Lilly Unites: Caring with Discovery to Create Medicines Make Life Better for People Around the World
WHEN WE FULFILL OUR PURPOSE, WE HELP OTHERS FULFILL THEIRS.
To Our Shareholders

A LETTER FROM DAVID A. RICKS, CHAIRMAN AND CEO

Our purpose at Lilly is to unite caring with discovery to create medicines that make life better for people around the world.

People like Beth Meyer. For 35 years, the mother of two and office manager in Pittsburgh has suffered from migraine. At least twice a week her head throbs – just behind her right eye – so intensely it makes her want to “drive a screwdriver into it to let the pain seep out.”

Beth began to get relief when her doctor signed her up for a clinical trial of galcanezumab, which Lilly launched last year as Emgality®. For months, Beth reported no migraine. She spent evenings and weekends with her husband and kids, instead of catching up on work missed during her migraine attacks.

“I felt like I’d gotten my life back,” she said. “I didn’t have to worry about what I was going to do, and then getting a migraine, and not getting to do it.”

Emgality is one of 10 new medicines Lilly has brought to patients over the past five years – life-changing new treatments for such diseases as cancer, pain, arthritis and diabetes. And there’s more to come. Lilly expects to launch 10 more new medicines over the next five years.

This is what patients, investors and societies expect of us. We push the boundaries of science to discover new medicines that change lives. We bring those medicines to patients. Then we reinvest the revenue from those medicines to invent even better ones.
OUR RESULTS
Growing numbers of people are benefiting from Lilly’s medicines – as evidenced by revenue growth last year of 7 percent, driven by volume. New products now account for 34 percent of Lilly’s pharmaceutical revenue, and we expect that number to near 45 percent by the end of 2019.

Lilly created value for customers and shareholders by deciding to separate our Elanco Animal Health subsidiary with an initial public offering and divestiture. That decision is best for both companies – and allows Lilly to focus on discovering and delivering new human medicines.

Lilly can deliver even stronger results in the future by focusing on these four key areas:

Speed Life-Changing Medicines: In 2018, our late-phase pipeline saw the addition of three highly promising molecules – tirzepatide in diabetes, mirikizumab in immunology and pegilodecakin in oncology – each with an opportunity to be first or best-in-class for diseases affecting millions of patients. And we’re moving these medicines to patients faster. Over the past five years, development at Lilly has transformed, accelerating our timelines from running near the back of our industry to running near the front.

We now intend to make a similar transformation in the earliest stages of research and development (R&D) – moving faster, generating more first-in-class molecules and bringing in more external innovation. In just the past 18 months, Lilly has formed partnerships or made acquisitions involving such emerging technologies as RNA interference, cell encapsulation, immuno-oncology and precision medicine. We’re also developing digital technology to improve diagnosis, customer experiences and outcomes.

Grow Revenue: We see ourselves in the early phases of a prolonged period of volume-driven growth. Our newly launched medicines position Lilly in some of the most promising classes of treatments, allowing us to grow revenue despite the 2018 expiration of our U.S. patent on Cialis. And we continue to invest in our new medicines – to expand into new indications and new markets.

Improve Productivity: Due to our continued efforts to control expenses and change the way we work, we are progressing toward a pharmaceutical operating margin in 2020 of 31 percent, excluding foreign exchange impact on inventories sold – up from 25.5 percent in 2017.

Create Long-Term Value: Our gains in productivity allow Lilly to invest more in manufacturing, ensuring a reliable and safe supply of medicines. Productivity also allows us to fund more R&D. That could be additional indications for our existing medicines. It could be new molecules in our labs. Or it could be business development deals to supplement our pipeline – such as our acquisition of ARMO BioSciences in 2018 or 2019’s purchase of Loxo Oncology. We are also committed to returning money to shareholders, including raising our dividend 15 percent this year.

OUR CULTURE
Of course, the ultimate source of long-term value is Lilly’s people. To support our strategy, we’re creating a culture that emphasizes four key behaviors – include, innovate, accelerate and deliver. We want all of our employees to feel they are part of one Team Lilly with one purpose – making life better for patients who are waiting.

We can’t do it alone. Our work includes thousands of partners in health systems all over the world. Scientists at Lilly work for years with physicians to make sure each new medicine is safe and right for patients. We work alongside doctors, health insurers and pharmacies, so that when anyone needs a Lilly medicine, they can get it.

Unfortunately, in today’s U.S. health care system, this goal is more challenging to achieve. In response, Lilly has taken action on several fronts. We’ve launched new medicines Emgality, Olumiant® and Basaglar® at lower prices. In March, we announced that we will launch an authorized generic insulin, identical to our Humalog® insulin, at a list price 50 percent lower than Humalog’s list price. Yet because the system is still imperfect, and because some patients experience access and affordability gaps, we’ve started new programs to help people more easily afford our medicines. We also advocate for change so the entire U.S. health system shifts to be fairer and more affordable for the patients who need care.

Every day, Lilly’s executive team – guided by our board of directors – strives to manage our company by our enduring values of integrity, excellence and respect for people. While pleased with our performance, we are not satisfied. We are compelled to improve, to get better.

When we’re at our best, we unite caring with discovery to create medicines that make life better – for you, your loved ones and the people in your community. Being at our best helps you be at yours.

THANK YOU FOR SUPPORTING US IN FULFILLING OUR PURPOSE.
OUR CULTURE
At Lilly, we create new medicines that give people new hope – to get better, feel better, live better.

It’s not just what we do. It’s who we are.

Throughout our history, Lilly researchers have been driven by the desire to make a meaningful difference for people living with diseases that rob them of hope and good health.

That’s why we’re urgently pushing the boundaries of science, advancing new discoveries with the latest technology so that diseases causing major harm today will see meaningful healing tomorrow.

Far too many diseases cannot be cured or managed. Though much work remains, and there will be setbacks, new pathways and technologies offer hope of finding treatments that can slow or even stop them.
MARIE’S PURPOSE

For Marie Schiller, Lilly’s purpose is personal. She has lived with type 1 diabetes since age 9, and now brings that experience to lead our Connected Care research, which combines digital technology with the delivery of medicine. This approach could personalize diabetes care through connected devices – using new digital tools, technologies and data-driven capabilities to help people manage chronic conditions, including diabetes.

“When I was diagnosed, I just wanted to live my life. I didn’t want to be slowed down,” Marie said. “We have to continue to empower everyone with diabetes, to let people live at their best. Technology is an enabler to that empowerment.”

Learn more at Lilly.com
Lilly strives to develop treatments that will re-write medical history, changing the expectations for patients about the value medicines can bring. We have launched 10 new medicines in the last five years – halfway to our goal of 20 new molecules in 10 years by 2023 – and have many opportunities for launching the other 10. After already submitting lasmiditan and nasal glucagon to regulators for approval, we have the potential for several other submissions in 2019.

We’re also getting faster at developing medicines and getting them in the hands of the physicians and patients who need them. In the last three years, we’ve improved development timelines – measured from the first human dose in clinical testing to the medicine’s availability to be prescribed by physicians – by just over two years, beating the industry average. We’re getting faster still through our earliest phases of research, which aim to decrease the time it takes to identify first-in-class and best-in-class molecules and get them into human testing.

In 2018, we focused our drug discovery on scientific advancements with first-in-class possibilities, while continuing to invest in our established R&D platforms to deliver best-in-class innovation such as Trulicity®. Our scientists are moving with a sense of urgency to test our molecules and find those with life-changing potential for patients. We’re empowering small teams of researchers with greater autonomy to advance meaningful new medicines to patients as rapidly and safely as possible. 2018 was a fantastic year for the movement of our pipeline. We advanced four first-in-class molecules into Phase 3 testing or to regulatory submission.

A key element of our strategy is to invest in innovation outside of our labs to access new technology, ideas and pathways. We’re increasing our access to new disease targets, treatment modalities and discovery tools. Our acquisitions of Loxo Oncology and ARMO BioSciences, and our numerous collaborations with external partners, will help us continue to bring in new technologies and new target identification strategies.
Discovering New Paths to Fight Disease

The promise of science to change people’s lives has never been greater. Recent progress in understanding biology, including the unlocking of the human genome, have unleashed new insights – allowing scientists at Lilly and our partners more power and precision to treat disease.

Advances in understanding the immune system have opened up new ways to treat psoriasis, where patients now have a chance to see much, if not all, of their plaque cleared. In oncology, genetic insights allow researchers to develop medicines to treat cancers that share a common genetic mutation, regardless of where they occur in the body. Immuno-oncology has significantly changed the course of therapy in many types of cancer by rousing the body’s immune system to fight disease. Lilly is embracing all these new possibilities.

mRNA, a technology used in immuno-oncology, sends messages to the patient’s immune system to build disease-fighting proteins in order to combat cancer cells. In partnership with CureVac, Lilly is channeling mRNA technology in hopes of developing a series of cancer vaccines.

Our scientists are working on other pioneering efforts as well, such as RNA interference technology – creating molecules that reduce the expression of proteins that cause disease. In collaboration with Dicerna, Lilly is crafting therapies using RNA interference to potentially treat cardio-metabolic disease, neurodegeneration and chronic pain.

Another example is cell-encapsulation technology, where researchers engineer cells to withstand rejection from the body’s immune system. Using this platform, Lilly is teaming with Sigilon Therapeutics to create insulin-producing cells coated in a protective polymer to explore new ways to treat type 1 diabetes.

Could cell-encapsulation produce the next major breakthrough in a long line of advances Lilly has brought to people with diabetes? That’s the kind of question that excites our researchers and keeps us pushing science forward.

We’re searching for other life-changing innovations by exploring the intersection of medicine and digital technology. We see significant opportunities to use new digital tools and data-driven capabilities – such as our Connected Care insulin delivery system that’s in late-stage development – to empower people to better manage their health every day.

Innovating for Public Health

New medicines bring new hope. Lilly has always pushed the boundaries of science to make conditions that are incurable today, treatable tomorrow. You could say it’s in our DNA. Because by fulfilling our purpose, we help others fulfill theirs.

Lilly takes a collaborative approach to discovering and developing new medicines – between lab scientists and a global network of physicians, academic researchers and other health care organizations. Working together, creatively and efficiently, is helping generate ideas that fuel innovation. Our goal is to find transformational medicines, things that are big advances from what’s currently available.

As we have throughout our history, we continue to attack critical public health challenges with urgency, taking on diseases that have impact on the lives of individuals and on society. Perhaps none is more acute than pain – the crisis we face around the world, and particularly in the United States. So we’re accelerating the latest science to explore non-opioid alternatives for pain.

We launched Emgality last year for episodic migraine and this year will seek approval for it to treat cluster headache. We also submitted lasmiditan for acute migraine for regulatory approval. In 2019, we will report key Phase 3 results for tanezumab, which we are studying in conjunction with Pfizer as a potential non-opioid treatment for low back pain, osteoarthritis pain and neuropathy caused by cancer.
BOB WOLD
Founder of Clusterbusters
Lombard, Illinois
Bob’s Purpose

Bob Wold took on his cluster headache pain by forming Clusterbusters, an advocacy group to help people find relief through research, education and support. Cluster headache has been called “the most painful condition known to medical science,” and no medicine has been approved specifically to treat it.

Lilly worked with Clusterbusters as we conducted studies of a medicine specifically for the prevention of cluster headache. In 2019, we are seeking regulatory approval of galcanezumab as the first medicine for the prevention of cluster headache. “When Lilly decided to do a Phase 3 study,” Bob said, “it gave us hope.”

Learn more at Lilly.com
pipeline: medicines in development

As of February 6, 2019

### PHASE 1

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<tr>
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**MIRIKIZUMAB**

Anti-IL23p19 antibody

First-in-class effort to help people suffering from moderate to severe ulcerative colitis. Phase 2 data showed 81 percent of patients achieved a clinical response and 57 percent of patients demonstrated endoscopic healing after 52 weeks. Phase 3 studies are underway in ulcerative colitis and psoriasis.

**TIRZEPATIDE**

GIP/GLP-1 Receptor Agonist

Has the potential to positively change treatment expectations and goals for people with diabetes. Achieved impressive blood glucose and weight benefits in Phase 2, prompting Phase 3 programs in type 2 diabetes (started in 2018) and obesity (planned for 2019).
**PHASE 3**

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**NILEX**

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*Commercial collaboration

**REGULATORY REVIEW**

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**PEGILODECAKIN**

PEGylated IL-10

Late stage immuno-oncology therapy that increases tumor-specific immune cells that infiltrate the tumor and kill cancer cells. From acquisition of ARMO. In a Phase 3 study in pancreatic cancer and two Phase 2 studies in lung cancer. Has the potential to change the standard of care for people with cancer.

**LOXO-292**

Oral RET inhibitor

Targets cancers that are caused by specific genetic abnormalities. From acquisition of Loxo Oncology. Granted Breakthrough Therapy designation by the U.S. Food and Drug Administration (FDA). Has potential to achieve effects in patients with tumors that carry genetic alterations, including certain lung and thyroid cancers.
how we operate

Our work is driven by the needs of patients and guided by our enduring values – integrity, excellence and respect for people.

Lilly has a long heritage of strengthening the communities where we work and live. We use our resources responsibly while also sharing with those in need to improve the health of communities around the world. Through our global health and corporate responsibility efforts, we continually look for new ways to extend the promise of better health to more people.

Striving to make patients’ costs affordable is critical to help them stay on their medicines and stay healthy. We’re committed to working with others in the health care system to make sure patients can get the medicines they need – at reasonable out-of-pocket costs and with pricing information they can understand.

To help people, we believe it’s vital to include people. To support our strategy of innovation, we must have a culture of inclusion – so everyone can bring diverse ideas, perspectives and experiences in the pursuit of our purpose.
U.S. Transparency and Access

Lilly continues to work to expand access to medicines in the U.S. health care system – by helping consumers, communities and our employees; by providing greater transparency about how our products are priced; and through the policies we promote.

Pricing our medicines is one of the most important decisions we make as a company. We strike a balance between access and affordability for patients while sustaining investments in life-changing treatments for some of today’s most serious diseases.

We consider:

**Customer Perspective**
The unmet needs that medicines can fulfill for patients and caregivers, and how people can affordably access the treatment

**Competitive Landscape**
The benefits of our medicine compared to alternative medicines, where our medicine fits in treating conditions, and existing contracts between payers and our competitors

**Company Considerations**
The costs of research, development, manufacturing, and support services for customers; business trends and other economic factors; as well the medicine’s potential market size, patent life and place within our larger portfolio of medicines

**Other External Factors**
Such as health system changes and policy guidelines
Lilly sets a list price for our medicines. To enable patient access, Lilly pays rebates and other discounts to payers and other supply chain entities. The final amount that Lilly ultimately realizes after paying these rebates and discounts is sometimes called the “net price.”

Across our U.S. product portfolio, Lilly’s average net price after rebates and discounts—the final amount we receive—has fallen from 59 percent of list price in 2014 to 46 percent in 2018. The amount of Lilly’s rebates and discounts continues to increase through a combination of factors—including increased market competition, pharmacy benefit managers’ (PBMs) increased negotiation leverage, and rising mandatory government discounts. However, changes in insurance design and the trend toward greater consumer cost sharing (through high deductible plans and co-insurance) means a growing number of patients are exposed to medicines’ full retail price at the pharmacy.

Lilly works with all parts of the health care system to find solutions that make medicines more accessible and affordable. We support improvements to the U.S. health care system that appropriately balance patient affordability, market-based competition and rewarding innovation. We advocate for policy changes at the state and federal level to improve patient affordability such as exempting treatments for chronic diseases from patient deductibles and passing through rebates to patients.

Humalog U100 is the most broadly used Lilly insulin product. The last list price increase for Humalog U100 was May 2017. The net price in the chart represents the average revenue Lilly realized per patient per month for Humalog U100 if taken as prescribed. Because of rebates and fees Lilly provides insurers and/or PBMs, increases in list prices do not always reflect increases in net prices.
REducing Costs for Patients, Promoting Innovative Solutions

Lilly recognizes that many people struggle to pay for their medicines. So we’re committed to finding solutions to lower out-of-pocket costs and to implement other changes that can help the U.S. health system work better for patients. Below are some of the solutions we’ve implemented recently:

In March 2019, Lilly announced we will offer a lower-priced version of our Humalog insulin called Insulin Lispro. This authorized generic version—which is identical to Humalog—will be offered at a list price 50 percent lower than the current Humalog list price. Insulin Lispro could make insulin more affordable for certain Americans asked to pay full retail price—or a large percentage of the retail price—out of their own pockets. That may include people in high-deductible health insurance plans, the uninsured and seniors that hit the coverage gap in their Medicare Part D plans.

Lilly’s Insulin Lispro is a solution for those who need it, which doesn’t disrupt access for everyone else. Those not well-served by the current system will have a better, more affordable option—which can also count toward their deductible. But patients with health plans that prefer the current system won’t see any changes—Humalog will remain available.

In August 2018, Lilly opened the Lilly Diabetes Solution Center to assist people who need help paying for their Lilly insulin, such as those with lower incomes, the uninsured and people in the deductible phase of a high-deductible insurance plan. More than 10,000 people every month are getting help lowering their out-of-pocket costs to affordable levels through programs like these. People in the U.S. can reach the Lilly Diabetes Solution Center by calling 833.808.1234.

Lilly is committed to increasing transparency around the price of our medicines. In 2019, television advertisements will direct people to a new website, lillypricinginfo.com, that will provide the list price, average out-of-pocket costs and financial assistance information for the medicine advertised. The website provides information for Trulicity, Taltz®, Verzenio® and Emgality. In the following months, we will provide information for our other medicines, whether they’re advertised on television or not.

Lilly actively pursues value-based arrangements to link the price of our medicine more directly to patient outcomes. This approach can transform the health care system to one that is about value versus the volume of medicines purchased. We continue to advocate for legislative and regulatory changes that support this transition.
SUPPORT CANCER SURVIVORS

N A N C Y ’ S P U R P O S E

Pastor, former nurse, mother and cancer survivor who supports others on their journey – Nancy Odari is all of these and more. “I want to encourage people to know that having cancer is not the end of life. It’s a new start of life.”

Nancy received early diagnosis and treatment for breast cancer thanks to community health screenings through AMPATH, Lilly’s global health partner in Kenya. Through product and financial donations, Lilly and the Lilly Foundation support the AMPATH consortium, including the launch of AMPATH’s oncology center and mobile screening program for breast and cervical cancer.

Today, Nancy helps others get screening for early detection. “In every life, you know there’s a purpose for it.”

Learn more at Lilly.com
**Improving Global Health**

We are committed to improving access to quality health care for 30 million people, on an annual basis, by 2030. Our efforts, which we call Lilly 30x30, focus on settings with limited resources and people who might not be reached by Lilly’s traditional business model. We focus on three key areas:

**PIPEDLINE**
Discovering medicines and exploring our current portfolio and shelved assets to find new indications for diseases that disproportionately affect people in resource-limited settings.

**PROGRAMS**
Strengthening and creating new programs that help improve access to Lilly medicines.

**PARTNERSHIPS**
Building partnerships that strengthen health systems, increase access to medicines and improve care.

**Strengthening Communities**

Throughout the world, Lilly works to build stronger communities through giving, volunteering and product donations. We actively engage our employees to make a meaningful difference.

**DISASTER RELIEF**
In times of crisis, Lilly and the Lilly Foundation respond with donations of product and cash, including matched contributions from Lilly employees.

**CONNECTING HEARTS ABROAD**
More than 1,000 employees have volunteered in communities with limited resources to improve health across Africa, Asia, Europe and Latin America.

**UNITED WAY**
Over our 100-year relationship with United Way, contributions from Lilly employees and retirees, plus matching gifts from the Lilly Foundation, have totaled over $300 million.

**GLOBAL DAY OF SERVICE**
On one day each year, Lilly employees worldwide volunteer to improve health, education and communities around the world.

---

**CONTRIBUTIONS AT A GLANCE**

<table>
<thead>
<tr>
<th>2018 CASH DONATIONS</th>
<th>TOTAL PRODUCT DONATIONS</th>
<th>TOTAL COMMITTED TO GLOBAL HEALTH PROGRAMS THROUGH 2022</th>
<th>INSULIN VIALS DONATED AS OF 2018</th>
<th>2018 UNITED WAY CONTRIBUTIONS</th>
<th>LILLY GLOBAL DAY OF SERVICE EMPLOYEE VOLUNTEER HOURS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30.3M</td>
<td>$1.3B</td>
<td>$90M</td>
<td>1.8M</td>
<td>$13.3M</td>
<td>1.1M</td>
</tr>
</tbody>
</table>

Global to Local: Diabetes Impact Project

Where you live shouldn’t determine how long you live. Too often it does. Advances in human health have helped billions live longer lives. But in too many places around the world, that’s not the case. To bridge this gap, we’re uniting our global health and volunteering and giving efforts in key communities with limited resources around the world.

This includes our hometown of Indianapolis, Indiana. In 2018, Lilly and several local partners launched a neighborhood-based pilot to help address the high incidence of diabetes in three Indianapolis communities. Due to health disparities, life expectancy can be 14 years lower than neighborhoods just 10 miles away.

The Diabetes Impact Project in Indianapolis builds on global health efforts Lilly has developed and supported in lower-income communities, including Mexico and South Africa. The $7-million, five-year pilot features newly hired community health care workers who help identify people with diabetes and connect them with quality care. In addition, community members are identifying and proposing potential solutions for barriers that increase the risk for diabetes, such as the lack of healthy food options and public spaces for exercise.

Patrice Duckett, a community organizer who lives in one of the three communities, has seen firsthand the value of the program: “In order for me to be successful, in order for my children to have a future, I have to do something. This program shows, when you listen to the community, success will definitely come.”

Lilly employees volunteered in the same three Indianapolis neighborhoods through the company’s annual Global Day of Service. In 2019, employees from around the world will volunteer in these communities for two weeks through Lilly’s Connecting Hearts Abroad program.
INSPIRE
CHANGE IN MY COMMUNITY
Environmental Sustainability

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

Through 2017, despite significant production increases at our largest sites, Lilly has reduced its greenhouse gas (GHG) emissions by 8.4 percent (from 2012 baseline year) by investing $43 million in more than 170 energy reduction projects globally. Currently, we are projecting we will meet our 2020 goals to improve waste efficiency by 20 percent and reduce phosphorus emission in wastewater by 15 percent.

Data for 2018 performance will be shared on lilly.com in June 2019 in our United Nations Global Compact Communication on Progress report. In 2020, we will establish our next generation goals and start tracking our progress towards them.

Lilly recognizes the potential impacts associated with climate change and the risks of severe weather events. In 2017, our manufacturing plant in Puerto Rico sustained minor damage from Hurricane Maria. Since then, Lilly has completed the design for a new nine-megawatt heat and power system at our Puerto Rico facility.

The project will improve our resiliency to severe weather events and our environmental performance. Cogeneration, which uses combustion to generate electricity on-site while also recovering usable heat, presents the opportunity to further reduce GHG emissions in our operations. This unit is expected to be completed in 2020, resulting in more than $7 million of energy savings annually and approximately a 15-percent reduction in GHG emissions for our Puerto Rico facility.

The same facility in Puerto Rico has installed a closed loop recycling system for acetonitrile, a raw material in our manufacturing process. This project will eliminate the shipping of hazardous waste via ocean container to the continental U.S., and reduce the shipping of virgin acetonitrile to Puerto Rico by 80 percent. The system also reduces supply chain risks and improves business continuity.

### Lilly’s 2020 Environmental and Safety Goals

<table>
<thead>
<tr>
<th>Goal</th>
<th>Progress Through 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>20% Reduction</strong>&lt;br&gt;Greenhouse Gas Emissions Intensity</td>
<td>8.4% Reduction</td>
</tr>
<tr>
<td><strong>20% Improvement</strong>&lt;br&gt;Energy Efficiency</td>
<td>0.7% Improvement</td>
</tr>
<tr>
<td><strong>20% Improvement</strong>&lt;br&gt;Waste Efficiency</td>
<td>16% Improvement</td>
</tr>
<tr>
<td><strong>15% Reduction</strong>&lt;br&gt;Phosphorus Emissions in Wastewater</td>
<td>25.5% Increase</td>
</tr>
</tbody>
</table>

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.
Diversity and Inclusion

To solve some of the toughest challenges in medicine, we need the most innovative ideas from the best talent in the world – people who understand all of our patients.

Lilly approaches diversity and inclusion (D&I) with the same rigor we apply to other business-critical challenges. In our in-depth research, some women and minority employees reported experiencing Lilly differently from majority-group members in several key ways.

This led us to sharpen our focus on D&I. Over the past two years, we have worked to:

- **Increase management representation for women globally and minorities in the United States**
- **Assess and address any assumptions or hidden biases in systems for hiring, development and promotions**
- **Improve cultural literacy in our workplace**
- **Set new expectations for inclusive leadership**

We measure our progress in diversity. From the end of 2016 to the end of 2018, we increased the number of women in management globally by 10 percent to 42 percent of our total management population. For racial and ethnic minorities in the U.S., we increased management representation by 12 percent to 21 percent of total management. We intend to continue making progress.

In addition, six of the 14 members of our Executive Committee are women and three are minorities, including one woman of color, who joined the committee in January 2018. On the Lilly board, five of our 14 directors are women and four are minorities.

Also in 2018, we expanded pay-equity studies to Brazil, China, Ireland, Italy, Spain and the United Kingdom, after conducting them in the U.S. for years. The results were favorable, with a small percentage of the workforce receiving adjustments.

And we expanded parental leave benefits in the U.S. to new birth, adoptive and certified foster parents and their partners. It’s part of our commitment to the well-being of our employees and their loved ones.

As a result of our efforts, we received the prestigious global 2019 Catalyst Award, given to companies that are removing barriers and driving change to advance women into leadership. We’re pleased to be recognized, but we won’t stop working to ensure that everyone at Lilly is included, heard and fully engaged in our purpose.
ASHANTA ERVIN
Talent Acquisition

MONE GONTA
Research Scientist

JOSEPH KIM
Clinical Innovation and Optimization

DIVERSITY INC
TOP 50 COMPANIES FOR DIVERSITY

WORKING MOTHER
100 BEST COMPANIES

MICHAELO RODRIGUEZ
Research Scientist

BRANDY MATTHEWS
Medical Director

BLACK ENTERPRISE
50 BEST COMPANIES FOR DIVERSITY

HUMAN RIGHTS CAMPAIGN FOUNDATION
BEST PLACE TO WORK FOR LGBT EQUALITY

NATIONAL ORGANIZATION ON DISABILITY
2018 LEADING DISABILITY EMPLOYERS

JENNIFER LOPEZ-REED
Plant Operations
Lilly’s purpose begins with people. And so does Blake Hamilton’s day-to-day work on our human resources team: “My personal purpose is to find joy in all experiences of life, and to help others find that joy. I help our employees connect with their purpose. It’s easy to underestimate how much our health plays into our happiness – until we find that our health has been compromised by disease and other factors.”

Blake and his partner are among the prospective parents who will benefit from Lilly’s expanded parental leave policy.

Learn more at Lilly.com
2018 was a momentous year for Lilly with strong financial growth. We also concluded our strategic review of our Elanco Animal Health subsidiary, deciding to separate Elanco with an initial public offering in 2018 and complete divestiture in 2019. Lilly will now be focused on discovering and delivering new human medicines that change expectations for patients and drive results for shareholders.
## 2018 Financial Highlights

### REVENUE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$24,555.7</td>
<td>$22,871.3</td>
<td>+7%</td>
</tr>
</tbody>
</table>

### R&D

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
<td>$5,307.1</td>
<td>$5,357.3</td>
<td>-1%</td>
</tr>
</tbody>
</table>

### R&D AS A % OF REVENUE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D as % of Revenue</td>
<td>21.6%</td>
<td>23.4%</td>
</tr>
</tbody>
</table>

### NET INCOME (LOSS)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (Loss) per Share–Diluted</td>
<td>$3,232.0</td>
<td>$(204.1)</td>
<td>NM*</td>
</tr>
</tbody>
</table>

### EARNINGS (LOSS)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings (Loss) per Share–Diluted</td>
<td>$3.13</td>
<td>$(0.19)</td>
<td>NM*</td>
</tr>
</tbody>
</table>

### NON-GAAP EPS–DILUTED

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-GAAP EPS–Diluted</td>
<td>$5.55</td>
<td>$4.28</td>
<td>+30%</td>
</tr>
</tbody>
</table>

### DIVIDENDS PAID PER SHARE

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Paid per Share</td>
<td>$2.25</td>
<td>$2.08</td>
<td>+12%</td>
</tr>
</tbody>
</table>

### CAPITAL EXPENDITURES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditures</td>
<td>$1,210.6</td>
<td>$1,076.8</td>
<td>+12%</td>
</tr>
</tbody>
</table>

### EMPLOYEES

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>38,680</td>
<td>40,655</td>
<td>-5%</td>
</tr>
</tbody>
</table>

### RECONCILING ITEMS

<table>
<thead>
<tr>
<th>Item</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquired in-process research and development</td>
<td>$1.83</td>
<td>$0.97</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>$0.43</td>
<td>$0.44</td>
</tr>
<tr>
<td>Asset impairment, restructuring and other special charges</td>
<td>$0.41</td>
<td>$1.23</td>
</tr>
<tr>
<td>Other, net</td>
<td>$0.01</td>
<td>$0.03</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>$(0.25)</td>
<td>$1.81</td>
</tr>
</tbody>
</table>

---

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 filed with the U.S. Securities and Exchange Commission. Numbers may not add due to rounding.

*% of change not meaningful
Over the past five years, Lilly’s annualized total shareholder return has averaged 21 percent, compared to 8.5 percent for the S&P benchmark, due to the increase in the stock price and steady dividend stream.
We’re in an exciting new growth era at Lilly. Thanks to the strong uptake of the medicines we have launched in the past five years, our revenue grew 7 percent in 2018 to $24.6 billion. The growth of these newer medicines, which includes brands such as Trulicity, Taltz, Basaglar, Olumiant, Jardiance, Verzenio and Emgality, more than offset the loss of revenue from the expiration of the U.S. patent for Cialis®. Our newer medicines represented 34 percent of pharmaceutical revenue in 2018 and are expected to account for nearly 45 percent of pharmaceutical revenue in 2019.

We’re launching these medicines in some of the fastest growing therapeutic areas with significant patient need, and we will continue to build our brands by studying them for new indications that could expand their benefit to patients.

In light of the ongoing discussions regarding the pricing of pharmaceuticals, it’s worth noting that Lilly’s 2018 revenue growth was driven entirely by increased volume. That means more and more people around the world are benefitting from Lilly medicines. On average, the net price of our medicines declined in the U.S. and around the world in 2018.

Our revenue outlook remains strong, and will be driven by volume growth for the medicines we have recently launched or plan to launch in the next few years. We expect to drive at least 7 percent average annual revenue growth from 2015 through 2020 for our human pharmaceutical business, with few major patent expirations in the first half of the next decade.

---

**Grow Revenue**

| TRULICITY | $1,154.8 |
| TALTZ    | $374.6  |
| BASAGLAR | $364.8  |
| VERZENIO | $236.0  |
| JARDIANE | $202.1  |
| OLUMIANT | $153.0  |

**PRODUCT REVENUE GROWTH**

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

These six newer pharmaceutical products together generated revenue growth of $2.5 billion, excluding the impact of foreign currency, driven primarily by volume increases.

**REVENUE PER EMPLOYEE**

($ thousands, percent growth)

In 2018, revenue per employee increased 13 percent to $435,000, primarily due to higher revenue driven by volume growth from Trulicity and other newer pharmaceutical products.
We are committed to sustaining a steady flow of innovative medicines from our company to improve the lives of patients and create long-term value for our stakeholders. This long-term view informs our capital allocation priorities, which include investment decisions for our clinical pipeline and our portfolio of medicines, and the return of capital to our shareholders.

We invested more than $5.3 billion in research and development in 2018, which was 21.6 percent of our revenue. As a result, our pipeline remains strong, supplemented by notable business development transactions with ARMO BioSciences and Loxo Oncology. At the same time, we are investing significantly in our newly launched medicines and existing brands to ensure that more patients can benefit from our discoveries. After making investments in our business, we continue to return capital to our shareholders via an attractive dividend and share repurchase program.

YINING HUANG  
Research Scientist  
Indianapolis, Indiana
Our Global Brands

**CARDIOVASCULAR**
- CIALIS®
- EFFIENT®

**ENDOCRINOLOGY**
- BASAGLAR®
- EVISTA®
- FORTEO®
- GLYXAMBI®
- HUMALOG®
  - Humalog Mix 75/25, Humalog U-100,
  - Humalog U-200, Humalog Mix 50/50
- HUMATROPE®
- HUMULIN®
- JARDIANCE®
- JENTADUETO®
  - Jentadueto XR
- SYNJARDY®
  - Synjardy XR
- TRAJENTA®
- TRULICITY®

**IMMUNOLOGY**
- OLUMIANT®
- TALTZ®

**NEUROSCIENCE**
- AMYVID®
- CYMBALTA®
- EMGALITY®
- PROZAC®
- STRATTERA®
- ZYPREXA®

**ONCOLOGY**
- ALIMTA®
- CYRAMZA®
- ERBITUX®
- GEMZAR®
- LARTRUVO®
- PORTRAZZA®
- VERZENIO®
NEW BOARD MEMBER

In December 2018, we welcomed Karen Walker to the board. She is the senior vice president and chief marketing officer at Cisco Systems. Her 20-plus years in the information technology industry have included senior field and marketing leadership roles in Europe, North America and the Asia Pacific region. In May 2018, R. David Hoover retired from the board.

MANAGEMENT PROPOSALS TO ELIMINATE CLASSIFIED BOARD STRUCTURE AND SUPERMAJORITY VOTING

The board recommends approval of amendments to the company’s Articles of Incorporation to eliminate the classified board structure and to eliminate supermajority voting provisions. The board believes these two proposals balance shareholder interests and demonstrate its accountability and willingness to take steps that address shareholder-expressed concerns.

Governance Q&A

WITH OUTGOING LEAD DIRECTOR ELLEN R. MARRAM
AND INCOMING LEAD DIRECTOR JUAN LUCIANO

Ellen Marram will be retiring from the board in May 2019. At that time, Juan Luciano will serve as the board’s lead independent director, pending his re-election at the 2019 Annual Meeting. Ellen and Juan reflect on Lilly’s past, present and future.

Q: Ellen, what were some of the company’s major accomplishments in 2018?

A: In 2018, the company made major strides in implementing our long-term strategy. We made significant pipeline advances, including the launch of Emgality for migraine prevention in the U.S. and European Union, Olumiant for rheumatoid arthritis in the U.S., and Verzenio for metastatic breast cancer in the EU and Japan, as well as advances in our clinical portfolio. We also had significant business development engagement, including the initial public offering of Elanco Animal Health.

We welcomed five new executive committee members with fresh energy and perspective to our diverse and dynamic management team. They are poised to drive long-term growth and navigate the complex and ever-evolving external environment in which we operate. The board and members of senior management took inclusion training as part of our work to advance the company’s diversity and inclusion goals. The company was honored to receive a Catalyst Award, which recognizes innovative and honest approaches to improving the experiences of all employees.
This year the board updated its conflict of interest policy to clarify that a director must disclose their relationship with Lilly to the director’s employer and any other organization with which the director has a relationship of trust and where the relationship with our company is relevant.

Directors must follow the internal conflict of interest policies and procedures of such organizations. The policy also clarifies that a director must disclose their relationship with Lilly in connection with any scientific publication, using the International Committee of Medical Journal Editors (ICMJE) conflict of interest form when possible.

Q: Juan, what are your priorities as you take over as lead director for the board?
A: I’ve been on the board for a few years and have seen the company evolve tremendously. In 2019, the board will continue to work with management to look for opportunities to speed innovation and engage in meaningful business development to drive results for shareholders. As announced earlier this year, we are excited about the company’s recently announced acquisition of Loxo Oncology, which is the largest in a series of transactions the company has conducted to broaden its oncology portfolio. We look forward to integrating Loxo into the company’s strategy. We will also complete the Elanco divestiture in 2019, enabling Lilly to focus on its human pharmaceutical business. Further, as Ellen mentioned, pricing and the dynamic health care environment, particularly in the U.S., will continue to be of particular focus to the board. These things, along with exceptional launch performance and a Team Lilly company culture, are the primary focus areas for the board in 2019.

Q: Ellen, drug pricing is getting a lot of attention now. How is Lilly responding?
A: We know drug pricing is a concern for many people, and it’s on our minds, too. We want to make sure that patients who need our medicines can access and afford them. In the past couple of years, we’ve taken several important steps to find solutions that help patients afford our medicines. These include increased price transparency on lillypricinginfo.com and the Lilly Diabetes Solution Center, which assists people who need help paying for their Lilly insulin. In March 2019, we announced we will launch Insulin Lispro, an authorized generic insulin, identical to Humalog, at a list price 50 percent lower than Humalog’s list price. We know there’s more to do. That’s why we’re committed to working on further solutions, including advocating for policies that expand access to medicines while rewarding innovation.
Board of Directors

ELLEN R. MARRAM
President
The Barnegat Group LLC

CAROLYN R. BERTOZZI, PH.D.
Professor of Chemistry
Stanford University

MARSCHALL S. RUNGE, M.D., PH.D.
Dean and Executive Vice President for Medical Affairs
University of Michigan

JUAN R. LUCIANO
Chief Executive Officer
Archer Daniels Midland Company

KAREN WALKER
Senior Vice President and Chief Marketing Officer
Cisco Systems

WILLIAM G. KAELIN, JR., M.D.
Professor of Medicine
Harvard Medical School

JACKSON P. TAI
Former Chief Executive Officer
DBS Group and DBS Bank

MICHAEL L. ESKEW
Retired Chief Executive Officer
United Parcel Service, Inc.

KATHERINE BAICKER, PH.D.
Dean, Harris School of Public Policy
University of Chicago

DAVID A. RICKS
Chairman and Chief Executive Officer
Eli Lilly and Company

J. ERIK FYRWALD
Chief Executive Officer
Syngenta

KATHI P. SEIFERT
Retired Executive Vice President
Kimberly-Clark Corporation

RALPH ALVAREZ
Operating Partner
Advent International Corporation

JAMERE JACKSON
Chief Financial Officer
Hertz Global Holdings Inc.
Qualifications and Committees

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

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

COMPENSATION COMMITTEE
Oversees compensation policies, establishes compensation and administers benefits programs for executive officers. Administers the deferred compensation plans, management stock plans and incentive bonus plan. Also oversees succession management for the CEO and senior executives.

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

DIRECTORS & CORPORATE GOVERNANCE COMMITTEE
Identifies and recommends candidates for membership on the board and board committees. Oversees matters of corporate governance, director independence and compensation, and board performance.

Ellen Marram (Chair), Michael Eskew, Jackson Tai

FINANCE COMMITTEE
Reviews capital structure and strategies, including dividends, share repurchases, capital expenditures, investments and borrowings. Makes recommendations to the board on major business development transactions and mergers and acquisitions. Oversees financial risk management policies and practices.

Juan Luciano (Chair), Jamere Jackson, William Kaelin, Jackson Tai

PUBLIC POLICY & COMPLIANCE COMMITTEE
Oversees the company’s non-financial compliance and ethics policies and programs. Also reviews, identifies and, when appropriate, brings to the attention of the board political, social, and legal trends and issues that may have an impact on the business operations, financial performance or public image of the company.

Kathering Baicker (Chair), Carolyn Bertozzi, Erik Fyrwald, Juan Luciano, Marschall Runge, Karen Walker

SCIENCE & TECHNOLOGY COMMITTEE
Reviews and makes recommendations on the company’s strategic research goals and pipeline of potential new medicines. Reviews new developments, technologies and trends in pharmaceutical R&D. Oversees matters of scientific and medical integrity and risk management.

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

EXPERIENCE AND TENURE
Directors’ fiduciary oversight duties require highly skilled individuals with various qualities, attributes and professional experience. The board has a balance of relevant perspectives and experience. Board composition also reflects a mix of tenure, which provides an effective balance of historical understanding of our business with fresh perspectives and insights. In 2018, Karen Walker joined the board, and David Hoover retired from the board. Ellen Marram, who joined the board in 2002, will retire in May 2019.

DIVERSITY
The board is diverse in geography, gender, ethnicity, age and experiences. Directors range in age from 46 to 72, and include five women and four minorities. Overall diversity is an important consideration when the board searches for, nominates and selects new members. However, the board does not establish specific diversity goals.
Executive Committee

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

STEPHEN F. FRY  
SVP, Human Resources and Diversity

MYLES O’NEILL  
SVP and President, Manufacturing Operations

DANIEL SKOVRONSKY, M.D., PH.D.  
SVP and Chief Scientific Officer

CHRISTI SHAW  
SVP and President, Lilly Bio-Medicines

DAVID A. RICKS  
Chairman and CEO

ANNE E. WHITE  
SVP and President, Lilly Oncology

LEIGH ANN PUSEY  
SVP, Corporate Affairs and Communications

ALFONSO G. ZULUETA  
SVP and President, Lilly International

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

JOSHUA L. SMILEY  
SVP and Chief Financial Officer

MICHAEL J. HARRINGTON  
SVP and General Counsel

JOHNA L. NORTON  
SVP, Global Quality

AARTI SHAH, PH.D.  
SVP, Information Technology,  
and Chief Information Officer
LILLY’S COMMITMENT TO CORPORATE RESPONSIBILITY:
lilly.com/caring

LILLY’S COMMITMENT TO TRANSPARENCY IN OUR RELATIONSHIPS WITH HEALTH CARE PROFESSIONALS:
lilly.com/caring/operating-responsibly/transparency

INFORMATION ON CLINICAL TRIALS:
lilly.com/discovery/clinical-trials

INFORMATION ON THE LILLY GRANT REGISTRY:
lilly.com/who-we-are/lilly-grant-office

INFORMATION ON PRICES OF OUR MEDICINES:
lillypricinginfo.com

PHARMACEUTICAL PATIENT-ASSISTANCE PROGRAMS:
Lilly Diabetes Solution Center
insulinaffordability.com, or call toll-free +1.833.808.1234

Partnership for Prescription Assistance (sponsored by America’s pharmaceutical research companies):
pparx.org

Lilly Cares Foundation, Inc. (a separate nonprofit organization):
lillycares.com, or call toll-free 1.800.545.6962

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lilly.com
FULFILL YOUR PURPOSE
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 June 2019.