

*Lilly*

ELI LILLY AND COMPANY

2017 INTEGRATED SUMMARY REPORT

# LILLY FOR BETTER

LILLY UNITES CARING WITH DISCOVERY  
TO MAKE LIFE BETTER FOR PEOPLE AROUND THE WORLD.

*Lilly*



## TO OUR LILLY SHAREHOLDERS:

### At Eli Lilly and Company, our ultimate indicator of success is improving people's lives.

People like Jessica Baker. Jessica is a Lilly cancer researcher who, at age 36, learned she had an aggressive form of breast cancer. Only because of a medicine recently developed by our industry was her life spared. "I never thought that one day the patient would be me," she said. "Once I got my strength back, I vowed to keep fighting this disease each day as a scientist."

We change the lives of people like Jessica by advancing science in breast cancer, sarcoma, diabetes, rheumatoid arthritis, psoriasis and pain.

In 2017, we reached a growing number of people around the world with new and life-changing medications. We advanced exciting new medicines in our pipeline. We extended our efforts to strengthen the communities and sustain the resources on which our company and customers depend. To support these efforts, we made important changes in our organization, sharpened our focus and positioned Lilly for an even brighter future.

### BETTER SCIENCE

Lilly reinvests nearly one-quarter of our revenue into research and development, one of the highest rates across all industries. These investments have allowed us to launch nine new medicines since 2014 – including two last year – and have us poised to launch 11 more by 2023.

2017 was a productive year for the company. We launched Verzenio™ to U.S. patients with metastatic breast cancer, a launch that occurred in record time – locking our clinical data, submitting to regulators and hitting the market all in the same year. We reported positive trial readouts last year from an exciting late-stage pain portfolio. Galcanezumab, for episodic and chronic migraine, was submitted to regulators. Lasmiditan, an acute treatment for migraine acquired in the purchase of CoLucid Pharmaceuticals, demonstrated positive results in its Phase 3 program. In partnership with Pfizer, we will report clinical data this year for tanezumab, a non-opioid molecule for types of chronic pain.

We're developing a Connected Diabetes Ecosystem to help people better manage their diabetes. This integrated solution will combine

insulin and glucose data to recommend or deliver the right dose at the right time based on each patient's individual needs. Harnessing the power of digital and biotechnology holds the promise to change the lives and medical outcomes of people with diabetes.

After decades of dramatic advancement against serious human disease, we are as optimistic and determined as ever to transform lives through the power of new medicines. To accelerate progress for patients, we are focused on three interlocking R&D initiatives:

**Next Generation Development** has cut our average development time by two years, and we aim to go even faster.

**Next Generation Research** is designed to enhance our ability to target new biology, identify molecules with large effects and begin clinical testing up to two years faster.

Through a **greater commitment to external innovation**, we plan to source one-third of Lilly's pipeline assets via collaboration or acquisition.

Taken together, these transformative initiatives are critical to our growth and should enhance our competitive positioning in core therapeutic areas and dramatically accelerate progress for patients.

## BETTER BUSINESS

We translated our R&D progress into strong business results in 2017. Lilly's revenue rose 8 percent, driven by our recently launched products. Special charges due to U.S. tax reform and a company restructuring resulted in a reported loss of 19 cents per share. Disciplined operations kept expenses flat, boosting Lilly's non-GAAP adjusted net income by 21 percent.

This performance was guided by four priorities, which remain unchanged for 2018.

**Launch with excellence** – When we successfully reach patients in all segments and geographies with our medicines, we can build brands that produce the financial capacity to reinvest in R&D while sharing value within the health care system. To do this, we will capitalize on a compelling group of new brands, including Trulicity®, Jardiance®, Taltz®, Olumiant® and Verzenio, to drive annual revenue growth of 5 percent between 2015 and 2020.

**Replenish our pipeline** – To expand our reach and the impact of our science we must progress more assets into late-stage testing. In 2017, new candidates that began Phase 3 testing included our ultra-rapid lispro insulin and lasmiditan for acute migraine treatment.

**Improve productivity** – Last year we announced a company-wide effort to drive productivity, streamline how we work and reduce our workforce.

In 2018, we are operating the company with an approximately 10 percent smaller workforce than at the beginning of 2017. Savings from these initiatives will enable us to progress toward an operating margin goal of 30 percent or better in 2020 and to invest more resources into our innovation and growth strategy.

**Develop core capability and talent** – As part of our quest to become a leading destination for talent, we adopted aspirational diversity goals for leadership positions. We also added key talent and capability in our global R&D hubs and therapeutic business units.

Also, Lilly announced in October it is reviewing strategic alternatives for our Elanco Animal Health business – including a sale, merger, initial public offering or retention of the business. We expect to make a decision about Elanco in mid-2018.

## BETTER LIVES

Lilly changes patients' lives by working to ensure people have access to our advancements in health care systems around the world.

Lilly is committed to our 30x30 goal to create new access to quality health care in resource-limited settings for 30 million people by 2030. Reaching that goal will require Lilly's philanthropic and sustainability efforts, novel partnerships, new pricing approaches and R&D capacity to create new solutions tailored to the needs of people in underserved communities.

We're also striving to improve access to our medicines in developed markets where significant challenges remain for those in government-

managed systems, or without adequate insurance or in high-deductible plans. We expect that greater transparency regarding pricing discounts and our commitment to value-based payments will improve consumer access and reduce their out-of-pocket costs.

## BETTER FUTURE

2017 was a year of change. A number of U.S. employees chose to participate in the voluntary early retirement program. We also made difficult decisions that required reallocation of staff in some areas. These actions will yield critical resources to invest in pipeline opportunities and revenue growth.

At the same time, we welcomed new directors, senior executives and scientific leadership as we continue to enhance our diversity and broaden our capabilities. Our success depends on our ability to build on the tremendous accomplishments of those who have come before us. We are confident that the next generation of leaders will rise to the occasion and direct our company decisively into a future full of opportunities. Our employees remain Lilly's competitive advantage.

At Lilly, we are more committed than ever to create value for patients, shareholders, employees and others through bio-medical innovation – the kind of innovation we know makes life better for patients with serious illness. We appreciate your support.



**DAVID A. RICKS**, *Chairman and CEO*

A woman with dark hair, wearing safety glasses and a white lab coat, is smiling as she uses a pipette in a laboratory. The background is a blurred laboratory setting with shelves and equipment. The entire image has a purple tint.

**“I KEEP A PICTURE OF MY TUMOR AT MY DESK.  
IT REMINDS ME WHY WE DO WHAT WE DO.”**

**JESSICA BAKER, M.S.**  
Cancer Researcher

Jessica's work developing cancer diagnostics at Lilly took on a personal significance when she was diagnosed at age 36 with breast cancer. Medical innovation saved Jessica's life. Now five years in remission, she vows to keep fighting this disease each day as a scientist, advocate and survivor.

**LEARN MORE ABOUT JESSICA'S STORY AT  
[LILLYFORBETTER.COM](http://LILLYFORBETTER.COM).**

LILLY FOR BETTER

# SCIENCE

## SCIENCE: OUR PIPELINE



As a child, Lilly chemist George Njoroge was inspired to research new medicines by watching his grandmother, an herbal medicine doctor in Kenya. During his 30-year career, he has worked to discover medicines in diabetes, cancer, infectious diseases and now autoimmune disorders.

“In research, when you make your molecule, it’s like your baby,” he said, “and you see it growing and becoming an entity that can be useful to your fellow human beings. That’s very exciting.”

Lilly’s scientists like George are advancing a pipeline that currently includes 38 select new molecules in clinical development: seven in Phase 3, 10 in Phase 2, and 21 in Phase 1.

This report highlights nine molecules that have advanced to Phase 2 testing or beyond and are being studied in up to 17 new indications or line extensions (NILEX).

We are also aiming to bolster our pipeline through early-stage collaborations. In 2017, Lilly announced collaborations with Nektar Therapeutics, KeyBioscience and CureVac to focus on a novel immunological therapy, metabolic disorders such as type 2 diabetes and the development of cancer vaccines, respectively.

Since our last annual report, one molecule was approved for marketing in an initial indication: Verzenio, our dual inhibitor of cyclin-dependent kinases 4 and 6 for the treatment of metastatic breast cancer. Additional regulatory approvals were achieved for several select NILEX.

One molecule, ultra-rapid lispro insulin, entered Phase 3 testing for diabetes. In addition, we submitted one molecule for regulatory approval in its initial indication, galcanezumab, our calcitonin gene-related peptide (CGRP) antibody for migraine prevention.

We advanced five new molecules into Phase 2 testing and 11 into Phase 1. We discontinued active development on 15 molecules.





# HIGHLIGHTS IN OUR PIPELINE

## DIABETES

After more than 90 years helping people with diabetes, Lilly has entered a new phase of innovation. We are working collaboratively with partners to integrate the best medicines and technologies into a connected solution – the **Connected Diabetes Ecosystem** – that holds the promise of making diabetes management simpler and more effective for the 30 million Americans with diabetes and many more people worldwide. We have two development-stage programs within that ecosystem. One system will use smart devices to capture insulin and glucose data, enabling algorithms to provide dosing recommendations. The second system combines an insulin pump and algorithm with a continuous glucose monitor to enable automated insulin delivery.

Lilly is also developing **nasal glucagon**, the first dry-powder, ready-to-use spray rescue treatment for severe hypoglycemia in people with diabetes. The patient has no need to inhale or breathe

deeply, as the glucagon is passively absorbed through the nasal cavity – allowing anyone to administer it in an emergency. Lilly expects U.S. regulatory submission to occur in the first half of 2018.

Our **ultra-rapid lispro insulin**, a potential advancement for people with diabetes who need meal-time insulin, offers a faster action that more closely mimics normal insulin response to meals and may help improve overall and post-meal glucose control.

## PAIN

More than 36 million Americans have migraines, with three times more women affected than men. Lilly recently submitted **galcanezumab**, a CGRP antibody, to both the U.S. Food and Drug Administration (FDA) and the European Medicines Agency for the prevention of migraine in adults. Positive data from three Phase 3 studies evaluating more than 2,900 patients formed the

basis of this submission and demonstrated that patients treated with galcanezumab experienced a statistically significant decrease in the average number of monthly migraine headache days compared to those receiving placebo. We anticipate an FDA decision in the second half of 2018.

Lilly's pain portfolio also includes **lasmiditan**, an oral, first-in-class molecule for the acute treatment of migraine. Results from two Phase 3 studies demonstrated that significantly more patients were pain-free at two hours following the first dose of lasmiditan than those patients receiving placebo. Lilly plans to submit lasmiditan to the FDA in the second half of this year.

In partnership with Pfizer, we are developing **tanezumab**, a non-opioid antibody that selectively inhibits nerve growth factor, for the potential treatment of osteoarthritis pain, chronic low back pain and cancer pain.



**BACKGROUND IMAGE:** A scan of Jessica Baker's actual tumor

# PIPELINE OF MOLECULES IN CLINICAL DEVELOPMENT

Current as of January 24, 2018

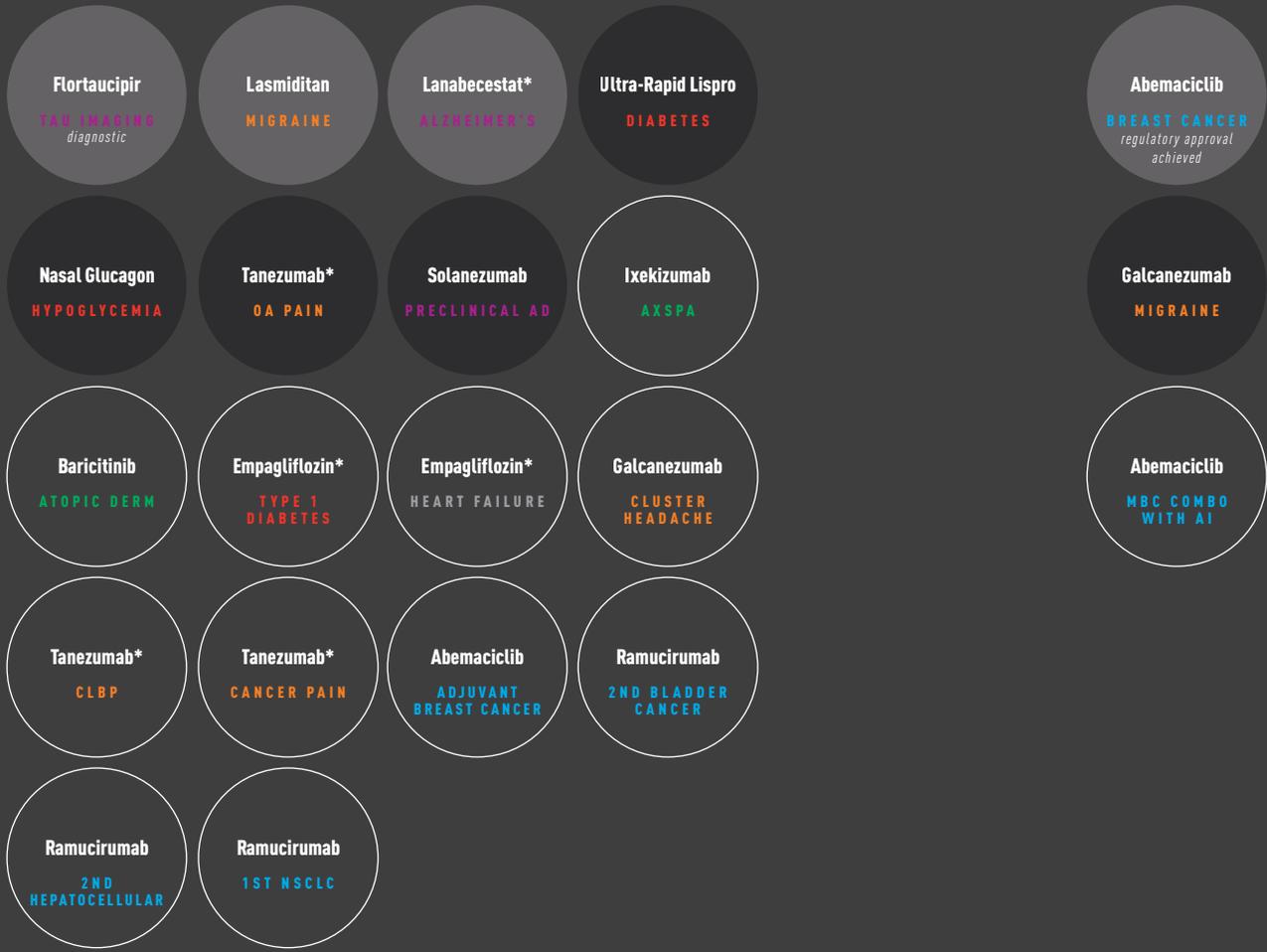
## PHASE 1

## PHASE 2



PHASE 3

REG REVIEW



- NEW CHEMICAL ENTITY
- NEW BIOTECH ENTITY
- NILEX
- \* COMMERCIAL COLLABORATION

**“WHEN YOU MAKE A MOLECULE, IT’S LIKE YOUR BABY.  
YOU SEE IT GROW AND BECOME AN ENTITY THAT CAN BE USEFUL.”**

**GEORGE NJOROGE, PH.D.**  
Cancer and Immunology Researcher

As a child in Kenya, George watched his grandmother, an herbal medicine doctor, use plants and other natural remedies to help patients. Years later, he still attributes his fascination with drug discovery to his childhood years in Africa.

**LEARN MORE ABOUT GEORGE’S STORY AT  
[LILLYFORBETTER.COM](http://LILLYFORBETTER.COM).**



LILLY FOR BETTER

# BUSINESS



## BUSINESS OVERVIEW

In 2017, new pharmaceutical products drove Lilly's revenue growth of 8 percent. These new products — Trulicity, Cyramza®, Taltz, Basaglar®, Jardiance, Lartruvo™, Olumiant, Verzenio and Portrazza® — represented 20 percent of our total revenue.

Since our last annual report, we have received U.S. approval for Verzenio in breast cancer, as well as U.S. and European Union approval for Taltz in active psoriatic arthritis. Olumiant was approved in more than 30 countries for rheumatoid arthritis, including the European Union and Japan.

Despite increased competition and price pressure, revenue grew faster than total operating expenses (OPEX), which increased 1 percent. Operating expenses were 51.9 percent of revenue in 2017, a reduction of 3.2 percentage points compared with the prior year. We are on track to achieve operating income as a percent of sales of 30 percent or greater in 2020.

Reported net income and earnings per share (EPS) in 2017 were a loss due to charges associated with recently enacted U.S. tax reform legislation, efforts to reduce the company's cost structure and the acquisition of CoLucid. On a non-GAAP basis, the company grew net income by 21 percent and EPS by 22 percent. We returned

\$2.19 billion to shareholders during the year through the dividend and paid \$299.8 million to repurchase Lilly shares.

### OTHER DEVELOPMENTS

A court ruling at the U.S. Patent and Trademark Office upheld our vitamin regimen patent on Alimta. The UK Supreme Court also ruled in our favor regarding the Alimta vitamin regimen patent in the UK, France, Italy and Spain. If the patents are upheld through all remaining challenges, Alimta would maintain exclusivity in the U.S. until May 2022 and in the UK, France, Italy and Spain until June 2021. There are other ongoing legal proceedings related to Alimta in several courts in Europe, the U.S. and Japan.

After a decade of growth, Elanco Animal Health is now a global company with a full range of products. With this scale and capability, Elanco has secured a leadership position in an expanding sector, even as it faces headwinds in segments of its food animal business. To ensure the right operating structure for Elanco's future growth and to maximize its value, we are reviewing strategic options, including a sale, merger, initial public offering or retention of the business, with a decision expected in mid-2018.



**MARIA ALVIM GASTON, PH.D.**, Principal Research Scientist



## RECENTLY LAUNCHED PRODUCTS



### OLUMIANT

Olumiant, a treatment for moderate-to-severe rheumatoid arthritis, was approved in the European Union and Japan in February 2017 and July 2017, respectively. We are pleased with the early use in Japan, and in Germany, where uptake has exceeded that of two major competitors in their comparable launch time frames. In April 2017, the FDA issued a complete response letter for Olumiant requesting additional data. In December 2017, Olumiant was resubmitted to the FDA, and we expect a decision in 2018. Olumiant is part of a collaboration with Incyte.

### VERZENIO

Verzenio, a cyclin-dependent kinases (CDK) 4 and 6 inhibitor, was approved in the U.S. in September 2017 to treat metastatic breast cancer. We are encouraged by early launch uptake and expect regulatory decisions for Verzenio in Europe and Japan in 2018.

## THE NUMBERS



### REVENUE PER EMPLOYEE

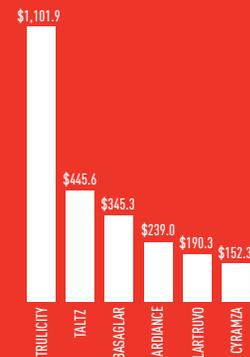
(\$ thousands, percent growth)



In 2017, revenue per employee increased 11 percent to \$563,000, primarily due to higher revenue driven by volume growth from Trulicity and other new pharmaceutical products.

### PRODUCT REVENUE GROWTH

(\$ millions represent growth in revenue, excluding foreign currency impact)



Six new pharmaceutical products – Trulicity, Taltz, Basaglar, Jardiance, Lartruvo and Cyramza – together generated revenue growth of \$2.5 billion, excluding the impact of foreign currency, driven primarily by volume increases.



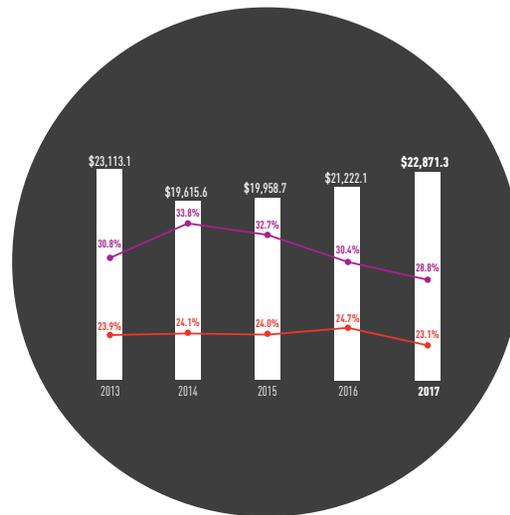
# 2017 FINANCIAL HIGHLIGHTS

## OPERATING EXPENSES

(\$ millions, percent of revenue)

- Revenue
- Marketing, Selling + Administrative
- R+D

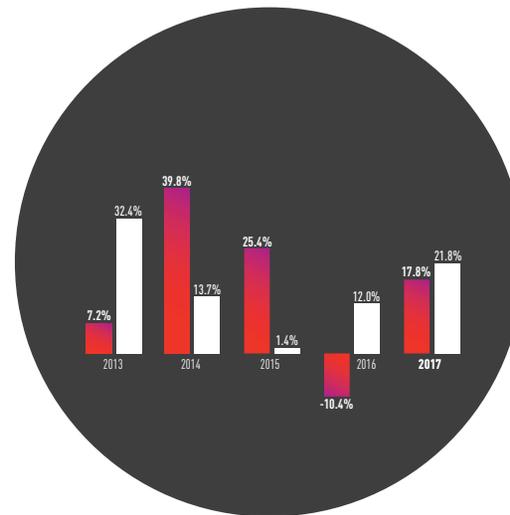
Over the past four years, Lilly has maintained relatively flat operating expenses while growing revenue, resulting in consistent improvement in operating expenses as a percent of revenue.



## TOTAL SHAREHOLDER RETURN

- Lilly
- S&P 500

Over the past five years, Lilly's annualized total shareholder return has averaged 15 percent, compared to 16 percent for the S&P benchmark, due to the increase in the stock price and steady dividend stream.

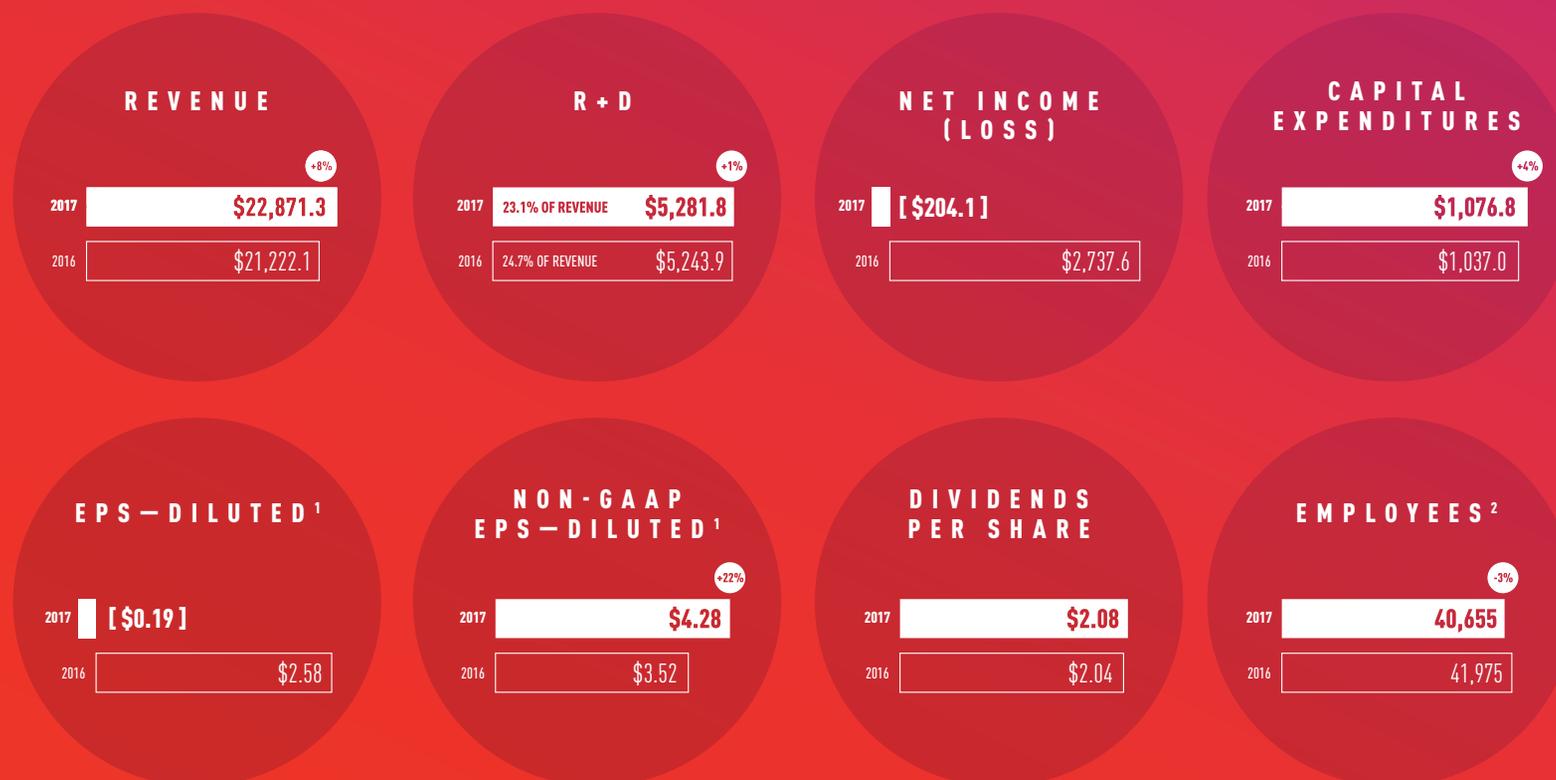


## REVENUE GROWTH ACROSS THERAPEUTIC AREAS

(\$ millions, percent growth)



Revenue in Diabetes increased 25 percent, primarily driven by growth of Trulicity, Basaglar, Forteo®, Jardiance and Tradjenta®. Oncology grew 2 percent, primarily due to higher volumes for Lartruvo and Cyramza, partially offset by lower volumes for Alimta. Immunology grew due to higher volumes for Taltz. Revenue in Neuroscience decreased 20 percent, driven by lower volumes for Strattera®, Cymbalta® and Zyprexa® due to loss of patent protection, and Cardiovascular decreased 11 percent, driven by lower volumes for Cialis® and Effient®.



## RECONCILING ITEMS <sup>1</sup>

1. These items reconcile the EPS-Diluted to the Non-GAAP EPS-Diluted. For more information on these reconciling items, see the company's latest Form 10-K files with the U.S. Securities and Exchange Commission. Numbers may not add due to rounding.

	2017	2016
U.S. TAX REFORM LEGISLATION	\$1.81	—
ASSET IMPAIRMENT, RESTRUCTURING + OTHER SPECIAL CHARGES	\$1.23	\$0.29
ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT	\$0.97	\$0.02
AMORTIZATION OF INTANGIBLE ASSETS	\$0.44	\$0.44
BOEHRINGER INGELHEIM VETMEDICA INVENTORY STEP-UP	\$0.03	—
VENEZUELA DEVALUATION CHARGE	—	\$0.19

2. Data from 2017 include U.S. employees who have since left the company via a voluntary early retirement program.

A woman with dark hair, wearing a grey t-shirt and a lanyard, is smiling warmly as she interacts with a group of children. The children are seen from behind, wearing patterned shirts. The scene is set outdoors, possibly at a community event or school, with a blurred background of other people. The entire image has a blue color overlay.

**“SIMPLICITY. KINDNESS. COMMUNITY.  
I ALWAYS TRY TO BRING A LITTLE BIT OF THIS HOME WITH ME.”**

**STEPHANIE HORNA, BA, MSN, NSP**  
Clinical Research Scientist, Global Patient Safety

Growing up in rural Indiana, Stephanie remembers wanting to be a part of something bigger. Her childhood ambitions came full circle during a recent volunteer trip to the Volta Region of Ghana with Lilly's Connecting Hearts Abroad program. Today, that experience drives her to do even more to help improve lives around the world.

**LEARN MORE ABOUT CONNECTING HEARTS ABROAD AT  
[LILLYFORBETTER.COM.](https://www.lillyforbetter.com)**

LILLY FOR BETTER

LIVES

#WeAreLilly



# IMPROVING GLOBAL HEALTH

Through Lilly's global health efforts, we continually look for new ways to extend the promise of better health to more people around the world. We focus our efforts on communities and people who aren't typically reached by Lilly's traditional business model.

## LILLY 30x30

To accelerate our global health progress, we established Lilly 30x30 – our commitment to improve access to quality health care in resource-limited settings for 30 million people on an annual basis by 2030. That's a six-fold increase from today.

Reaching 30 million people on an annual basis by 2030 will require not just philanthropy, but an increasingly stronger mix of novel access approaches across our business and with our partners. To drive progress and innovation, we are actively exploring efforts in three key areas:

**Pipeline** – Finding breakthroughs, including new medicines and new uses for existing medicines, which will improve the lives of vulnerable people living with diseases such as diabetes.

**Programs** – Strengthening and creating new programs that help people in need get greater access to Lilly products and services, including through product donations, patient support programs and alternative pricing strategies.

**Partnerships** – Leveraging partnerships that help increase access to better health in communities with limited resources, including shared-value efforts that benefit society while also generating value for Lilly.

As part of our five-year, \$90 million global health commitment through 2022, we have created an internal innovation fund to engage our employees in finding new global health solutions. The fund will be used to advance the best ideas that will help us reach our 30 million goal.



## CONTRIBUTIONS AT A GLANCE

\$33.6M\*

2017 TOTAL CASH DONATIONS

*\*including \$30M from the Eli Lilly and Company Foundation*

\$938M

2017 TOTAL PRODUCT DONATIONS

1.4M

INSULIN VIALS DONATED AS OF 2017 TO THE INTERNATIONAL DIABETES FEDERATION'S LIFE FOR A CHILD PROGRAM

\$13.1M

2017 TOTAL UNITED WAY CONTRIBUTIONS

*\*including \$6.8M from the Eli Lilly and Company Foundation*

\$90M

TOTAL AMOUNT COMMITTED TO GLOBAL HEALTH PROGRAMS THROUGH 2022

1M

NUMBER OF EMPLOYEE VOLUNTEER HOURS IN LILLY GLOBAL DAY OF SERVICE SINCE 2008



# STRENGTHENING COMMUNITIES

Lilly has a long, proud heritage of strengthening the communities where we work and live. We do this through giving, volunteering and focusing on issues that affect our business: health and education. We actively encourage our employees to volunteer and give back in ways that are personally meaningful to them.

## CONNECTING HEARTS ABROAD

Lilly sponsors at least 100 employees each year to volunteer in impoverished communities through Connecting Hearts Abroad. They serve as health volunteers on community projects across Africa, Asia, Europe and Latin America. Challenged and inspired, they return with unique stories and insights that help us become a better, more globally aware company.

## GLOBAL DAY OF SERVICE

In 2017, we celebrated our 10th annual Lilly Global Day of Service, on which Lilly and Elanco employees help neighbors and communities around the world. Since the program launched, employees in over 65 countries have given more than 1 million hours and created a lasting legacy by completing thousands of projects – from assembling cancer-care packages for patients to beautifying neighborhoods by planting thousands of trees.

## DISASTER RELIEF

In 2017, Lilly responded to a string of devastating earthquakes and hurricanes in Mexico, the U.S. mainland and Puerto Rico. In Puerto Rico alone, where Lilly employs about 1,400 people, the company donated 10,000 insulin vials and pens and the Lilly Foundation, including matched contributions from Lilly employees, donated \$850,000 in cash.

## UNITED WAY

Lilly and United Way are celebrating a 100-year relationship dating back to 1918. So far, Lilly has raised \$285 million for United Way. In 2017, contributions from Lilly U.S. employees and retirees, plus a matching gift from the Lilly Foundation, totaled \$13.1 million dollars.



JILL VAUGHN, RN, BSN, Global Medical Market Researcher



# OPERATING RESPONSIBLY

Since Lilly's founding, our people have grounded our actions in our core company values of integrity, excellence and respect for people. In addition, we also support the United Nations Global Compact and its principles related to human rights, labor, the environment and anti-corruption.

Two key ways we operate responsibly are by promoting diversity and inclusion and environmental sustainability.

## DIVERSITY AND INCLUSION

As a global company in the 21st century, we believe that diversity and inclusion among our employees, leaders and suppliers are critical to our success. An inclusive culture helps us drive the scientific, clinical and customer insights that fuel innovation.

In 2017, we began a multifaceted, multi-year set of initiatives to build on previous efforts to embed diversity and inclusion into every aspect of our business. Priority initiatives include:

**Minority Employee Journeys** – An internal study using a market-research approach is helping us more fully understand the experience of minority employees – similar to the work completed in the Women's Employee Journey. We identified areas for improvement with women globally and minorities in the U.S. and have begun taking action to address them.

We've set aspirational goals to track our progress for increasing representation of women globally and minorities in the U.S. in management and leadership roles.

**Pay equity** – We are committed to ensuring pay equity for all of our employees. For more than 20 years, we have regularly conducted pay-equity studies in the U.S. In 2017, we broadened this analysis to all employees in the U.S. and the UK. The results were favorable, with just a small percentage of the population requiring an adjustment.

**Inclusive leadership** – It's an expectation that Lilly leaders ensure that all employees are welcomed, valued, respected and heard. We built a training program to help leaders develop behaviors that are inclusive of everyone.

These efforts, and others, are intended to improve our workforce, ensuring that it both represents and welcomes diverse talent around the world.

## RECOGNITION FOR RESPONSIBILITY

**ETHISPHERE INSTITUTE**  
World's Most Ethical Companies  
2017 + 2018

**THOMSON REUTERS DIVERSITY AND INCLUSION INDEX**  
(No. 14)

**NATIONAL ASSOCIATION OF FEMALE EXECUTIVES**  
Top Companies for Executive Women

**DIVERSITY INC**  
Top 50 Companies for Diversity (No. 16)

**WORKING MOTHER**  
100 Best Companies for Working Mothers  
23 Consecutive Years

**HUMAN RIGHTS CAMPAIGN FOUNDATION**  
Corporate Equality Index  
Perfect Score



## ENVIRONMENTAL SUSTAINABILITY

Making medicines requires the use of valuable resources such as energy, water and raw materials. We're committed to continually improve our environmental impact across our product life cycles and supply chain.

We challenge ourselves to seek opportunities to decrease our environmental impact, including progressing toward our 2020 goals. The baseline for our 2020 goals is 2012, except as noted below.<sup>1</sup> This report is based on 2016 – the most recent year for which verified data are available. Data for 2017 performance will be shared on Lilly.com in May 2018 in our United Nations Global Compact Communication on Progress Report.

We have improved our energy efficiency by 1 percent and our greenhouse gas emission intensity by 4 percent compared to our 2012 baseline. We achieved this performance even though production during this time increased significantly at seven of our 10 largest consuming sites, which represent nearly 90 percent of our total energy use.

Our total phosphorus emissions in wastewater have increased 34 percent from our 2014 baseline due to process changes at several large

manufacturing sites. We are planning to achieve success on this goal in 2019 and 2020 by phasing out and replacing cleaning agents with non-phosphorus-based alternatives and modifying processes to minimize the use of phosphorus cleaners.

Our waste efficiency performance has declined by 20 percent. However, waste efficiency improved 23 percent in 2016 due to waste diversion efforts at our largest generating sites – and we still view our waste efficiency goal as achievable. Some of the performance fluctuations are due to facility acquisitions as well as unexpected, temporary events that required some materials to be reclassified as waste.

## IN 2017, LILLY SCORED A CDP RATING OF B ON CLIMATE CHANGE AND A- ON WATER.

For CDP (formerly the Carbon Disclosure Project), a score of A or A- is considered "leadership" level and a score of B is considered "management" level. Learn more at [cdp.net](http://cdp.net).



## PROGRESS AT A GLANCE

(change from baseline through 2016)



**20%**  
REDUCTION IN GREENHOUSE GAS EMISSIONS INTENSITY<sup>2,3</sup>  
**4% IMPROVEMENT**



**20%**  
IMPROVEMENT IN ENERGY EFFICIENCY<sup>4</sup>  
**1% IMPROVEMENT**



**20%**  
IMPROVEMENT IN WASTE EFFICIENCY<sup>4</sup>  
while increasing recycling rate above 70% and decreasing waste to landfill below 10% of total waste  
**20% DECREASE**



**15%**  
REDUCTION IN PHOSPHORUS EMISSIONS IN WASTEWATER<sup>5</sup> (baseline 2014)  
**34% INCREASE**

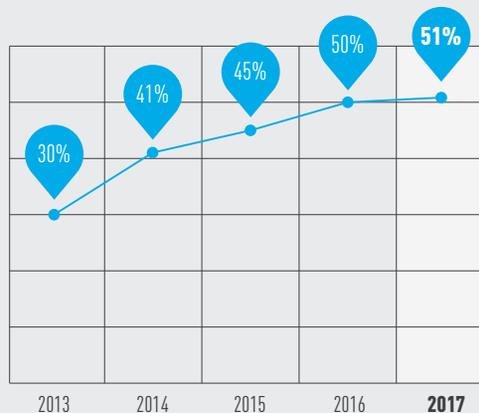
1. Following World Resources Institute guidance, progress toward environmental goals is reported on an adjusted basis accounting for mergers, acquisitions and divestitures, as appropriate, to ensure comparability, unless stated otherwise. 2. Per square foot of site space. 3. This goal covers Lilly's Scope 1 and Scope 2 emissions related to site-purchased energy (e.g., electricity, steam, chilled water) and on-site fuel combustion. 4. Per unit of production or site-relevant index. Lilly's waste goals do not include materials that are deemed "beneficially reused" without extensive processing. Examples include coal ash reused for mine reclamation or road base, and mycelia and urea reused for fertilizer. 5. In absolute terms.

# U.S. PRICING TRANSPARENCY + ACCESS

Lilly is innovating beyond the medicines we create to improve lives. We are committed to expanding access to medicines in the U.S. health care system, in part by providing greater transparency about how we price our products.

Lilly provides rebates and discounts to payer customers and supply chain entities. These have continued to increase in recent years. Overall, average discounts to U.S. list prices have grown from 30 percent to 51 percent in the past five years.

## AVERAGE LILLY DISCOUNTS TO LIST PRICE ACROSS THE U.S. PRODUCT PORTFOLIO



Several factors continue to drive this trend. While changes to Lilly's portfolio have played a role in year-over-year discounts, pharmaceutical manufacturers' increased competition and pharmacy benefit managers' (PBMs) increased negotiation leverage have resulted in consistently deeper discretionary discounting over the past several years. In addition, Lilly's mandatory government discounts have continued to increase.

Discounts on Lilly's medicines continue to widen the gap between list prices and net prices, the actual prices realized by Lilly. While both have increased, net prices have done so at a significantly lower rate. For insulins, mandatory U.S. government discounts in certain programs result in net prices among the lowest in the world, and lower than developed markets with single-payer, direct-purchase models.

## COMPARISON OF LILLY LIST AND NET PRICE CHANGES FOR U.S. PRODUCT PORTFOLIO (% change versus the prior year)



Factors that create this gap also contribute to the rising prices consumers pay at the pharmacy. The trends toward high-deductible health plans and greater consumer cost-sharing through co-pays and co-insurance have exposed many people to medicines' list prices – costs patients were not intended to pay. Under this type of insurance design, consumers are paying the full list price until they meet their deductible and a percentage of the list price thereafter.

Working together with all payers for health care services, we can find solutions to make medicines more affordable for those who need them. In high-deductible health plans, affordability could be improved if patients directly received the rebate benefit that pharmaceutical companies provide to insurance plans. Lilly is committed to working with insurance companies and PBMs to develop value-based payment arrangements that tie medicines' prices to outcomes and value they provide to patients.



**GEOFFREY GRUNER**, Formulation Conductor



**LILLY LEADING BY EXAMPLE—  
EMPLOYEE BENEFITS**

Through innovative solutions, we are leading by example to help our employees, and others, better afford medicines and other health care services to improve their lives.

Starting in 2018, Lilly health benefits plans will reduce the cost of prescriptions purchased by covered employees and non-Medicare eligible retirees/dependents by the estimated amount of applicable rebates, resulting in lower out-of-pocket pharmacy costs. This is especially beneficial when employees are in the high-deductible phase of their health plans.

We also exempt preventive and chronic disease medications from the deductibles of our employees' health plans to ensure there are no barriers for accessing medicines critical to their overall health and well-being.

Lilly contributes \$800 to employees' and \$1,600 to families' Health Savings Accounts at the beginning of each year, with funds available immediately. For Health Reimbursement Accounts, Lilly contributes \$1,000 to employees and up to \$2,000 to families.





**“AS A NEUROLOGIST, MY MOTIVATION AND  
SCIENTIFIC INSPIRATION COME FROM MY PATIENTS.”**

**ANDY AHN, M.D., PH.D.**  
Pain and Headache Researcher

For Andy, a philosophy degree catalyzed an interest in the brain, which ultimately evolved into his passion for neuroscience. Now, as a Lilly neurologist and researcher, he is part of the early-phase discovery team for pain and headache.

**LEARN MORE ABOUT ANDY'S STORY AT  
[LILLYFORBETTER.COM](http://LILLYFORBETTER.COM).**

LILLY FOR BETTER

**FUTURE**

# GOVERNANCE



## Q + A WITH ELLEN R. MARRAM, LEAD DIRECTOR

### Q: What is the board's evaluation of Dave Ricks' performance during his first year as Chairman and CEO?

**A:** We have a rigorous annual process to evaluate and provide feedback to Dave. In December, the independent directors spent time with Dave discussing his performance against objectives established at the beginning of the year. We believe 2017 was a very strong year for the company, driven by Dave's exceptional leadership. He has brought a fresh perspective, and the company is finding new ways to speed innovation and identifying greater efficiencies that should drive revenue growth. We look forward to a bright future with Dave at the helm.

### Q: What were some key changes for the company in 2017?

**A:** Over the last 12 months, there have been significant changes to the company's management team, following Dave's promotion to CEO and the retirements of several senior leaders. The resulting team includes a strong mix of executives with broad internal and external experience. We believe these changes will provide fresh energy, and that the executive team is poised to drive long-term growth and

navigate the complex and ever-evolving external environment in which we operate.

We have also taken significant steps to streamline our business, including a voluntary early retirement plan in the U.S. and the closure of certain sites. These actions will reduce our global workforce and should result in annualized savings of approximately \$500 million. We have also undertaken a strategic review of our Elanco Animal Health business. We believe these changes will increase profitability and drive shareholder value.

### Q: How does the board think about diversity?

**A:** Our board has long been committed to diversity, both within its ranks and within management. Four of our independent directors are women, and four are minority group members. Lilly's executive management team also reflects this diversity, with six women and three minority group members among its ranks. We believe diversity in leadership will help us understand our diverse customers, ultimately driving the best results for our shareholders.

### Q: Last year a proxy advisor recommended a vote against Michael Eskew, the company's audit committee chair. What is the board doing in response to those concerns?

**A:** Proxy advisor Institutional Shareholder Services (ISS) has taken the position that shareholders should be able to amend the bylaws of every publicly traded company. Under Indiana state law, the power to amend the bylaws is reserved to the board by default, although this position can be changed, in Lilly's case, by action of the board and an affirmative vote of the shareholders to amend the articles of incorporation.

As a board, we have periodically considered whether we should propose such a step. We have weighed the importance of addressing the concern that our shareholders do not have a power granted to shareholders of Delaware corporations, with the risks inherent in a broad shareholder power to make binding changes to the company's governance documents. We believe our long-standing approach to bylaw amendments prevents abuse of our bylaws by a single shareholder or a special-interest shareholder group that has no duties to other



shareholders. We believe the board of directors, which answers to all shareholders, is better positioned to ensure that any bylaw amendments are designed to protect and maximize long-term value for all of our shareholders. And we believe that shareholders have sufficient opportunities to voice important concerns – including bringing shareholder proposals and approaching the company directly. This position does not mean we are uninterested in the concerns of shareholders. The company regularly engages with shareholders to make sure that we understand their concerns and make changes where appropriate.



## HIGHLIGHTS



### NEW BOARD MEMBERS

In February 2017, we welcomed Carolyn R. Bertozzi, Ph.D., to the board. In May 2017, John Lechleiter, Ph.D., and Franklyn Prendergast, M.D., Ph.D., retired from the board, and on June 1, 2017, Dave Ricks succeeded Dr. Lechleiter as chairman.



### BOARD ASSESSMENT

Every year the Directors and Corporate Governance Committee conducts a robust assessment of the board's performance, board committee performance and all board processes, based on input from all directors. We also conduct a detailed review of individual director performance at least every three years, when considering whether to nominate the director to a new three-year term. In 2017, we updated our process to include an assessment of each director every year.



### SHAREHOLDER ENGAGEMENT

In response to input from shareholders, we are putting two governance proposals forward for a vote of shareholders at this year's annual meeting: one to eliminate our classified board structure and a second to eliminate super-majority voting requirements. The board believes it is important to maintain appropriate defenses to inadequate takeover bids, but also important to retain shareholder confidence by demonstrating we are accountable and responsive to shareholders.

# BOARD OF DIRECTORS

---

**MICHAEL L. ESKEW**

Former Chairman and Chief Executive Officer, United Parcel Service, Inc.

**KATHERINE BAICKER, PH.D.**

Dean, Harris School of Public Policy, University of Chicago

**JUAN R. LUCIANO**

Chairman and Chief Executive Officer, Archer Daniels Midland Company

**R. DAVID HOOVER**

Former Chairman and Chief Executive Officer, Ball Corporation

**CAROLYN R. BERTOZZI, PH.D.**

Anne T. and Robert M. Bass Professor of Chemistry and Professor of Chemical and Systems Biology and Radiology, Stanford University

**JAMERE JACKSON**

Chief Financial Officer, Nielsen Holdings plc

**DAVID A. RICKS**

Chairman and Chief Executive Officer, Eli Lilly and Company

**RALPH ALVAREZ**

Operating Partner, Advent International Corporation  
(Retired Chairman, Skylark Co., Ltd. as of 3/29/18)

**ELLEN R. MARRAM**

President, The Barnegat Group LLC

**J. ERIK FYRWALD**

President and Chief Executive Officer, Syngenta International AG

**MARSCHALL S. RUNGE, M.D., PH.D.**

Executive Vice President for Medical Affairs and Medical School Dean, University of Michigan

**WILLIAM G. KAELIN, JR., M.D.**

Professor, Department of Medicine, Dana-Farber Cancer Institute and Brigham and Women's Hospital, Harvard Medical School

**KATHI P. SEIFERT**

Retired Executive Vice President, Kimberly-Clark Corporation

**JACKSON P. TAI**

Former Vice Chairman and Chief Executive Officer, DBS Group Holdings and DBS Bank





# COMMITTEES



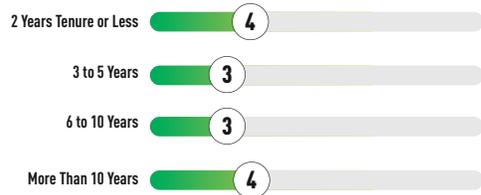
## EXPERIENCE

The Board is well-rounded, with a balance of relevant perspectives and professional experience.



## TENURE

Membership also reflects a mix of tenure on the Board, which balances historical perspective and fresh perspectives and insights.



For more information on the Board of Directors, please see the proxy statement at [lilly.com](http://lilly.com).

## AUDIT

Reviews the company’s financial reports, systems of internal control, and internal and external audit processes. It has sole authority to appoint or replace the company’s independent auditor and assists the board’s oversight of compliance and risk assessment and management.

**Michael Eskew (Chair), Katherine Baicker, Jamere Jackson, Kathi Seifert, Jackson Tai**

## COMPENSATION

Oversees compensation policies; establishes compensation and administers benefits programs for executive officers; and administers the deferred compensation plans, management stock plans and incentive bonus plan. It also oversees succession management for the CEO and senior executives.

**Ralph Alvarez (Chair), Michael Eskew, Ellen Marram, Kathi Seifert**

## DIRECTORS + CORPORATE GOVERNANCE

Identifies and recommends to the board candidates for membership on the board and board committees and oversees matters of corporate governance, director independence, director compensation and board performance.

**Ellen Marram (Chair), Michael Eskew, David Hoover**

## FINANCE

Reviews capital structure and strategies, including dividends, share repurchases, capital expenditures, investments and borrowings. It makes recommendations to the board on major business development and M&A transactions. It also oversees financial risk management policies and practices.

**David Hoover (Chair), Jamere Jackson, William Kaelin, Juan Luciano, Jackson Tai**

## PUBLIC POLICY + COMPLIANCE

Oversees the company’s non-financial compliance and ethics policies and programs. It also reviews and makes recommendations on company policies and practices that relate to public policy and social, political and economic issues.

**Erik Fyrwald (Chair), Katherine Baicker, Carolyn Bertozzi, Juan Luciano, Marschall Runge**

## SCIENCE + TECHNOLOGY

Reviews and makes recommendations regarding the company’s strategic research goals and objectives and pipeline of potential new medicines. It also reviews new developments, technologies and trends in pharmaceutical research and development and oversees matters of scientific and medical integrity and risk management.

**William Kaelin (Chair), Ralph Alvarez, Carolyn Bertozzi, Erik Fyrwald, Marschall Runge**



# EXECUTIVE COMMITTEE



SINCE OUR LAST ANNUAL REPORT, THE EXECUTIVE COMMITTEE WELCOMED SIX NEW MEMBERS AS REPRESENTED BY •

\*Dan Skovronsky, M.D., Ph.D., will succeed Jan M. Lundberg, Ph.D., and become SVP, Science and Technology, and President of Lilly Research Labs beginning June 1, 2018.

**SUSAN MAHONY, PH.D.**  
SVP and President, Lilly Oncology

**ALFONSO G. ZULUETA**  
SVP and President, Lilly International

**JEFFREY N. SIMMONS**  
SVP and President, Etanco Animal Health

**MICHAEL J. HARRINGTON**  
SVP and General Counsel

• **AARTI SHAH, PH.D.**  
SVP Information Technology; Chief Information Officer

• **JOSHUA L. SMILEY**  
SVP and Chief Financial Officer

**STEPHEN F. FRY**  
SVP, Human Resources and Diversity

**MELISSA S. BARNES**  
SVP, Enterprise Risk Management; Chief Ethics and Compliance Officer

• **MYLES O'NEILL**  
SVP and President, Manufacturing Operations

• **JOHNA L. NORTON**  
SVP, Global Quality

**DAVID A. RICKS**  
Chairman and CEO

• **CHRISTI SHAW**  
SVP and President, Lilly Bio-Medicines

**ENRIQUE A. CONTERNO**  
SVP and President, Lilly Diabetes, and President, Lilly USA

• **LEIGH ANN PUSEY**  
SVP, Corporate Affairs and Communications

**JAN M. LUNDBERG, PH.D.\***  
EVP, Science and Technology; President, Lilly Research Laboratories\*

# HELPFUL LINKS



LILLY'S COMMITMENT TO CORPORATE RESPONSIBILITY:

[lilly.com/caring](https://lilly.com/caring)

LILLY'S COMMITMENT TO TRANSPARENCY IN OUR RELATIONSHIPS WITH HEALTH CARE PROFESSIONALS:

[lilly.com/caring/operating-responsibly/transparency](https://lilly.com/caring/operating-responsibly/transparency)

INFORMATION ON CLINICAL TRIALS:

[lilly.com/discovery/clinical-trials/clinical-trials-transparency](https://lilly.com/discovery/clinical-trials/clinical-trials-transparency)

INFORMATION ON THE LILLY GRANT REGISTRY:

[lilly.com/who-we-are/lilly-grant-office](https://lilly.com/who-we-are/lilly-grant-office)

PHARMACEUTICAL PATIENT-ASSISTANCE PROGRAMS:

Partnership for Prescription Assistance  
*(sponsored by America's pharmaceutical research companies):*

[pparx.org](https://pparx.org)

Lilly Cares Foundation, Inc.  
*(a nonprofit organization):*

[lillycares.com](https://lillycares.com) or call toll-free 1.800.545.6962

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@LillyPad

LillyPad *(Our blog focusing on public policy issues)*

[Lilly.com](https://lilly.com)

BACKGROUND IMAGE: Nerve cells under a microscope

**SYMANTHA MELEMED, PH.D.**, Cancer Researcher; **GRAFFITI**, Rescue Dog and Agility Champion



**THOMAS LEW, M.D.**, Medical Advisor-Diabetes and Endocrinology

*Lilly*

This document contains forward-looking statements that are based on management's current expectations, but actual results may differ materially due to various factors. The company's results may be affected by factors including, but not limited to, the risks and uncertainties in pharmaceutical research and development; competitive developments; regulatory actions; litigation and investigations; business development transactions; economic conditions; and changes in laws and regulations, including health care reform.

For additional information about the factors that affect the company's business, please see the company's latest Forms 10-K and 10-Q filed with the Securities and Exchange Commission. The company undertakes no duty to update forward-looking statements.

More detail on Lilly's environmental, social and governance priorities, strategies and operations can be found in our United Nations Global Compact Communication on Progress, issued in May 2018.

*Lilly*

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