufacturing processes that avoid or minimize the use of hazardous substances. By building these considerations into the earliest stages of product and process development, we can reduce environmental and safety issues.

We also use comprehensive policies, standards, and management systems throughout our global operations to drive progress toward our ambitious health, safety, and environmental (HSE) goals. Our innovative programs for funding energy, water, and waste improvements help us implement and share innovative technologies, as do our efforts to encourage our employees to bring their talents and enthusiasm to the task.

⁶ Recent acquisitions are not included in the data in this report; we estimate 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.

TRANSFORMATION THROUGH GREEN CHEMISTRY

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. Green chemistry is defined as the design of chemical products and processes that reduce or eliminate the use and generation of hazardous substances. This offers safety as well as environmental benefits, and values both chemistry and engineering improvements.

Traditionally, pharmaceutical manufacturers viewed the use of hazardous materials as a necessary part of making medicine. Green chemistry treats the hazard as an intrinsic characteristic of the process and works to reduce or eliminate its very existence so that protections, controls, and treatment are reduced or no longer needed.

Lilly's approach to green chemistry is two-fold. We seek incremental improvements by reducing the amount of hazardous material used to make a product and avoiding use of the riskiest substances. We also 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. For example, we have used a "coiled tube reactor" process that reduces the amount of material used per kilogram of a new product being developed from 154 kilograms to 1.7 kilograms, compared to conventional technology for this reaction.

We have 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, and progress is measured at major development milestones.

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

HOW WE MANAGE ENVIRONMENTAL ISSUES

Policies and Standards

Our HSE policy (<http://lilly.com/about/compliance/practices/health/default.html>) sets environmental expectations in terms of compliance and environmental protection for our people and operations.

The policy is supplemented by Management System and Environmental Standards that provide more detailed requirements and establish the core governance requirements to manage significant environmental aspects of our operations. The Standards require Lilly's operations to identify relevant environmental issues, evaluate impacts, and reduce risks through continuous improvement.

We also have a Product Stewardship Standard that covers the entire value chain—from product discovery and development, through manufacturing, sales and marketing, distribution, and use, to product recycling or final disposal. This Standard provides a systematic way to manage product and process risks in our supply chain and our own operations and during the use of our products. The Standard includes requirements for the procurement of environmentally sound materials, products, and services; the assessment of HSE risks during product development; and packaging reductions, among other topics.

In addition, our Global Engineering Standards govern many environmental aspects of our operations. Our Energy Minimization Engineering Standard, for example, ensures Lilly's new and retrofit construction projects minimize energy use and corresponding greenhouse gas (GHG) emissions.

Governance and Management Systems

Our Global HSE Committee assesses performance throughout the company and oversees compliance with all HSE regulations, policies, procedures, and standards globally. The Committee is responsible for setting appropriate metrics and goals to drive continuous improvement toward world-class HSE performance. It also approves HSE policy updates and the Lilly global HSE management system.

All Lilly business units have an HSE management system aligned with our Management System Standard, which establishes requirements on system elements including leadership responsibilities, metrics and targets, and verification and corrective action. 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 standards.

We manage employee health and safety issues using many of the same governance and management systems we use for the environment. (See page 16 for discussion of our health and safety programs and performance.)

We use an Environmental Development Review (EDR) process to evaluate potential environmental issues 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. For example, an EDR uncovered opportunities to reduce the amount of dimethyl sulfoxide (a solvent) used in a manufacturing process from 13 kilograms to 1 kilogram per kilogram of product. In addition to the environmental benefits gained from using and disposing of less solvent, the re-engineered process is projected to save \$3 million or more per year during peak production.

Among other requirements, Lilly's Health, Safety and Environmental Policy:

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

Builds health, safety, and environmental 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.

PHARMACEUTICALS IN THE ENVIRONMENT

Lilly is committed to understanding the potential effects of pharmaceutical products in the environment as well as in humans. Using improved testing technologies, scientists at various locations around the world have detected very low levels of certain pharmaceutical products in streams and rivers. Reported concentrations are extremely low, ranging from a few parts per trillion to a few parts per billion.

As a precautionary measure, pharmaceutical products are subjected to environmental and other testing as part of registration protocols before the product is marketed. We continue to examine the science to determine what the potential impacts of pharmaceuticals in the environment might be.

Information published to date shows the extremely low concentrations in surface waters are very unlikely to be harmful to human health or to 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. We test and assess our medicines for potential effects on the environment to meet current regulatory requirements and internal standards before new medicines are launched. We regularly update our testing protocols for new and existing pharmaceuticals as knowledge and testing methods improve. We will continue to collaborate with regulatory, academic, and research organizations to identify new data needs on the transport, fate, and effects of pharmaceuticals in the environment.

Goals

In 2008, Lilly established six HSE goals to reduce employee and contractor injuries and minimize our impact on the environment (See <http://lilly.com/responsibility/health/goals/>. Also, see page 16 for discussion of health and safety goals and progress toward them.) These goals follow on an earlier set we achieved ahead of the target date, demonstrating our drive for continuous improvement.

Lilly's 2013 environmental goals (for 2009 through 2013, using a 2007 baseline) include the following:

- 15 percent improvement in energy efficiency and reduction in the corresponding greenhouse gas emissions
- 40 percent reduction in waste to landfills
- 25 percent reduction in water intake

OUR PROGRESS AND PERFORMANCE

We have implemented a number of initiatives to help us reach our goals—for example, conducting energy audits at our most energy-intensive facilities to identify ways to reduce energy use.

We have found, however, that environmental capital projects sometimes compete for funding with those directly related to product manufacturing. To address this challenge, we established an Energy, Waste, and Water Reduction Fund to help pay for capital projects at our facilities globally that will further our efforts to meet our environmental goals.

Since 2006, the Fund has invested more than \$29 million in energy, water, and waste projects, resulting in \$16 million in annual savings and a range of environmental benefits. The Fund promotes the development of environmentally superior and efficient technologies and the sharing of best practices across our facilities. Projects have included:

- Installing solar panels on two of the largest buildings at our Sesto manufacturing site in Italy to produce 160 megawatt hours per year of electricity. The majority of the site's energy demand is met by a combination of renewable and low-carbon energy generation technologies.
- Reusing water at Lilly del Caribe, located in Carolina, Puerto Rico, where fresh water is a critical resource. The facility's processes use significant quantities of potable water and at one time sent an average of 1 million liters of wastewater per day to a municipal water treatment facility. The facility installed a system that treats the wastewater for reuse in cooling towers and manufacturing operations, reducing the site's wastewater treatment per day by 606,000 liters while decreasing the facility's impact on the community's valuable water resources.
- Reducing packaging and waste at our Delivery Device Assembly Operation in Indianapolis, which produces 30 million insulin delivery devices annually. The operation uses multiple materials and packaging types in high-speed assembly operations. Engineering teams at the facility developed solutions to eliminate or reuse materials, change packaging configurations to increase density, and recycle additional materials. For example, disposable totes and gowns were replaced with reusable ones. By improving the inspection process, insulin delivery pen discards were reduced by more than 800,000 cartridges over two years.
- Upgrading to more energy-efficient biosafety cabinets at our Lilly Corporate Center. These cabinets pull the air out of the laboratory and put clean air back into the workspace. The cabinets were chosen to meet both safety and environmental priorities.

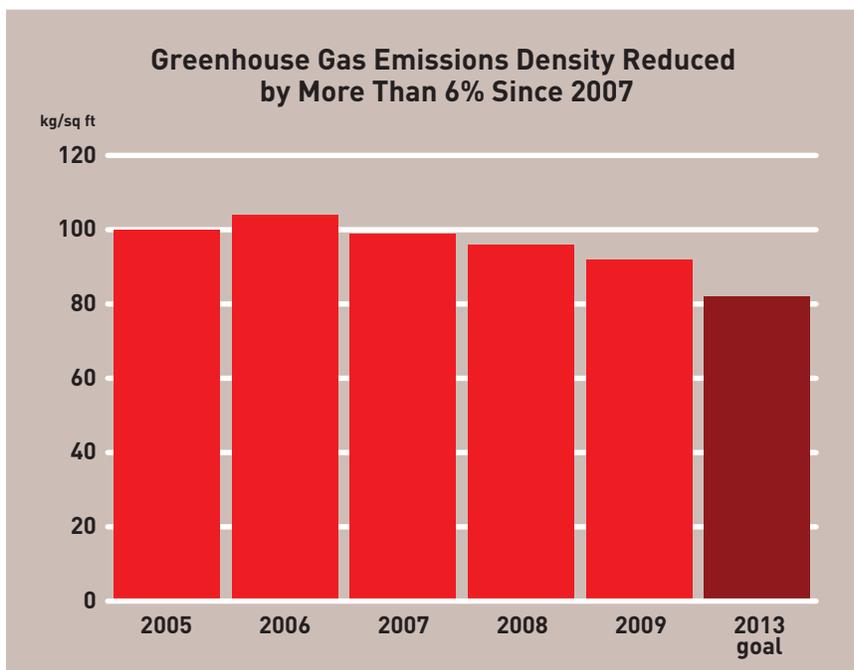
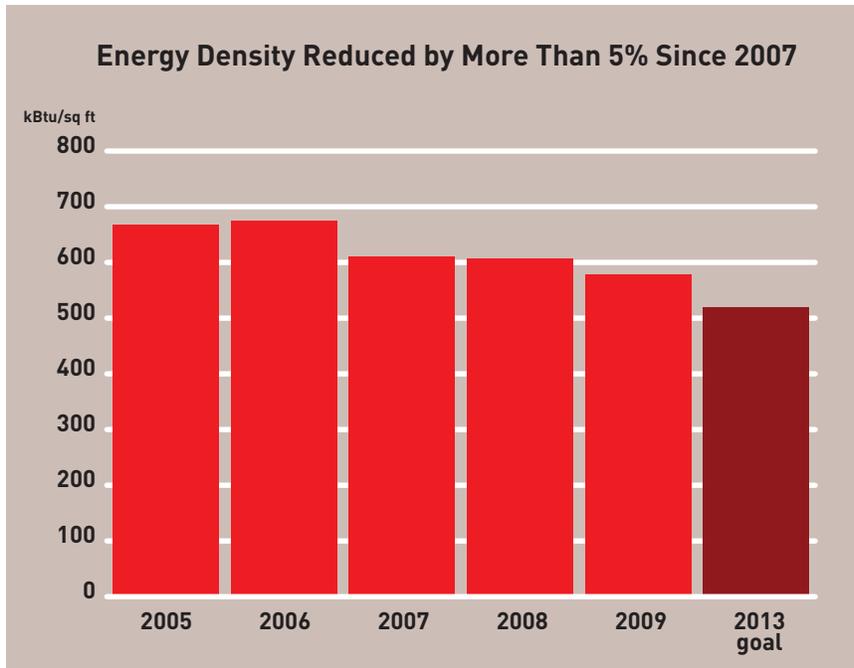
Other environmental initiatives include the following:

- For several years, Lilly's Information Technology (IT) function has actively pursued ways to improve energy efficiency and reduce waste. In particular, IT has focused on the company's data centers and its printing and computing equipment. As a result, between 2006 and 2008, Lilly IT saved nearly 4,500 megawatt hours of energy through data server consolidation and data center improvements. That's the equivalent of about 3,200 metric tons of carbon dioxide or the annual greenhouse gas emissions from almost 600 automobiles. In addition, over the past five years, we have responsibly recycled more than 150,000 kilograms of electronic equipment and reused almost 10,000 electronic devices.
- At our global headquarters in Indianapolis, Lilly's sustainability garden sits on nearly four acres of land where alleys, roads, and buildings used to stand. Lilly reclaimed and reused 10,000 bricks and recycled 327 metric tons of asphalt and 163 metric tons of concrete during the development of 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 bio-filter and channels stormwater into the subsoil. The garden reduces an estimated 13.2 million liters per year of stormwater runoff into city sewers.

We are making good progress toward our environmental goals – in fact, we have already achieved our goals of a 40 percent reduction in the amount of waste sent to landfills and a 25 percent reduction in water intake. The following sections provide detail on our progress in reducing energy and GHG emissions, water, and waste.

Energy and GHG Emissions

We report energy use and GHG emissions per square foot of facility space. By 2009 we had achieved a 5 percent reduction in energy density compared to 2007, one-third of our target reduction. We reduced GHG emissions density by more than 6 percent during this period as a result of energy savings and switching to lower-carbon fuels.

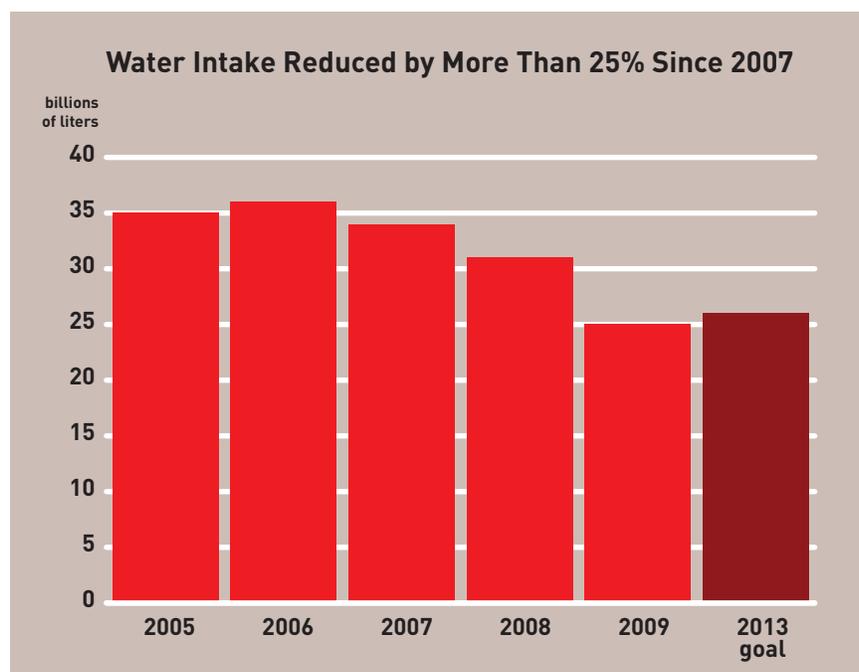


During routine inspections in 2006 and 2007, the U.S. Environmental Protection Agency (EPA) identified potential gaps in our leak detection and repair program (LDAR). In addition, in 2006 we voluntarily reported to the state and city environmental agencies that we had exceeded an annual limit for air emissions. In response to these events, we have implemented numerous corrective actions and enhancements to our LDAR program. We are currently working with the EPA towards resolution of this matter.

Water

Most of our facilities operate in communities where water supplies are plentiful. However, we believe it's important to reduce our water consumption whenever possible, especially in light of global concerns regarding access to water. In 2007, our water intake was almost 34 billion liters. Our goal is to reduce that amount by 25 percent by 2013.

Lilly monitors the amount of water we bring into the company's manufacturing and research and development sites worldwide—whether it's through direct extraction from the ground or from municipal sources. In 2009, the total amount of water brought into our facilities was a little more than 25 billion liters, about 9 billion less than in 2007. According to the U.S. Environmental Protection Agency's WaterSense Program, 9 billion liters is enough to supply household water for about 65,000 people for a year.



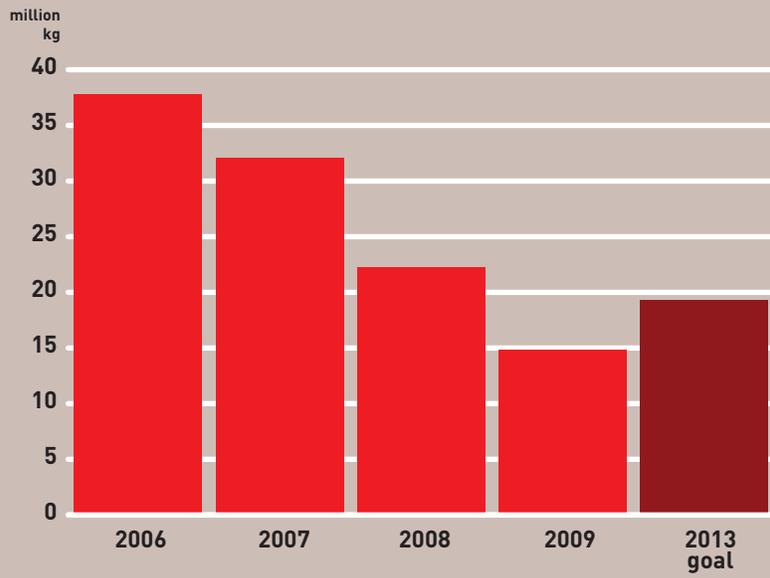
Waste

We consider “waste” to be any material shipped from our facilities that is not a product or a product in progress.

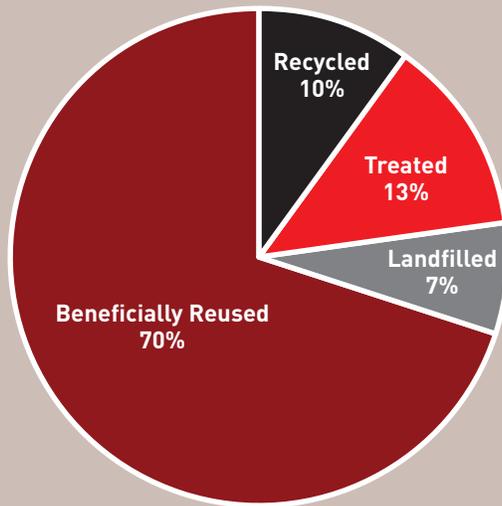
In 2009, we reused 70 percent of our waste and recycled 10 percent. Approximately 13 percent was treated to remove components that could harm the environment, and 7 percent of the waste shipped from our facilities, including construction and demolition debris, went to landfills. The amount recycled includes some wastes used as fuel to help power our facilities. This process, referred to as “waste to energy,” provides an alternative to burning coal or other fossil fuels.

Several of our production processes yield byproducts that can be reused for other purposes. In 2009, we found beneficial reuse opportunities for 70 percent of all Lilly waste. For example, mycelia, a solid material left after a fermentation process, is used as soil conditioner on farmland to improve plant growth. Urea, a byproduct of insulin production, is used as an ingredient in fertilizer manufacturing.

Waste to Landfill Reduced Over 50% Since 2007



2009 Waste Disposition



Environmental Awards

Lilly's environmental performance achievements have garnered recognition from external entities in the United States and Europe. Recent examples include the following:

- **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)
- **Carbon Trust**, recognition of carbon management programs (2009)
- **Uptime Institute**, Global Green 100 Data Center List (2009)
- **Wildlife Habitat Council**, Wildlife at Work Certification (2009)

"GREEN TEAMS" INVOLVE LILLY EMPLOYEES IN MEETING OUR GOALS

In 2007, we offered our employees the opportunity to participate in refining our company strategy via an electronic discussion board. Among the thousands of comments posted, "Going Green" was one of the most talked-about discussion threads, reinforcing the importance of sustainability issues, challenges, and opportunities to many of our employees.

Since then, we've stepped up our efforts to build our environmental strategy, communicate our progress both within and outside the company, and engage our employees in these efforts.

Many of our best sustainability initiatives started with an idea from a single employee. Some of these ideas have grown into company-sponsored programs that have made impacts toward our energy, waste, or water goals. Others have been planned, funded, and implemented at a local level, including recycling programs, carpooling efforts, educational seminars, facility tours, and even local employee sustainability clubs that focus on employee awareness and action.

We're working to communicate our environmental goals more effectively while educating our employees on how their individual actions can make a difference. We'll do this through educational programs and social networking so our employees can ask questions, make suggestions, start a sustainability club, or volunteer to help with environmental activities in our communities.

Anti-Corruption

.....
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
.....

OUR COMMITMENT

Lilly has maintained a commitment to ethical conduct throughout our 134-year history. As a global leader in the development, manufacture, and sale of pharmaceutical products, we have implemented programs designed to ensure compliance with the laws and regulations of every country in which we operate.

We have developed—and we continue to refine and improve—an anti-corruption program designed to promote ethical conduct and instill a culture of compliance. We train all our employees in ethical business practices and have systems in place to detect violations of law, regulation, and company policy, including those related to anti-corruption.

This section describes our commitment to work against corruption in all forms. It details our compliance policies, our Code of Business Conduct, our top-down compliance management systems, and our training programs—all of which reinforce ethical behavior and help avoid corruption and other unacceptable activities. This section also highlights our efforts to be more transparent about our operations, including our clinical trials, our educational grants, and payments we make to physicians.

OUR APPROACH

At Lilly, our commitment to ethics and compliance is born of our commitment to business integrity. Our core company values—integrity, excellence, and respect for people—are not simply platitudes; they are infused into the Lilly culture and are emphasized in communications to our employees.

We have invested significant resources in our formal ethics and compliance and anti-corruption programs. We have:

- Invested substantially in our company's Global Ethics and Compliance budget and personnel;
- Augmented the scope of our written policies and procedures;
- Increased oversight of compliance operations by Lilly's Board of Directors; and
- Developed and implemented an enhanced Global Anti-Corruption Program.

HOW WE MANAGE ETHICAL CONDUCT

Policies

Lilly's Global Ethics and Compliance Program (GEC) takes a comprehensive approach to compliance, focusing on education and training to prevent potential issues and detection of compliance abuses through reporting, auditing, and monitoring mechanisms.

Our ethics and compliance program includes policies and procedures that address specific risk areas identified for pharmaceutical manufacturers by the U.S. Department of Health and Human Service's Office of the Inspector General. These risks include: data integrity pertaining to government reimbursement practices; kickbacks and other illegal remuneration; and compliance with laws regulating drug sampling. Our policies also comply with the PhRMA Code on Interactions with Healthcare Professionals.

Our key compliance-related expectations are communicated through the following vehicles:

- **The Red Book.** We disseminate and regularly update our written Code of Business Conduct, *The Red Book*. Available in 24 languages, this document summarizes company policies and provides real-life examples employees can apply to their decisions and actions. *The Red Book* is designed to help our employees navigate an increasingly complex global business environment.
- **Compliance policies, procedures, and related materials.** The information summarized in *The Red Book* is amplified by an integrated set of compliance policies, standards, and procedures accessible to employees on the company's intranet. Twenty-nine "global policies" govern Lilly actions with respect to anti-corruption, compliance with health care laws and regulations, ethical interactions with external parties, interactions with government and public officials, and other topics. Twelve "global standards" provide greater detail on appropriate employee conduct regarding payments, grants and donations, meetings with health care providers, gifts, product samples, and other topics. We also have policies and procedures that are specific to particular areas of our business.

"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."

**— John C. Lechleiter, Ph.D.
Chairman, President, and CEO
Eli Lilly and Company
The Red Book (2010 edition)**

Employees "must not bribe or offer, give, or authorize any inducement to Government or Public Officials or individuals in the private sector, and must not create even the appearance of offering, giving, or authorizing a bribe or inducement on behalf of the company."

-Lilly's Global Policy on Ethical Interactions with External Parties

MANAGEMENT SYSTEMS

Global Anti-Corruption Program

Our Global Anti-Corruption Program, a component of our overall GECP, includes policies and procedures tailored to the challenges of ensuring compliance in the 143 countries in which we market our products.

We have implemented an enhanced Global Anti-Corruption Program in every Lilly affiliate worldwide. Internally, we require training for our employees on anti-corruption issues, including bribery. Externally, we complete a comprehensive due diligence process focused on the following areas:

- Health care providers whom Lilly pays for services, including clinical trials, 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

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 production of documents related to the investigation. In connection with that matter, staffs of the SEC and the Department of Justice (DOJ) have expanded their investigation and 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 a subpoena related to activities in these countries. We are cooperating with the SEC and the DOJ in this investigation.

Oversight

Responsibility for ethics and compliance at Lilly rests at all levels of the organization and starts at the very top. Our Board of Directors' Public Policy and Compliance Committee exercises direct oversight of Lilly's chief ethics and compliance officer and the operation of the GECP. The Board's Audit Committee, in addition to having direct oversight of financial matters, also exercises oversight of some compliance-related audit matters.



Our Board’s Public Policy and Compliance Committee also has specific obligations under a Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the U.S. Department of Health and Human Services. In February 2009, Lilly entered into the 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 adhere to extensive provisions regarding the structure of our ethics and compliance organization; the substance of policies and procedures regarding compliance issues; the training of employees on compliance objectives; and the annual monitoring and review procedures in effect to verify adherence to law, regulation, and Lilly’s compliance objectives. Each year, the Committee must certify whether Lilly has implemented an effective ethics and compliance program as it relates to the scope of the CIA.

Global Ethics and Compliance Organization

The Global Ethics and Compliance organization is an independent unit of Lilly, reporting to the CEO and the Board of Directors, that is charged with providing comprehensive support and assessment of compliance across the company. The Ethics and Compliance department provides avenues for people to ask questions and/or report violations.

Executives, Managers, and Employees

All employees play a role in the success of our ethics and compliance program. Lilly sets the “tone at the top,” with our chief executive officer routinely speaking directly to employees about compliance issues.

Managers are responsible for establishing a culture of compliance in which questions are encouraged and concerns are reported. Each employee is charged with prioritizing corporate responsibility and conducting Lilly's business in an ethical and compliant manner.

Reporting, Monitoring, and Auditing

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

- **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. We have a toll-free Ethics and Compliance Hotline, staffed by an independent firm 24 hours a day, seven days a week.
- **Monitoring.** In the United States, Lilly maintains an ethics and compliance field force monitoring program for direct observation of field sales force interactions with health care providers. Similar programs are being developed and implemented outside the United States.
- **Corporate auditing.** We have an internal auditing function, Corporate Audit Services (CAS), that conducts both financial and non-financial audits to evaluate compliance with company policies and procedures. CAS audits include an anti-corruption audit module.

Training

We believe training is the key to ensuring ethical behavior and guarding against corruption. Some examples of our programs in this area include the following:

- Each year, Lilly employees are required to read *The Red Book*, participate in training on its contents, and certify they understand and will abide by its requirements.
- New employees in our Ethics and Compliance group participate in a training and education session known internally as “compliance boot camp.” Training continues on a periodic and as-needed basis.
- Employees receive targeted training related to their specific job responsibilities.

BUILDING TRUST THROUGH TRANSPARENCY

Our experience indicates transparency in our operations can help to build trust with stakeholders. Transparency can also guard against corruption and unethical business practices. Patients and physicians are seeking more and better information about diseases and treatments. By listening and responding to our stakeholders' concerns, we can improve our transparency and the way we do business.

We believe it takes the whole community to rebuild trust in medicine, and we want to do our part. In 2004, Lilly became the first company to voluntarily make public our U.S. clinical trials and our clinical trials data. And in 2007, Lilly added another first by publicly reporting our educational grants and charitable contributions in the United States.

In 2009 in the United States, Lilly launched a Faculty Registry, an online accounting of recent payments made to physicians and other health care professionals for commercial activities. Lilly faculty members are an important part of our efforts to inform health care professionals about Lilly products and disease states. They also help educate patients about how to use our medicines. The role these individuals play is an important aspect of our business—one that is a critical part of Lilly's vision to improve individual patient outcomes.

While we had already announced our intent to voluntarily disclose physician payments beginning in the middle of 2009, we also are obligated to do so as part of the Corporate Integrity Agreement we entered into with the Office of the Inspector General of the U.S. Department of Health and Human Services in February 2009.



Answers That Matter.

Lilly welcomes feedback and comments on this, our first Communication on Progress. Please contact:

Mr. Tracy J. Sims
Senior Advisor
Eli Lilly and Company
sims_tracy_j@lilly.com