

LILLY ELI & CO  
Form DEF 14A  
March 29, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ELI LILLY AND COMPANY  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

---

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

SEC 1913 (11-01) Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

---

Note: Due to a filing error, we are refiling the Definitive Proxy Statement for our 2013 annual meeting of shareholders to clarify that it is the Definitive Proxy Statement and not Additional Soliciting Materials. This filing does not update, amend or restate items in the proxy statement for the 2013 annual meeting of shareholders, which continue to speak as of the date of original filing, March 25, 2013.

2013 Annual Meeting and Proxy Statement

March 25, 2013

Dear Shareholder:

You are cordially invited to attend our annual meeting of shareholders on Monday, May 6, 2013.

The notice of meeting and proxy statement that follow describe the business we will consider at the meeting. Your vote is very important. I urge you to vote by mail, by telephone, or on the Internet to be certain your shares are represented at the meeting, even if you plan to attend.

Please note the ticket at the back of this proxy statement and our procedures for admission to the meeting described under "Meeting and Voting Logistics" below.

I look forward to seeing you at the meeting.

John C. Lechleiter, Ph.D.

Chairman, President, and Chief Executive Officer

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 6, 2013:  
The annual report and proxy statement are available at <http://www.lilly.com/pdf/lillyar2012.pdf>

Notice of Annual Meeting of Shareholders

May 6, 2013

The annual meeting of shareholders of Eli Lilly and Company will be held at the Lilly Center Auditorium, Lilly Corporate Center, Indianapolis, Indiana, 46285 on Monday, May 6, 2013, at 11:00 a.m. EDT for the following purposes:

• to elect five directors of the company to serve three-year terms

• to ratify the appointment by the audit committee of Ernst & Young LLP as principal independent auditor for the year 2013

• to approve, by non-binding vote, compensation paid to the company's named executive officers

• to reapprove the material terms of the performance goals for the 2002 Lilly Stock Plan.

Shareholders of record at the close of business on March 1, 2013, will be entitled to vote at the meeting and at any adjournment of the meeting.

Attendance at the meeting will be limited to shareholders, those holding proxies from shareholders, and invited guests from the media and financial community. A page at the back of this report contains an admission ticket. If you plan to attend the meeting, please bring this ticket with you.

This combined proxy statement and annual report to shareholders is being posted online and mailed on or about March 25, 2013.

By order of the board of directors,

James B. Lootens

Secretary

March 25, 2013

Indianapolis, Indiana

Proxy Statement Overview

Annual Meeting of Shareholders

The annual meeting of shareholders will be held at 11:00 a.m. EDT on Monday, May 6, 2013 at:

The Lilly Center Auditorium  
Lilly Corporate Center  
Indianapolis, Indiana 46285

The board of directors of Eli Lilly and Company, "we," "Lilly," or "the company," is soliciting proxies to be voted at the annual meeting and at any adjournment of the annual meeting. The record date for voting is March 1, 2013.

Meeting Agenda

Shareholders will vote on the following items at the annual meeting:

Agenda Item	Management recommendation	Vote required to pass																																				
<p>Item 1 Elect the following nominees for director to serve a three-year term that will expire in 2016:</p> <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;">Name and principal occupation</th> <th style="text-align: left;">Joined the board</th> <th style="text-align: left;">Age</th> <th style="text-align: left;">Public boards</th> <th style="text-align: left;">Management recommendation</th> <th style="text-align: left;">Vote required to pass</th> </tr> </thead> <tbody> <tr> <td>Ralph Alvarez Executive Chairman, Skylark Co., Ltd.</td> <td>2009</td> <td>57</td> <td>Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.</td> <td>Vote FOR</td> <td>Majority of votes cast</td> </tr> <tr> <td>Sir Winfried Bischoff Chairman, Lloyds Banking Group plc</td> <td>2000</td> <td>71</td> <td>The McGraw-Hill Companies, Inc.</td> <td>Vote FOR</td> <td></td> </tr> <tr> <td>R. David Hoover Chairman, Ball Corporation</td> <td>2009</td> <td>67</td> <td>Ball Corporation; Energizer Holdings, Inc.; Steelcase, Inc.</td> <td>Vote FOR</td> <td></td> </tr> <tr> <td>Franklyn G. Prendergast, M.D., Ph.D. Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology and Professor of Molecular Pharmacology and Experimental Therapeutics, Mayo Medical School; and Director Emeritus, Mayo Clinic Center for Individualized Medicine</td> <td>1995</td> <td>68</td> <td>—</td> <td>Vote FOR</td> <td></td> </tr> <tr> <td>Kathi P. Seifert Retired Executive Vice President, Kimberly-Clark Corporation</td> <td>1995</td> <td>63</td> <td>Supervalu Inc.; Revlon Consumer</td> <td>Vote FOR</td> <td></td> </tr> </tbody> </table>	Name and principal occupation	Joined the board	Age	Public boards	Management recommendation	Vote required to pass	Ralph Alvarez Executive Chairman, Skylark Co., Ltd.	2009	57	Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.	Vote FOR	Majority of votes cast	Sir Winfried Bischoff Chairman, Lloyds Banking Group plc	2000	71	The McGraw-Hill Companies, Inc.	Vote FOR		R. David Hoover Chairman, Ball Corporation	2009	67	Ball Corporation; Energizer Holdings, Inc.; Steelcase, Inc.	Vote FOR		Franklyn G. Prendergast, M.D., Ph.D. Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology and Professor of Molecular Pharmacology and Experimental Therapeutics, Mayo Medical School; and Director Emeritus, Mayo Clinic Center for Individualized Medicine	1995	68	—	Vote FOR		Kathi P. Seifert Retired Executive Vice President, Kimberly-Clark Corporation	1995	63	Supervalu Inc.; Revlon Consumer	Vote FOR			
Name and principal occupation	Joined the board	Age	Public boards	Management recommendation	Vote required to pass																																	
Ralph Alvarez Executive Chairman, Skylark Co., Ltd.	2009	57	Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.	Vote FOR	Majority of votes cast																																	
Sir Winfried Bischoff Chairman, Lloyds Banking Group plc	2000	71	The McGraw-Hill Companies, Inc.	Vote FOR																																		
R. David Hoover Chairman, Ball Corporation	2009	67	Ball Corporation; Energizer Holdings, Inc.; Steelcase, Inc.	Vote FOR																																		
Franklyn G. Prendergast, M.D., Ph.D. Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology and Professor of Molecular Pharmacology and Experimental Therapeutics, Mayo Medical School; and Director Emeritus, Mayo Clinic Center for Individualized Medicine	1995	68	—	Vote FOR																																		
Kathi P. Seifert Retired Executive Vice President, Kimberly-Clark Corporation	1995	63	Supervalu Inc.; Revlon Consumer	Vote FOR																																		

Products  
Corporation;  
Lexmark  
International,  
Inc.

Item 2	Ratify the appointment of Ernst & Young LLP as the company’s principal independent auditor.	Vote FOR	Majority of votes cast
Item 3	Approve, by non-binding vote, compensation paid to the company’s named executive officers.	Vote FOR	Majority of votes cast
Item 4	Reapprove the material terms of the performance goals for the 2002 Lilly Stock Plan.	Vote FOR	Majority of votes cast

Additional information about these agenda items can be found under “Items of Business” below. Information on voting and attending the annual meeting can be found under “Meeting and Voting Logistics” below.

**Board of Directors**

The company’s board is comprised of our chairman, president, and CEO, John Lechleiter, Ph.D., and 13 independent directors. Their biographies and qualifications can be found under “Director Biographies” below.

**Committees of the board of directors**

The board has six committees, all of which are staffed by independent directors. Additional information on the functioning of the board and its committees, including director independence, can be found beginning in the section titled “Highlights of the Company’s Corporate Governance Guidelines” below.

#### Director compensation

Our independent directors receive cash compensation in the form of an annual retainer (\$100,000), with additional annual amounts for the lead director (\$30,000), committee chairs (\$12,000 to \$18,000, depending on the committee), and directors who serve on the audit committee or the science and technology committee (\$3,000). In addition, each independent director receives \$145,000 in shares of company stock each year, payable after service on the board has ended. Additional information about director compensation can be found under “Director Compensation” below.

#### Contacting the board of directors

You may send written communications to one or more members of the board, addressed to:

Board of Directors  
Eli Lilly and Company  
c/o Corporate Secretary  
Lilly Corporate Center  
Indianapolis, Indiana 46285

All such communications (from shareholders or other interested parties) will be forwarded to the relevant director(s), except for solicitations or other matters unrelated to the company.

#### Executive Compensation

Our compensation philosophy is designed to attract and retain highly-talented individuals and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing the company’s values of integrity, excellence, and respect for people. Our programs seek to:

- closely link compensation with company performance and individual performance
- foster a long-term focus
- provide compensation consistent with the level of job responsibility and the market for pharmaceutical talent
- be efficient and egalitarian
- appropriately mitigate risk
- consider shareholder input.

For a detailed discussion of our executive compensation programs and how they reflect our philosophy and are linked to company performance, please see “Compensation Discussion and Analysis” below.

Board of Directors

Michael L. Eskew	Katherine Baicker, Ph.D.	Alfred G. Gilman, M.D., Ph.D.	Karen N. Horn, Ph.D.	Franklyn G. Prendergast, M.D., Ph.D.	J. Erik Fyrwald	R. David Hoover
------------------	--------------------------	-------------------------------	----------------------	--------------------------------------	-----------------	-----------------

Director Biographies

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a nominee is unavailable for election, proxy holders may vote for another nominee proposed by the board of directors or, as an alternative, the board of directors may reduce the number of directors to be elected at the annual meeting. Each nominee has agreed to serve on the board of directors if elected.

Set forth below is the information as of March 13, 2013, regarding the nominees for election, which has been confirmed by each of them for inclusion in this proxy statement. Under the heading "Qualifications," we list the specific experiences, qualifications, attributes, or skills that led to the conclusion that each director or director nominee should serve as one of our directors in light of our business and structure.

No family relationship exists among any of our director nominees or executive officers. To the best of our knowledge, there are no pending material legal proceedings to which any of our directors or nominees for director, or any of their associates, is a party adverse to us or any of our affiliates, or has a material interest adverse to us or any of our affiliates. Additionally, to the best of our knowledge, there have been no events under any bankruptcy act, no criminal proceedings and no

judgments, sanctions, or injunctions that are material to the evaluation of the ability or integrity of any of our directors or nominees for director during the past 10 years.

Class of 2013

The following five directors' terms will expire at this year's annual meeting. See "Item 1. Election of Directors" below for more information.

Ralph Alvarez, Age 57, Director since 2009  
Executive Chairman, Skylark Co., Ltd.

Mr. Alvarez is executive chairman of Skylark Co., Ltd., a leading restaurant operator in Japan, a position he has held since January 2013. Previously, Mr. Alvarez served as president and chief operating officer of McDonald's Corporation from August 2006 until his retirement in December 2009. He also served as president of McDonald's North America, with responsibility for all the McDonald's restaurants in the U.S. and Canada. Prior to that, he was president of McDonald's USA.

Mr. Alvarez joined McDonald's in 1994 and held a variety of leadership roles throughout his career, including chief operations officer and president of the central division, both with McDonald's USA and president of McDonald's Mexico. Prior to joining McDonald's, he held leadership positions at Burger King Corporation and Wendy's International, Inc. Mr. Alvarez serves on the board of directors of Skylark Co., Ltd., Lowe's

John C. Lechleiter, Ph.D.      Douglas R. Oberhelman      Ellen R. Marram      Sir Winfried Bischoff      William G. Kaelin, Jr., M.D.      Kathi P. Seifert      Ralph Alvarez

Companies, Inc., and Dunkin' Brands Group, Inc. Mr. Alvarez also serves on the President's Council, the School of Business Administration Board of Overseers, and the International Advisory Board of the University of Miami. He was previously a member of the boards of McDonald's Corporation and KeyCorp.

Qualifications: Through his senior executive positions at Skylark Co., Ltd. and McDonald's Corporation, as well as with other global restaurant businesses, Mr. Alvarez has extensive experience in consumer marketing, global operations, international business, and strategic planning. His international experience includes a special focus on emerging markets.

Board committees: finance; public policy and compliance; science and technology

Sir Winfried Bischoff, Age 71, Director since 2000

Chairman, Lloyds Banking Group plc

Sir Winfried Bischoff has been chairman of the board of Lloyds Banking Group plc since September 2009. He served as chairman of Citigroup Inc. from December 2007 until February 2009 and as interim chief executive officer for a portion of 2007. He served as chairman of Citigroup Europe from 2000 to 2009. From 1995 to 2000, he was chairman of Schroders plc. He joined the Schroder Group in 1966 and held a number of positions there, including chairman of J. Henry Schroder & Co.

and group chief executive of Schroders plc. He is also a director of The McGraw-Hill Companies, Inc. He previously served on the boards of Citigroup Inc., Prudential plc, Land Securities plc, and Akbank T.A.S.

Qualifications: Sir Winfried Bischoff has a distinguished career in banking and finance, including commercial banking, corporate finance, and investment banking. He has CEO experience both in Europe and the U.S. He is a globalist, with particular expertise in European matters but with extensive experience overseeing worldwide operations. He has broad corporate governance experience from his service on public company boards in the U.S., UK, and other European and Asian countries.

Board committees: directors and corporate governance; finance (chair)

R. David Hoover, Age 67, Director since 2009

Chairman, Ball Corporation

Mr. Hoover is chairman of Ball Corporation, which provides metal packaging for beverages, foods and household products, as well as aerospace and other technologies and services to commercial and governmental customers. Mr. Hoover joined Ball Corporation in 1970 and has held a variety of leadership roles throughout his career, including vice president and treasurer; executive vice president and chief financial officer; vice chairman, president, and chief operating



officer; and chairman, president, and chief executive officer. He is a member of the boards of Ball Corporation, Energizer Holdings, Inc., and Steelcase, Inc. Mr. Hoover is also a director of Boulder Community Hospital, Children's Hospital Colorado, and a member of the Colorado Forum, and is a member and past chair of the board of trustees of DePauw University and on the Indiana University Kelley School of Business Dean's Council. Mr. Hoover previously served on the boards of Irwin Financial Corporation and Qwest International, Inc.

Qualifications: Mr. Hoover has extensive CEO experience at Ball Corporation, with a strong record of leadership in operations and strategy. He is an audit committee financial expert as a result of his experience as CEO and CFO of Ball. He also has extensive corporate governance experience through his service on other public company boards.

Board committees: audit; compensation

Franklyn G. Prendergast, M.D., Ph.D., Age 68, Director since 1995

Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology and Professor of Molecular Pharmacology and Experimental Therapeutics, Mayo Medical School; and Director Emeritus, Mayo Clinic Center for Individualized Medicine

Dr. Prendergast is the Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology and Professor of Molecular Pharmacology and Experimental Therapeutics at Mayo Medical School and the director emeritus of the Mayo Clinic Center for Individualized Medicine. He is an emeritus member of the Mayo Clinic board of governors and board of trustees and has held several teaching positions at the Mayo Medical School since 1975.

Qualifications: Dr. Prendergast is a prominent medical clinician, researcher, and academician. He has extensive experience in senior-most administration at Mayo Clinic, a major medical institution, and as director of its renowned cancer center. He has special expertise in two critical areas for Lilly—oncology and personalized medicine. As a medical doctor, he brings an important practicing-physician perspective to the board's deliberations.

Board committees: public policy and compliance; science and technology

Kathi P. Seifert, Age 63, Director since 1995

Retired Executive Vice President, Kimberly-Clark Corporation

Ms. Seifert served as executive vice president for Kimberly-Clark Corporation, a global consumer products company, until June 2004. She joined

Kimberly-Clark in 1978 and served in several capacities in connection with both the domestic and international consumer-products businesses. Prior to joining Kimberly-Clark, Ms. Seifert held management positions at Procter & Gamble, Beatrice Foods, and Fort Howard Paper Company. She is chairman of Katapult, LLC, a provider of pro bono mentoring and consulting services to other nonprofits. Ms. Seifert serves on the boards of Supervalu Inc.; Revlon Consumer Products Corporation; Lexmark International, Inc.; Appleton Papers Inc.; Fox Cities Performing Arts Center; and the Community Foundation for the Fox Valley Region.

Qualifications: Ms. Seifert is a retired senior executive of Kimberly-Clark. She has strong expertise in consumer marketing and brand management, having led sales and marketing for several worldwide brands, with a special focus on consumer health. She has extensive corporate governance experience through her other board positions.

Board committees: audit; compensation

Class of 2014

The following five directors will continue in office until 2014.

Michael L. Eskew, Age 63, Director since 2008

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

Mr. Eskew served as chairman and chief executive officer of United Parcel Service, Inc., from January 2002 until December 2007. He has served on the UPS board of directors since 1998. Mr. Eskew began his UPS career in 1972 as an industrial engineering manager and held various positions of increasing responsibility, including time with UPS's operations in Germany and with UPS Airlines. In 1993, Mr. Eskew was named corporate vice president for industrial engineering. Two years later he became group vice president for engineering. In 1998, he was elected to the UPS board of directors. In 1999, Mr. Eskew was named executive vice president and a year later was given the additional title of vice chairman. He serves as chairman of the board of trustees of The Annie E. Casey Foundation. Mr. Eskew also serves on the boards of 3M Corporation and IBM Corporation.

Qualifications: Mr. Eskew has CEO experience with UPS, where he established a record of success in managing complex worldwide operations, strategic planning, and building a strong consumer-brand focus. He is an audit committee financial expert, based on his CEO experience and his service on other U.S. company audit committees. He has extensive corporate governance experience through his service on the boards of other companies.

Board committees: audit (chair); finance

Alfred G. Gilman, M.D., Ph.D., Age 71, Director since 1995

Regental Professor of Pharmacology Emeritus, University of Texas Southwestern Medical Center at Dallas  
Dr. Gilman is the regental professor of pharmacology emeritus at the University of Texas Southwestern Medical Center at Dallas. Dr. Gilman was on the faculty of the University of Virginia School of Medicine from 1971 to 1981 and was named a professor of pharmacology there in 1977. He previously served as executive vice president for academic affairs and provost of the University of Texas Southwestern Medical Center at Dallas, dean of the University of Texas Southwestern Medical School, and professor of pharmacology at the University of Texas Southwestern Medical Center. He held the Raymond and Ellen Willie Distinguished Chair of Molecular Neuropharmacology, the Nadine and Tom Craddick Distinguished Chair in Medical Science, and the Atticus James Gill, M.D., Chair in Medical Science at the university and was named a regental professor in 1995. Between 2009 and 2012, Dr. Gilman was the chief scientific officer of the Cancer Prevention and Research Institute of Texas. He is a director of Regeneron Pharmaceuticals, Inc. Dr. Gilman was a recipient of the Nobel Prize in Physiology or Medicine in 1994.

Qualifications: Dr. Gilman is a Nobel Prize-winning pharmacologist, researcher, and professor. He has deep expertise in basic science, including mechanisms of drug action, and experience with pharmaceutical discovery research. As the former dean of a major medical school, he brings to the board important perspectives of both the academic and practicing medical communities.

Board committees: public policy and compliance; science and technology (chair)

Karen N. Horn, Ph.D., Age 69, Director since 1987

Retired President, Private Client Services; Managing Director, Marsh, Inc.

Ms. Horn served as president of private client services and managing director of Marsh, Inc., a global provider of risk and insurance services, from 1999 until her retirement in 2003. Prior to joining Marsh, she was senior managing director and head of international private banking at Bankers Trust Company, chairman and chief executive officer of Bank One, Cleveland, N.A., president of the Federal Reserve Bank of Cleveland, treasurer of Bell Telephone Company of Pennsylvania, and vice president of First National Bank of Boston. Ms. Horn serves as director of T. Rowe Price Mutual Funds, Simon Property Group, Inc., and Norfolk Southern Corporation. She previously served on the boards of Fannie Mae and Georgia-Pacific Corporation. Ms. Horn has been senior managing director of Brock Capital Group, a provider of financial advising and consulting services, since 2004.

Qualifications: Ms. Horn is a former CEO with extensive experience in various segments of the financial industry, including banking and financial services. Through her for-profit and her public-private partnership work, she has significant experience in international economics and finance. Ms. Horn has extensive corporate governance experience through service on other public company boards in a variety of industries.

Board committees: compensation (chair); directors and corporate governance

William G. Kaelin, Jr., M.D., Age 55, Director since 2012

Professor, Department of Medicine and Associate Director, Basic Science; Dana-Farber/Harvard Cancer Center

Dr. Kaelin, who is currently serving under interim election, joined the board in June 2012 and was referred to the directors and corporate governance committee by an incumbent independent director. Dr. Kaelin is a professor in the Department of Medicine at the

Dana-Farber Cancer Institute and at the Brigham and Women's Hospital, Harvard Medical School, where he began his career as an independent investigator in 1992. He currently serves as associate director, Basic Science, for the Dana-Farber/Harvard Cancer Center. Dr. Kaelin is a prominent member of the medical research community and has received broad recognition for his work in oncology research, including the Canada Gairdner International Award and the Lefoulon-Delalande Prize from the Institute of France. Dr. Kaelin is a member of the Institute of Medicine, the

National Academy of Sciences, and the Association of American Physicians.

Qualifications: Dr. Kaelin is a prominent medical researcher and academician. He has extensive experience at Harvard Medical School, a major medical institution, as well as special expertise in oncology—a key component of Lilly's business. He also has deep expertise in basic science, including mechanisms of drug action, and experience with pharmaceutical discovery research.

Board Committees: finance; science and technology

John C. Lechleiter, Ph.D., Age 59, Director since 2005

Chairman, President, and Chief Executive Officer

Dr. Lechleiter has served as president and chief executive officer of Lilly since April 1, 2008. He became the chairman of the board of directors on January 1, 2009. He began work at Lilly in 1979 as a senior organic chemist in process research and development. Prior to joining Lilly, Dr. Lechleiter attended Xavier University (Cincinnati, Ohio), where he earned a bachelor of science degree in chemistry in 1975, and Harvard University, where he earned master's and doctoral degrees in organic chemistry in 1980. Dr. Lechleiter has received honorary doctorates from Marian University

(Indianapolis, Indiana), the University of Indianapolis, and the National University of Ireland. Dr. Lechleiter is a member of the American Chemical Society and Business Roundtable. Dr. Lechleiter serves as chairman of the Pharmaceutical Research and Manufacturers of America (PhRMA), as president of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA), and on the boards of United Way Worldwide, Xavier University, the Life Sciences Foundation, and the Central Indiana Corporate Partnership. He also serves on the board of Nike, Inc.

Qualifications: Dr. Lechleiter is our chairman, president, and chief executive officer. A Ph.D. chemist, Dr. Lechleiter has over 30 years of experience with the company in a variety of roles of increasing responsibility in research and development, sales and marketing, and corporate administration. As a result, he has a deep understanding of pharmaceutical research and development, sales and marketing, strategy, and operations. He also has significant corporate governance experience through service on other public company boards.

Board committees: none

Class of 2015

The following four directors will continue in office until 2015.

Katherine Baicker, Ph.D., Age 41, Director since 2011

Professor of Health Economics at the Harvard University School of Public Health, Department of Health Policy and Management; and Research Associate at the National Bureau of Economic Research

Dr. Baicker has been a professor of health economics at the Department of Health Policy and Management, School of Public Health, since 2007. From 2005 to 2007, she served as a Senate-confirmed member of the Council of Economic Advisers. From 1998 to 2005,

Dr. Baicker was assistant professor and associate professor of economics at Dartmouth College. In 2001 and 2002 she also served as an economist to the Council of Economic Advisers, Executive Office of the President, and in 2003 was a visiting assistant professor at the University of Chicago Harris School of Public Policy.

Dr. Baicker is a commissioner of the Medicare Payment Advisory Commission and serves on the Panel of Health Advisers to the Congressional Budget Office. She is a member of the editorial boards of Health Affairs and the Journal of Health Economics, chair of the board of directors of AcademyHealth, editor of the Forum for Health Economics and Policy, and associate editor of the Journal of Economic Perspectives. She is an elected member of the Institute of Medicine.

Qualifications: Dr. Baicker is a leading researcher in the fields of health economics, public economics, and labor

economics. As a valued advisor to numerous health care-related commissions and committees, her expertise in health care policy and health care delivery is recognized by both academia and government.

Board committees: audit, public policy and compliance

J. Erik Fyrwald, Age 53, Director since 2005

President and Chief Executive Officer, Univar, Inc.

J. Erik Fyrwald joined Univar Inc., a leading distributor of industrial and specialty chemicals and provider of related services, in May 2012 as its president and chief executive officer. In 2008, following a 27-year career at E.I. duPont de Nemours and Company (DuPont), he joined Nalco Company, serving as chairman and chief executive officer until 2011, when Nalco merged with Ecolab Inc. Following the merger, Mr. Fyrwald served as president of Ecolab. From 2003 to 2008, Mr. Fyrwald served as group vice president of the agriculture and nutrition division at DuPont. From 2000 until 2003, he was vice president and general manager of DuPont's nutrition and health business. At DuPont, he held a broad variety of assignments in a number of divisions covering many industries. He has worked in several

locations throughout North America and Asia.

Mr. Fyrwald serves as a director of the Society of Chemical Industry, Amsted Industries, and the Chicago Public Education Fund, and he is a trustee of the Field Museum of Chicago.

Qualifications: Mr. Fyrwald has a strong record of operational and strategy leadership in two complex worldwide businesses with a focus on technology and innovation. An engineer by training, he has extensive senior executive experience at DuPont, a multinational chemical company, where he led the agriculture and nutrition division, which used chemical and biotechnology solutions to enhance plant health. He also has experience serving as the CEO of Univar and Nalco.

Board committees: public policy and compliance (chair); science and technology

Ellen R. Marram, Age 66, Director since 2002

President, The Barnegat Group LLC

Ms. Marram began serving as the board's lead director in April 2012. Ms. Marram is the president of The Barnegat Group LLC, a firm that provides business advisory services. She was a managing director at North Castle Partners, LLC from 2000 to 2005 and served as an advisor to the firm from 2006 to 2010. From 1993 to 1998, Ms. Marram was president and chief executive officer of Pepsico's Tropicana and the Tropicana Beverage Group. From 1988 to 1993, she was president and chief executive officer of the Nabisco Biscuit Company, the largest operating unit of Nabisco, Inc.; from 1987 to 1988, she was president of Nabisco's grocery division; and from 1970 to 1986, she held a

series of marketing positions at Nabisco/Standard Brands, Johnson & Johnson, and Lever Brothers.

Ms. Marram is a member of the board of directors of Ford Motor Company and The New York Times Company, as well as several private companies. She previously served on the board of Cadbury plc. She also serves on the boards of Wellesley College, Institute for the Future, New York-Presbyterian Hospital, Lincoln Center Theater, and Families and Work Institute.

Qualifications: Ms. Marram is a former CEO with a strong marketing and consumer-brand background. Through her nonprofit and private company activities, she has a special focus and expertise in wellness and consumer health. Ms. Marram has extensive corporate governance experience through service on other public company boards in a variety of industries.

Board committees: compensation; directors and corporate governance (chair)

Douglas R. Oberhelman, Age 60, Director since 2008  
Chairman and Chief Executive Officer, Caterpillar Inc.

Mr. Oberhelman has been chairman of the board of Caterpillar Inc. since November 2010 and chief executive officer since July 2010. He previously served as vice chairman and chief executive officer-elect of Caterpillar. He joined Caterpillar in 1975 and has held a variety of positions, including senior finance representative based in South America for Caterpillar Americas Co., regional finance manager and district manager for the company's North American commercial division, and managing director and vice general manager for strategic planning at Caterpillar Japan Ltd. Mr. Oberhelman was elected a vice president in 1995, serving as Caterpillar's chief financial officer from 1995 to November 1998. In 1998, he became vice president with responsibility for the engine products division and he was elected a group president and member of Caterpillar's executive office in 2002.

Mr. Oberhelman serves on the boards of Caterpillar, the Wetlands America Trust, and is chairman of the National Association of Manufacturers. He previously served on the board of Ameren Corporation. He is a member of the Executive Committee of the Business Roundtable and a member of the Business Council.

Qualifications: Mr. Oberhelman has a strong strategic and operational background as a senior executive (and currently as chairman and CEO) of Caterpillar, a leading manufacturing company with worldwide operations and a special focus on emerging markets. He is an audit committee financial expert as a result of his prior experience as CFO of Caterpillar and as a member and chairman of the audit committee of another U.S. public company.

Board committees: audit; finance

#### Director Compensation

Director compensation is reviewed and approved annually by the board, on the recommendation of the directors and corporate governance committee. Directors who are employees receive no additional compensation for serving on the board.

#### Cash Compensation

In 2012, the company provided nonemployee directors with an annual retainer of \$100,000 (payable in monthly installments). In addition, certain board roles receive additional annual retainers:

\$3,000 for audit committee and science and technology committee members

\$12,000 for committee chairs (\$18,000 for audit committee chair and \$15,000 for science and technology committee chair)

\$30,000 for the lead director.

Directors are reimbursed for customary and usual travel expenses. Directors may also receive additional retainer amounts for serving on ad hoc committees that may be assembled from time-to-time.

#### Stock Compensation

Stock compensation for nonemployee directors consists of shares of company stock equaling \$145,000, deposited annually in a deferred stock account in the Lilly Directors' Deferral Plan (as described below), payable after service on the board has ended.

#### Lilly Directors' Deferral Plan

This plan allows nonemployee directors to defer receipt of all or part of their cash compensation until after their service on the board has ended. Each director can choose to invest the funds in one or both of two accounts:

**Deferred Stock Account.** This account allows the director, in effect, to invest his or her deferred cash compensation in company stock. In addition, the annual award of shares to each director noted above (3,083 shares in 2012) is credited to this account on a pre-set annual date. The number of shares credited is calculated by dividing the \$145,000 annual compensation figure by the closing stock price on that date. Funds in this account are credited as hypothetical shares of company stock based on the market price of the stock at the time the compensation would otherwise have been earned. Hypothetical dividends are "reinvested" in additional shares based on the market price of the stock on the date dividends are paid. Actual shares are issued or transferred after the director ends his or her service on the board.

**Deferred Compensation Account.** Funds in this account earn interest each year at a rate of 120 percent of the applicable federal long-term rate, compounded monthly, as established the



preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). The aggregate amount of interest that accrued in 2012 for the participating directors was \$138,129, at a rate of 3.3 percent. The rate for 2013 is 2.9 percent.

Both accounts may be paid in a lump sum or in annual installments for up to 10 years, beginning the second January following the director's departure from board service. Amounts in the deferred stock account are paid in shares of company stock.

#### Director Compensation

In 2012, we provided the following compensation to directors who are not employees:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>1</sup>	All Other Compensation and Payments (\$) <sup>2</sup>	Total (\$) <sup>3</sup>
Mr. Alvarez	\$106,000	\$145,000	\$0	\$251,000
Dr. Baicker	\$102,250	\$145,000	\$0	\$247,250
Sir Winfried Bischoff	\$112,000	\$145,000	\$0	\$257,000
Mr. Eskew	\$121,000	\$145,000	\$1,500	\$267,500
Mr. Fyrwald	\$112,000	\$145,000	\$35,000	\$292,000
Dr. Gilman	\$118,000	\$145,000	\$14,500	\$277,500
Mr. Hoover	\$106,000	\$145,000	\$30,000	\$281,000
Ms. Horn	\$119,500	\$145,000	\$5,250	\$269,750
Dr. Kaelin	\$60,083	\$84,583	\$11,200	\$155,867
Ms. Marram	\$134,500	\$145,000	\$30,000	\$309,500
Mr. Oberhelman	\$106,000	\$145,000	\$33,750	\$284,750
Dr. Prendergast	\$103,000	\$145,000	\$0	\$248,000
Ms. Seifert	\$103,000	\$145,000	\$13,650	\$261,650

Each nonemployee director received an award of stock valued at \$145,000 (3,083 shares), except Dr. Kaelin, who received shares proportionately for a partial year of service. This stock award and all prior stock awards are fully vested in that they are not subject to forfeiture; however, the shares are not issued until the director ends his or her service on the board, as described above under "Lilly Directors' Deferral Plan." The column shows the grant date fair value for each director's stock award. Aggregate outstanding stock awards are shown in the "Common Stock Ownership by Directors and Executive Officers" table in the "Directors' Deferral Plan Shares" column. Aggregate outstanding stock options as of December 31, 2012 are shown in the table below. Nonemployee directors received no stock options in 2012. The company discontinued granting stock options to nonemployee directors in 2005. A discussion of methodology used in calculating the award values can be found above under the heading "Lilly Directors' Deferral Plan."

Name	Outstanding Stock Options (Exercisable)	Weighted Average Exercise Price
Sir Winfried Bischoff	5,600	\$65.48
Dr. Gilman	5,600	\$65.48
Ms. Horn	5,600	\$65.48
Ms. Marram	5,600	\$65.48
Dr. Prendergast	5,600	\$65.48
Ms. Seifert	5,600	\$65.48

Edgar Filing: LILLY ELI & CO - Form DEF 14A

This column consists of amounts donated by the Eli Lilly and Company Foundation, Inc. under its matching gift program, which is generally available to U.S. employees as well as the outside directors. Under this program, the foundation matched 100 percent of charitable donations over \$25 made to eligible charities, up to a maximum of \$30,000 per year for each individual. The foundation matched these donations via payments made directly to the recipient charity. The amounts for Mr. Fyrwald and Mr. Oberhelman include matching contributions for donations made at the end of 2011 (Mr. Fyrwald – \$15,000; Mr. Oberhelman – \$5,000), for which the matching contribution was not paid until 2012.

<sup>3</sup> Directors do not participate in a company pension plan or non-equity incentive plan.

10

---

## Highlights of the Company's Corporate Governance Guidelines

The following summary provides highlights of the company's guidelines established by the board of directors. A complete copy of the corporate governance guidelines is available online at <http://investor.lilly.com/governance.cfm> or upon request to the company's corporate secretary.

### I. Role of the Board

The directors are elected by the shareholders to oversee the actions and results of the company's management. Their responsibilities include:

- providing general oversight of the business
- approving corporate strategy
- approving major management initiatives
- providing oversight of legal and ethical conduct
- overseeing the company's management of significant business risks
  - selecting, compensating, and evaluating directors
- evaluating board processes and performance
- selecting, compensating, evaluating, and, when necessary, replacing the chief executive officer, and compensating other senior executives
- ensuring that an effective succession plan is in place for all senior executives.

### II. Composition of the Board

#### Mix of Independent Directors and Officer-Directors

There should always be a substantial majority (75 percent or more) of independent directors. The chief executive officer should be a board member. Other officers may, from time to time, be board members, but no officer other than the chief executive officer should expect to be elected to the board by virtue of his or her position in the company.

#### Selection of Director Candidates

The board selects candidates for board membership and establishes the criteria to be used in identifying potential candidates. The board delegates the screening process to the directors and corporate governance committee.

For more information on the director nomination process, including the current selection criteria, see "Directors and Corporate Governance Committee Matters" below.

#### Independence Determinations

The board annually determines the independence of directors based on a review by the directors and corporate governance committee. No director is considered independent unless the board has determined that he or she has no material relationship with the company, either directly or as a partner, significant shareholder, or officer of an organization that has a material relationship with the company. Material

relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. To evaluate the materiality of any such relationship, the board has adopted categorical independence standards consistent with the New York Stock Exchange (NYSE) listing standards, except that the "look-back period" for determining whether a director's prior relationship(s) with the company impairs independence is extended from three to four years. Specifically, a director is not considered independent if (i) the director or an immediate family member is a current partner of the company's independent auditor (currently Ernst & Young LLP); (ii) the director is a current employee of such firm; (iii) the director has an immediate family member who is a current employee of such firm and who participates in the firm's audit, assurance, or tax compliance (but not tax planning) practice; or (iv) the director or an immediate family member was within the last four years (but is no longer) a partner or employee of such firm and personally worked on our audit within that time.

In addition, a director is not considered independent if any of the following relationships existed within the previous four years:

- A director who is an employee of the company, or whose immediate family member is an executive officer of the company. Temporary service by an independent director as interim chairman or chief executive officer will not

disqualify the director from being independent following completion of that service.

A director who receives any direct compensation from the company other than the director's normal director compensation, or whose immediate family member receives more than \$120,000 per year in direct compensation from the company other than for service as a nonexecutive employee.

A director who is employed (or whose immediate family member is currently employed as an executive officer) by another company where any Lilly executive officer serves on the compensation committee of that company's board.

A director who is currently employed by, who is a 10 percent shareholder of, or whose immediate family member is currently employed as an executive officer of a company that makes payments to or receives payments from Lilly for property or services that exceed the greater of \$1 million or 2 percent of that company's consolidated gross revenue in a single fiscal year.

A director who is a current executive officer of a nonprofit organization that receives grants or contributions from the company exceeding the greater of \$1 million or 2 percent of that organization's consolidated gross revenue in a single fiscal year.

Members of board committees must meet all applicable independence tests of the NYSE, Securities and Exchange Commission (SEC), and Internal Revenue Service (IRS).

The directors and corporate governance committee determined that all 13 nonemployee directors listed below are independent, and that the members of each committee also meet the independence standards referenced above. The directors and corporate governance committee recommended this conclusion to the board and explained the basis for its decision, and this conclusion was adopted by the board. This committee and the board determined that none of the 13 directors has had during the last four years (i) any of the relationships listed above or (ii) any other material relationship with the company that would compromise

his or her independence. In reaching this conclusion, the committee reviewed directors' responses to a questionnaire asking about their relationships with the company and other potential conflicts of interest, as well as information provided by management related to transactions, relationships, or arrangements between the company and the directors or parties related to the directors. The table below includes a description of categories or types of transactions, relationships, or arrangements considered by the board in reaching its determinations. All of these transactions were entered into at arm's length in the normal course of business and, to the extent they are commercial relationships, have standard commercial terms. None of these transactions exceeded the thresholds described above or otherwise compromises the independence of the named directors.

Name	Independent	Transactions/Relationships/Arrangements
Mr. Alvarez	Yes	None
Dr. Baicker	Yes	Payments to Harvard University totaling approximately \$3.1 million (less than 0.1 percent of Harvard's total revenue), primarily for medical research
Sir Winfried Bischoff	Yes	None
Mr. Eskew	Yes	None
Mr. Fyrwald	Yes	Purchases of products and services from Ecolab totaling approximately \$0.7 million (less than 0.1 percent of Ecolab's total revenue) Purchases of products from Univar, Inc. totaling \$1.9 million (less than 0.1 percent of Univar's total revenue)
Dr. Gilman	Yes	None
Mr. Hoover	Yes	None
Ms. Horn	Yes	None
Dr. Kaelin	Yes	Payments to Harvard University totaling approximately \$3.1 million (less than 0.1 percent of Harvard's total revenue), primarily for medical research Payments to Brigham and Women's Hospital totaling approximately \$0.7 million (less than 0.1 percent of Brigham's total revenue), primarily for medical research Payments to Dana-Farber Cancer Institute totaling approximately \$1.7 million (less than 0.1 percent of Dana-Farber's total revenue), primarily for medical research
Ms. Marram	Yes	None
Mr. Oberhelman	Yes	None
Dr. Prendergast	Yes	Payments to the Mayo Clinic and the Mayo Foundation totaling approximately \$4.4 million (less than 0.1 percent of Mayo's total revenue), primarily for medical research
Ms. Seifert	Yes	None

#### Director Tenure

Subject to the company's charter documents, the following are the board's expectations for director tenure:

- A company officer-director, including the chief executive officer, will resign from the board at the time he or she retires or otherwise ceases to be an active employee of the company.

• Nonemployee directors will retire from the board not later than the annual meeting of shareholders that follows their seventy-second birthday.

• Directors may stand for reelection even though the board's retirement policy would prevent them from completing a full three-year term.

• A nonemployee director who retires or changes

principal job responsibilities will offer to resign from the board. The directors and corporate governance committee will assess the situation and recommend to the board whether to accept the resignation.

The directors and corporate governance committee, with input from all board members, also considers the contributions of individual directors at least every three years when considering whether to recommend nominating the director to a new three-year term.

#### Other Board Service

No new director may serve on more than three other public company boards, and no incumbent director may

accept new positions on public company boards that would result in service on more than three other public company boards. The directors and corporate governance committee or the chair of that committee may approve exceptions to this limit upon a determination that such additional service will not impair the director's effectiveness on the board.

#### Voting for Directors

In an uncontested election, directors are elected by a majority of the votes cast. Under the bylaws, any incumbent nominee for director who fails to receive a majority of the votes cast shall promptly tender his or her resignation following certification of the shareholder vote. The directors and corporate governance committee will consider the resignation offer and recommend to the board whether to accept it. The board will act on the committee's recommendation within 90 days following certification of the shareholder vote. Board action on the matter will require the approval of a majority of the independent directors.

The company will disclose the board's decision on a Form 8-K within four business days after the decision, including a full explanation of the process by which the decision was reached and, if applicable, the reasons why the board rejected the director's resignation. If the resignation is accepted, the directors and corporate governance committee will recommend to the board whether to fill the vacancy or reduce the size of the board.

Any director who tenders his or her resignation under this provision will not participate in the directors and corporate governance committee or board deliberations regarding the resignation offer.

#### III. Director Compensation and Equity Ownership

The directors and corporate governance committee annually reviews board compensation and recommends any changes to the board.

Directors should hold meaningful equity ownership positions in the company; accordingly, a significant portion of director compensation is in the form of Lilly stock. Directors are required to hold Lilly stock, directly or through company plans, valued at not less than five times their annual cash retainer; new directors are allowed five years to reach this ownership level.

#### IV. Key Board Responsibilities

##### Selection of Chairman and Chief Executive Officer; Succession Planning

The board currently combines the role of chairman of the board with the role of chief executive officer, coupled with a lead director position to further strengthen the governance structure. The board believes this provides an efficient and effective leadership model for the company. Combining the chairman and CEO roles

fosters clear accountability, effective decision-making, and alignment on corporate strategy. To assure effective independent oversight, the board has adopted a number of governance practices, including:

- a strong, independent, clearly-defined lead director role (see below for a full description of the role)
- executive sessions of the independent directors after every regular board meeting
- annual performance evaluations of the chairman and CEO by the independent directors.

However, no single leadership model is right for all companies and at all times. Depending on the circumstances, other leadership models, such as a separate independent chairman of the board, might be appropriate. Accordingly, the board periodically reviews its leadership structure.

The lead director recommends to the board an appropriate process by which a new chairman and CEO will be selected. The board has no required procedure for executing this responsibility because it believes that the most appropriate process will depend on the circumstances surrounding each such decision.

A key responsibility of the CEO and the board is ensuring that an effective process is in place to provide continuity of leadership over the long term. Each year, succession-planning reviews culminate in a detailed review of top leadership talent by the compensation committee and a summary review by the independent directors as a whole. During these reviews, the CEO and the independent directors discuss future candidates for the CEO and other senior leadership positions, succession timing for those positions, and development plans for the highest-potential candidates. During the year, the directors have multiple opportunities to interact with the company's top leadership talent in formal and informal settings.

The CEO maintains in place at all times, and reviews with the independent directors, a confidential plan for the timely and efficient transfer of his responsibilities in the event of an emergency or his sudden departure, incapacitation, or death.

#### Evaluation of Chief Executive Officer

The lead director is responsible for leading the independent directors in executive session to assess the performance of the chief executive officer at least annually. The results of this assessment are reviewed with the chief executive officer and considered by the compensation committee in establishing the chief executive officer's compensation for the next year.

#### Corporate Strategy

Once each year, the board devotes an extended meeting with senior management to discuss the strategic issues and opportunities facing the company, allowing the



board an opportunity to provide direction for the corporate strategic plan. These strategy sessions also provide the board an opportunity to interact extensively with the company's senior leadership team.

Throughout the year, significant corporate strategy decisions are brought to the board in a timely way for its consideration.

#### Code of Ethics

The board approves the company's code of ethics. This code is set out in:

• The Red Book, a comprehensive code of ethical and legal business conduct applicable to all employees worldwide and to our board of directors

• Code of Ethical Conduct for Lilly Financial Management, a supplemental code for our chief executive officer and all members of financial management that recognizes the unique responsibilities of those individuals in assuring proper accounting, financial reporting, internal controls, and financial stewardship.

Both documents are available online at <http://www.lilly.com/about/business-practices/ethics-compliance>, or upon request to the company's corporate secretary.

The audit committee and public policy and compliance committee assist in the board's oversight of compliance programs with respect to matters covered in the code of ethics.

#### Risk Oversight

The company has an enterprise risk management program overseen by its chief ethics and compliance officer and senior vice president of enterprise risk management, who reports directly to the CEO and is a member of the company's top leadership committee. Enterprise risks are identified and prioritized by management, and the top prioritized risks are assigned to a board committee or the full board for oversight. For example, strategic risks are typically overseen by the full board; financial risks are overseen by the audit or finance committee; compliance and reputational risks are typically overseen by the public policy and compliance committee; and scientific risks are overseen by the science and technology committee. Management periodically reports on each such risk to the relevant committee or the board. The enterprise risk management program as a whole is reviewed annually at a joint meeting of the audit and public policy and compliance committees, and enterprise risks are also addressed at the annual board strategy session. Additional review or reporting on enterprise risks is conducted as needed or as requested by the board or relevant committee. Also, the compensation committee periodically reviews the most important enterprise risks to ensure that compensation programs do not

encourage excessive risk-taking. The board's role in the oversight of risk had no effect on the board's leadership structure.

#### V. Functioning of the Board

##### Executive Sessions of Directors

The independent directors meet alone in executive session and in private session with the CEO at every regularly scheduled board meeting.

##### Lead Director

The board annually appoints a lead director from among the independent directors. Currently the lead director is Ms. Marram. The board has no set policy for rotation of the lead director role but believes that periodic rotation is appropriate. The lead director:

• leads the board's processes for selecting and evaluating the CEO

• presides at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors unless the directors decide that, due to the subject matter of the session, another independent director should preside

serves as a liaison between the chairman and the independent directors

- approves meeting agendas and schedules and generally approves information sent to the board;

has the authority to call meetings of the independent directors

has the authority to retain advisers to the independent directors.

#### Conflicts of Interest

Occasionally a director's business or personal relationships may give rise to an interest that conflicts, or appears to conflict, with the interests of the company. Directors must disclose to the company all relationships that create a conflict or an appearance of a conflict. The board, after consultation with counsel, takes appropriate steps to identify actual or apparent conflicts and ensure that all directors voting on an issue are disinterested. A director will be excused from discussions on the issue, as appropriate.

#### Review and Approval of Transactions with Related Persons

The board has adopted a written policy and written procedures for review, approval, and monitoring of transactions involving the company and related persons (directors and executive officers, their immediate family members, or shareholders of 5 percent or greater of the company's outstanding stock). The policy covers any related-person transaction that meets the minimum threshold for disclosure in the proxy statement under the relevant SEC rules (generally, transactions involving amounts exceeding \$120,000 in which a related person has a direct or indirect material interest).

Policy: Related-person transactions must be approved by the board or by a committee of the board consisting solely of independent directors, who will approve the transaction only if they determine that it is in the best interests of the company. In considering the transaction, the board or committee will consider all relevant factors, including:

- the company's business rationale for entering into the transaction;
- the alternatives to entering into a related-person transaction;
- whether the transaction is on terms comparable to those available to third parties, or in the case of employment relationships, to employees generally;
- the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts; and
- the overall fairness of the transaction to the company.

The board or relevant committee will periodically monitor the transaction to ensure that there are no changed circumstances that would render it advisable to amend or terminate the transaction.

#### Procedures:

• Management or the affected director or executive officer will bring the matter to the attention of the chairman, the lead director, the chair of the directors and corporate governance committee, or the secretary.

- The chairman and the lead director shall jointly determine (or, if either is involved in the transaction, the other shall determine in consultation with the chair of the directors and corporate governance committee) whether the matter should be considered by the board or by one of its existing committees consisting only of independent directors.

• If a director is involved in the transaction, he or she will be recused from all discussions and decisions about the transaction.

• The transaction must be approved in advance whenever practicable, and if not practicable, must be ratified as promptly as practicable.

• The board or relevant committee will review the transaction annually to determine whether it continues to be in the company's best interests.

The directors and corporate governance committee has approved the following related-party transactions.

Dr. John Bamforth, senior director, chief marketing officer, Lilly Bio-Medicines, is the spouse of Dr. Susan Mahony, senior vice president and president, Lilly Oncology, and has been employed by the company for over 20 years. In 2012, he was paid approximately \$362,000 in cash compensation, and he received grants under the company's performance-based equity

program valued at approximately \$49,000 based upon the fair value computed in accordance with stock-based compensation accounting rules (FASB ASC Topic 718). Similarly, Mr. Myles O'Neill, senior vice president, global drug products, is the spouse of Dr. Fionnuala Walsh, senior vice president, global quality, and has been employed by the company for over 10 years. His cash compensation in 2012 was approximately \$684,000 and his equity grants were valued at approximately \$141,000. Both Dr. Bamforth and Mr. O'Neill participate in the company's benefit programs generally available to U.S. employees, and their compensation was established in accordance with the company's compensation practices applicable to employees with equivalent qualifications and responsibilities and holding similar positions.

#### Orientation of New Directors; Director Education

A comprehensive orientation process is in place for new directors. In addition, directors receive ongoing continuing education through educational sessions at meetings, the annual strategy retreat, and periodic communications between meetings. We hold periodic mandatory training sessions for the audit committee, to which other directors and executive officers are invited. We also afford directors the opportunity to attend external director education programs.

Director Access to Management and Independent Advisors

Independent directors have direct access to members of management whenever they deem it necessary. The company's executive officers attend at least part of each regularly scheduled board meeting. The independent directors and committees are also free to retain their own independent advisors, at company expense, whenever they feel it would be desirable to do so. The audit, compensation, and directors and corporate governance committees have sole authority to retain independent advisors to their respective committees.

Assessment of Board Processes and Performance

The directors and corporate governance committee annually assesses the performance of the board, its committees, and board processes based on inputs from all directors.

### Committees of the Board of Directors

#### Number, Structure, and Independence

The duties and membership of the six board-appointed committees are described below. Only independent directors may serve on the committees.

Committee membership and selection of committee chairs are recommended to the board by the directors and corporate governance committee after consulting the chairman of the board and after considering the backgrounds, skills, and desires of the board members. The board has no set policy for rotation of committee members or chairs but annually reviews committee memberships and chair positions, seeking the best blend of continuity and fresh perspectives.

#### Functioning of Committees

Each committee reviews and approves its own charter annually, and the directors and corporate governance committee reviews and approves all committee charters annually. The chair of each committee determines the frequency and agenda of committee meetings. The audit, compensation, and public policy and compliance committees meet alone in executive session on a regular basis; all other committees meet in executive session as needed.

All six committee charters are available online at <http://investor.lilly.com/governance.cfm>, or upon request to the company's corporate secretary.

#### Audit Committee

The duties of the audit committee are described in "Audit Committee Matters" below.

#### Compensation Committee

The duties of the compensation committee are described in "Compensation Committee Matters" below.

#### Directors and Corporate Governance Committee

The duties of the directors and corporate governance

committee are described in "Directors and Corporate Governance Committee Matters" below.

#### Finance Committee

The finance committee reviews and makes recommendations regarding capital structure and strategies, including dividends, stock repurchases, capital expenditures, investments, financings and borrowings, financial risk management, and significant business-development projects.

#### Public Policy and Compliance Committee

The public policy and compliance committee:

- oversees the processes by which the company conducts its business so that the company will do so in a manner that
- complies with laws and regulations and reflects the highest standards of integrity; and
- reviews and makes recommendations regarding policies, practices, and procedures of the company that relate to public policy and social, political, and economic issues.

#### Science and Technology Committee

The science and technology committee:

- reviews and makes recommendations regarding the company's strategic research goals and objectives;
- reviews new developments, technologies, and trends in pharmaceutical research and development;
- reviews the progress of the company's new product pipeline; and
- oversees matters of scientific and medical integrity and risk management.

**Membership and Meetings of the Board and Its Committees**

In 2012, each director attended more than 85 percent of the total number of meetings of the board and the committees on which he or she serves. In addition, all board members are expected to attend the annual meeting of shareholders, and all the directors attended in 2012. Current committee membership and the number of meetings of the board and each committee in 2012 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Finance and Public Policy and Compliance	Science and Technology
Mr. Alvarez	Member				Member	Member
Dr. Baicker	Member	Member			Member	
Sir Winfried Bischoff	Member			Member	Chair	
Mr. Eskew	Member	Chair			Member	
Mr. Fyrwald	Member				Chair	Member
Dr. Gilman	Member				Member	Chair
Mr. Hoover	Member	Member	Member			
Ms. Horn	Member		Chair	Member		
Dr. Kaelin	Member				Member	Member
Dr. Lechleiter	Chair					
Ms. Marram	Lead Director		Member	Chair		
Mr. Oberhelman	Member	Member			Member	
Dr. Prendergast	Member				Member	Member
Ms. Seifert	Member	Member	Member			
Number of 2012 Meetings	8	10	7	5	6	8
						5

#### Directors and Corporate Governance Committee Matters

##### Overview

The directors and corporate governance committee recommends to the board candidates for membership on the board and board committees and for lead director. The committee also oversees matters of corporate governance, including board performance, director independence and compensation, and the corporate governance guidelines.

All committee members are independent as defined in the NYSE listing requirements.

##### Director Qualifications

The board seeks independent directors who represent a mix of backgrounds and experiences that will enhance the quality of the board's deliberations and decisions. Candidates shall have substantial experience with one or more publicly-traded national or multinational companies or shall have achieved a high level of distinction in their chosen fields.

Board membership should reflect diversity in its broadest sense, including persons diverse in geography, gender, and ethnicity. The board is particularly interested in maintaining a mix that includes the following backgrounds:

- active or retired chief executive officers and senior executives, particularly those with experience in operations, finance, accounting, banking, marketing, and sales;
- international business;
- medicine and science;
- government and public policy; and
- health care system (public or private).

Finally, board members should display the personal attributes necessary to be an effective director: unquestioned integrity; sound judgment; independence in fact and mindset; ability to operate collaboratively; and commitment to the company, its shareholders, and other constituencies.

Our board members represent a desirable mix of backgrounds, skills, and experiences, and they all share the personal attributes of effective directors described above. The board monitors the effectiveness of this approach via an annual internal board assessment as well as ongoing director succession planning discussions by the directors and corporate

governance committee. Specific experiences and skills of our independent directors are included in "Director Biographies" above.

#### Director Nomination Process

The board delegates the director screening process to the directors and corporate governance committee, which receives direct input from other board members.

Potential candidates are identified through recommendations from several sources, including:

- incumbent directors;
- management;
- shareholders; and
- independent executive search firms that may be retained by the committee to assist in locating and screening candidates meeting the board's selection criteria.

The committee employs the same process for evaluating all candidates, including those submitted by shareholders.

The committee initially evaluates a



candidate based on publicly available information and any additional information supplied by the party recommending the candidate. If the candidate appears to satisfy the selection criteria and the committee's initial evaluation is favorable, the committee, assisted by management or the search firm, gathers additional data on the candidate's qualifications, availability, probable level of interest, and any potential conflicts of interest. If the committee's subsequent evaluation continues to be favorable, the candidate is contacted by the chairman of the board and one or more of the independent directors for direct discussions to determine the mutual levels of interest in pursuing the candidacy. If these discussions are favorable, the committee makes a final recommendation to the board to nominate the candidate for election by the shareholders (or to select the candidate to fill a vacancy, as applicable).

#### Process for Submitting Recommendations and Nominations

A shareholder who wishes to recommend a director candidate for evaluation by the committee should forward the candidate's name and information about the candidate's qualifications to the chair of the directors and corporate governance committee, in care of the corporate secretary, at Lilly Corporate Center, Indianapolis, Indiana 46285. The candidate must meet the selection criteria described above and must be willing and expressly interested in serving on the board.

Under Section 1.9 of the company's bylaws, a shareholder who wishes to directly nominate a director candidate at the 2014 annual meeting (i.e., to propose a candidate for election who is not otherwise nominated by the board through the recommendation process described above) must give the company written notice by November 25, 2013 and no earlier than

September 22, 2013. The notice should be addressed to the corporate secretary at Lilly Corporate Center, Indianapolis, Indiana 46285. The notice must contain prescribed information about the candidate and about the shareholder proposing the candidate as described in more detail in Section 1.9 of the bylaws. A copy of the bylaws is available online at <http://investor.lilly.com/governance.cfm>. The bylaws will also be provided by mail upon request to the corporate secretary.

#### Prior Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements

In each of the past six years, we submitted management proposals to eliminate the company's classified board structure. The proposals did not pass because they failed to receive a "supermajority vote" of 80 percent of the outstanding shares, as required in the company's bylaws. In addition, in each of the past three years, we submitted management proposals to eliminate the supermajority voting requirements themselves. Those proposals also fell short of the required 80 percent vote.

Prior to 2012, these proposals received support ranging from 72 to 77 percent of the outstanding shares. In 2012, the vote was even lower, approximately 63 percent of the outstanding shares, driven in part by a 2012 NYSE rule revision prohibiting brokers from voting their clients' shares on corporate governance matters absent specific instructions from such clients. In preparation for 2013, we discussed these matters with our proxy solicitor and our major shareholders, including those who have supported and opposed these proposals in the past. We have concluded that the proposals would not be successful in 2013 and therefore we are not resubmitting them. We will continue to monitor this situation and engage in dialogue with our shareholders on these and other governance topics to ensure that Lilly continues to demonstrate strong corporate governance and accountability to shareholders.

#### Audit Committee Matters

##### Audit Committee Membership

All members of the audit committee are independent as defined in the SEC regulations and NYSE listing standards applicable to audit committee members. The board of directors has determined that Mr. Eskew, Mr. Hoover, and Mr. Oberhelman are audit committee financial experts, as defined in the rules of the SEC.

##### Audit Committee Report

The audit committee reviews the company's financial reporting process on behalf of the board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and disclosure controls. In this context, the committee has met and held discussions with management and the independent auditor. Management represented to the committee that the company's consolidated financial statements were prepared in accordance with generally accepted accounting principles (GAAP), and the committee has reviewed and discussed the audited financial statements and related disclosures with management and the independent auditor, including a review of the significant management judgments underlying the financial statements and disclosures.

The independent auditor reports to the committee, which has sole authority to appoint and to replace the independent auditor.

The committee has discussed with the independent auditor matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended and as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T, including the quality, not just the acceptability, of the accounting principles, the

reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. In addition, the committee has received the written disclosures and the letter from the independent auditor required by applicable requirements of the PCAOB regarding communications with the audit committee concerning independence, and has discussed with the independent auditor the auditor's independence from the company and its management. In concluding that the auditor is independent, the committee determined, among other things, that the nonaudit services provided by Ernst & Young LLP (as described below) were compatible with its independence. Consistent with the requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the committee has adopted policies to avoid compromising the independence of the independent auditor, such as prior committee approval of nonaudit services and required audit partner rotation.

The committee discussed with the company's internal and independent auditors the overall scope and plans for their respective audits, including internal control testing under Section 404 of the Sarbanes-Oxley Act. The committee periodically meets with the internal and independent auditors, with and without management present, and in private sessions with members of senior management (such as the chief financial officer and the chief accounting officer) to discuss the results of their examinations, their evaluations of the company's internal controls, and the overall quality of the company's financial reporting. The committee also periodically meets in executive session.

In reliance on the reviews and discussions referred to above, the committee recommended to the board (and the board subsequently approved the recommendation) that the audited financial statements be included in the company's annual report on Form 10-K for the year ended December 31, 2012, for filing with the SEC. The committee has also appointed the company's independent auditor, subject to shareholder ratification, for 2013.

#### Audit Committee

Michael L. Eskew, Chair

Katherine Baicker, Ph.D.

R. David Hoover

Douglas R. Oberhelman

Kathi P. Seifert

#### Services Performed by the Independent Auditor

The audit committee preapproves all services performed by the independent auditor, in part to assess

whether the provision of such services might impair the auditor's independence. The committee's policy and procedures are as follows:

The committee approves the annual audit services engagement and, if necessary, any changes in terms, conditions, and fees resulting from changes in audit scope, company structure, or other matters. Audit services include internal controls attestation work under Section 404 of the Sarbanes-Oxley Act. The committee may also preapprove other audit services, which are those services that only the independent auditor reasonably can provide.

Audit-related services are assurance and related services that are reasonably related to the performance of the audit, and that are traditionally performed by the independent auditor. The committee believes that the provision of these services does not impair the independence of the auditor.

- The committee believes that, in appropriate cases, the independent auditor can provide tax compliance services, tax planning, and tax advice without impairing the auditor's independence.
- The committee may approve other services to be provided by the independent auditor if (i) the services are permissible under SEC and PCAOB rules, (ii) the committee believes the provision of the services would not impair the independence of the auditor, and (iii) management believes that the auditor is the best choice to provide the services.

At the beginning of each audit year, management requests prior committee approval of the annual audit, statutory audits, and quarterly reviews for the upcoming audit year as well as any other engagements known at that time.

Management will also present at that time an estimate of all fees for the upcoming audit year. As specific engagements are identified thereafter, they are brought forward to the committee for approval. To the extent approvals are required between regularly scheduled committee meetings, preapproval authority is delegated to the committee chair.

For each engagement, management provides the committee with information about the services and fees, sufficiently detailed to allow the committee to make an informed judgment about the nature and scope of the services and the potential for the services to impair the independence of the auditor.

After the end of the audit year, management provides the committee with a summary of the actual fees incurred for the completed audit year.

## Independent Auditor Fees

The following table shows the fees incurred for services rendered on a worldwide basis by the company's independent auditor in 2012 and 2011. All such services were preapproved by the committee in accordance with the preapproval policy.

	2012 (millions)	2011 (millions)
Audit Fees	\$8.8	\$8.8
• Annual audit of consolidated and subsidiary financial statements, including Sarbanes-Oxley 404 attestation		
• Reviews of quarterly financial statements		
• Other services normally provided by the auditor in connection with statutory and regulatory filings		
Audit-Related Fees	\$0.7	\$1.5
• Assurance and related services reasonably related to the performance of the audit or reviews of the financial statements		
– 2012 and 2011: primarily related to employee benefit plan and other ancillary audits, and due diligence services on potential acquisitions		
Tax Fees	\$2.2	\$3.4
• 2012 and 2011: primarily related to consulting and compliance services		
All Other Fees	\$0.4	\$0.5
• 2012 and 2011: primarily related to compliance services outside the U.S.		
Total	\$12.1	\$14.2

## Compensation Committee Matters

## Scope of Authority

The compensation committee oversees the company's global compensation philosophy and policies, as well as establishes the compensation of executive officers. The committee also acts as the oversight committee with respect to the company's deferred compensation plans, management stock plans, and other management incentive compensation programs. The committee delegates authority to the appropriate company management for day-to-day plan administration and interpretation, including selecting participants, determining award levels within plan parameters, and approving award documents. However, the committee may not delegate any authority for matters affecting the executive officers.

## The Committee's Processes and Procedures

The committee's primary processes for establishing and overseeing executive compensation can be found in the "Compensation Discussion and Analysis" section and in the summary below.

The committee's key processes and procedures for setting and overseeing executive compensation include:

**Meetings.** The committee meets several times each year (7 times in 2012). Committee agendas are approved by the committee chair in consultation with the committee's independent compensation consultant. The committee meets in executive session after each regular meeting.

**Retention of independent consultant.** The committee has retained Cimi B. Silverberg of Frederic W. Cook &

Co., Inc., as its independent compensation consultant to assist the committee. Ms. Silverberg reports directly to the committee. Neither she nor her firm is permitted to have any business or personal relationship with management or the members of the compensation committee. The consultant's duties include the following:

- reviewing committee agendas and supporting materials in advance of each meeting and raising questions with the company's global compensation group and the committee chair as appropriate
- reviewing the company's total compensation philosophy, peer group, and target competitive positioning for reasonableness and appropriateness
- reviewing the company's executive compensation program and advising the committee of evolving best practices
- providing independent analyses and recommendations to the committee on the CEO's pay
- reviewing draft "Compensation Discussion and Analysis" and related tables for the proxy statement
- proactively advising the committee on best practices for board governance of executive compensation
- undertaking special projects at the request of the committee chair.

The consultant interacts directly with members of company management only on matters under the committee's oversight and with the knowledge and permission of the committee chair.

Role of executive officers and management. With the oversight of the CEO and the senior vice president of

human resources and diversity, the company's global compensation group formulates recommendations on compensation philosophy, plan design, and the specific compensation recommendations for executive officers (other than the CEO, as noted below). The CEO gives the committee a performance assessment and compensation recommendation for each of the other executive officers. The committee considers those recommendations with the assistance of its consultant. The CEO and the senior vice president of human resources and diversity attend committee meetings but are not present for executive sessions or for any discussion of their own compensation. (Only nonemployee directors and the committee's consultant attend executive sessions.)

The CEO does not participate in the formulation or discussion of his pay recommendations and has no prior knowledge of the recommendations that the consultant makes to the committee.

Risk assessment. With the help of its consultant, in 2012 the committee reviewed the company's compensation policies and practices for employees, including executive officers. The committee concluded that the company's compensation programs are not reasonably likely to have a material adverse effect on the company, after reviewing the business risks identified in the annual enterprise risk management assessment process. The committee noted several design features of the company's cash and equity incentive programs that reduce the likelihood of inappropriate risk-taking:

- independent compensation committee oversight
- compensation committee engages independent compensation consultant
- compensation committee has downward discretion to lower compensation plan payouts
- threshold levels below target that provide for payouts and maximums that cap payouts
- different measures and metrics used across multiple incentive plans; appropriate balance of cash/stock, fixed/variable pay, short-term/long-term incentive
- compensation committee approval process for adjustments to financial results for compensation purposes
- programs are self-funded; the cost of incentive program payouts is included when determining payout results
- performance objectives are appropriately challenging yet achievable
- target setting includes multiple inputs
- appropriate levels of leverage exist within the programs
- limited stock option usage
- continuum of payout multiples for individual performance
- review of top talent and retention plans
- policy prohibiting hedging of company shares
- negative compensation consequences for serious compliance violations and compensation recovery policy in place for executives
- meaningful share ownership requirements for all members of senior management.

The committee concluded the company's compensation programs do not encourage excessive risk among executive officers and instead encourage behaviors that support sustainable value creation.

#### Compensation Committee Interlocks and Insider Participation

None of the compensation committee members:

- has ever been an officer of the company
- has been an employee of the company since prior to 1980
- is or was a participant in a related-person transaction in 2012 (see "Review and Approval of Transactions with Related Persons" for a description of our policy on related-person transactions).

None of our board members or compensation committee members is an executive officer of another entity at which one of our executive officers serves on the board of directors.





## Compensation Discussion and Analysis

### Summary

Executive compensation for 2012 aligned well with the objectives of our compensation philosophy and with our performance, driven by these factors:

- The company exceeded internal corporate goals for revenue and earnings per share (EPS) as well as pipeline progress, as the company continued to navigate through a challenging period of significant patent expirations. The pipeline also progressed well, with approvals of Amyvid, Alimta® continuation maintenance in the U.S., Cymbalta® for generalized anxiety disorder in China, Cialis® for benign prostatic hyperplasia in the EU, and Exenatide Once Weekly® as well as six other approvals. Two new molecular entities (NMEs) entered Phase III, and 75 percent of project milestones for molecules in development were met or accelerated. As a result, the annual cash incentive bonus paid out at 142 percent of target.
  - Two-year adjusted non-GAAP EPS growth fell to the bottom of our peer group, an expected consequence of the Zyprexa patent expiration, resulting in a payout of 50 percent of target for the 2011-2012 Performance Award (PA). Three-year stock price growth of 35 percent resulted in the 2010-2012 Shareholder Value Award (SVA) paying out at 140 percent of target.
- Highlights:**
- No changes to compensation and benefit design in 2012
  - Revenue and EPS decline due to Zyprexa® patent expiration, but both exceed internal targets
  - Above-target performance in advancing the pipeline
  - Strong stock price performance in 2012
  - No increase to CEO salary or incentive targets for 2010, 2011, or 2012

A balanced program fosters employee achievement, retention, and engagement. We delivered a total compensation package composed of salary, performance-based cash and equity incentives, and a competitive employee benefits program. The Eli Lilly and Company Bonus Plan (the bonus plan) metrics of revenue, EPS, and pipeline performance against internal goals are designed to drive solid operational performance, promote innovation, and motivate employees during the next few years of patent expirations and business challenges. By contrast, for our long-term equity programs, we use the external metrics of EPS growth versus our peers and

stock price performance versus expected large-cap returns. Together these elements reinforce pay-for-performance, provide balance (between short- and long-term performance, internal and external metrics, cash and stock compensation, fixed and variable pay), and encourage employee retention and engagement.

## The Compensation Committee's Processes and Analyses

### Linking Business Strategy and Compensation Program Design

At Lilly, we aim to discover, develop, and acquire innovative new therapies—medicines that make a real difference for patients and deliver clear value for payers. In order to accomplish this goal, we must continually improve productivity in all that we do. To achieve these challenging goals, we must attract, engage, and retain highly-talented individuals who are committed to the company's core values of integrity, excellence, and respect for people. Our compensation and benefits programs are based on the following objectives:

#### Executive Compensation

##### Philosophy:

- Individual and company performance

- Long-term focus

- Consideration of both internal relativity and competitive pay

- Efficient and egalitarian

- Appropriate risk mitigation

- Reflect individual and company performance. We link employees' pay to individual and company performance.

— As employees assume greater responsibilities, a greater portion of their pay is linked to company performance and shareholder returns through increased participation in equity programs.

— We seek to deliver above-market compensation given top-tier individual and company performance, but below-market compensation where individual performance falls short of expectations or company performance lags the industry.

Our 2012 incentive programs used a combination of internal corporate financial goals and a pipeline metric (annual bonus), relative EPS growth as measured against the expected performance of our peer companies (PA), and total shareholder return (TSR) (defined to include appreciation plus dividends) measured against stock price goals (SVA). We design our programs with clear targets, so that employees can understand how their efforts affect their pay.

We seek to balance the objectives of pay-for-performance and employee retention. Even during downturns in company performance, the program should continue to motivate and engage successful, high-achieving employees.

Foster a long-term focus. In our industry, long-term focus is critical to success and is consistent with our goal of retaining highly-talented employees as they build their careers. A competitive benefits program including a defined benefit pension aids retention. As employees progress to higher levels of the organization, a greater portion of compensation is tied to long-term performance through our equity programs.

Provide compensation consistent with the level of job responsibility and the market for pharmaceutical talent. We seek internal pay relativity, meaning that pay differences among jobs should be commensurate with differences in job responsibility and impact. In addition, the compensation committee compares the company's programs with a peer group of global pharmaceutical and biopharmaceutical companies with whom we compete for talent.

Provide efficient and egalitarian compensation. We seek to deliver superior long-term shareholder returns and to share with employees the value created in a cost-effective manner. While the amount of compensation reflects differences in job responsibilities, geographies, and marketplace considerations, the overall structure of compensation and benefits programs is broadly similar across the organization.

Appropriately mitigate risk. The compensation committee reviews the company's compensation policies and practices annually and works with management to ensure that program design does not inadvertently create inappropriate incentives.

Consider shareholder input. In establishing 2012 compensation, the committee considered the shareholder vote in 2011 on the compensation paid to named executive officers—more than 88 percent in favor. The committee viewed this vote as supportive of the company's overall approach to executive compensation. The shareholder vote in 2012 also confirmed this view with an overall approval of greater than 93 percent. We communicate directly with shareholders on executive compensation matters.

### Setting Compensation

The compensation committee considers several factors to set compensation that meets company objectives. Among those considerations are:

• Assessment of individual performance. Individual performance is a major factor in determining compensation.

—The independent directors, under the direction of the lead director, meet with the CEO at the beginning of the year to agree upon the CEO’s performance objectives for the year. At the end of the year, the independent directors meet with the CEO and also in executive session to assess the CEO’s performance based on his achievement of the objectives, contribution to the company’s performance, ethics and integrity, and other leadership accomplishments. This evaluation is shared with the CEO by the lead director and is used by the compensation committee in setting the CEO’s compensation for the following year.

—For the other executive officers, the committee receives individual performance assessments and compensation recommendations from the CEO and also exercises its judgment based on the board’s knowledge and its interactions with the executive officers. As with the CEO, an executive officer’s performance assessment is based on his or her achievement of objectives established between the executive officer and the CEO, contribution to the company’s performance, ethics and integrity, and other leadership attributes and accomplishments.

• **Assessment of company performance.** The committee considers company performance measures in two ways: In establishing total compensation ranges, the committee uses as a reference the performance of the company and the public companies in its peer group with respect to revenue, EPS, return on assets, and one- and five-year TSR. The committee establishes specific company performance goals that determine payouts under the company’s cash and equity incentive programs.

• **Peer-group analysis.** The committee reviews peer-group data as a market check for compensation decisions, but does not base compensation targets on peer-group data only.

— **Overall competitiveness.** The committee uses aggregated market data as a reference point to ensure that executive compensation is competitive within the broad middle range of comparative pay at peer companies when the company achieves the targeted performance levels. The committee does not target a specific position within the range of market data.

— **Individual competitiveness.** The pay of individual executives is compared with market pay if the jobs are sufficiently similar to make the comparison meaningful. The individual’s pay is driven primarily by individual and company performance and internal relativity; the peer-group data is used as a market check to ensure that individual pay remains within the broad middle range of peer-group pay. The committee does not target a specific position within the range.

The peer group for 2012 compensation decisions included Abbott Laboratories; Amgen Inc.; AstraZeneca plc; Baxter International, Inc.; Bristol-Myers Squibb Company; Genzyme Corporation (prior to its acquisition by Sanofi-Aventis); GlaxoSmithKline plc; Hoffmann-La Roche Inc.; Johnson & Johnson; Merck & Co., Inc.; Novartis AG; Pfizer Inc.; Sanofi-Aventis; and Takeda Pharmaceuticals Company. The committee reviews the peer group for appropriateness at least every three years, and approved the current peer group in 2010. The peer companies are direct competitors for our products, operate in a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. The committee also considers market cap and revenue as measures of size. With the exception of Johnson & Johnson and Pfizer, peer companies were no greater than three times our size with regard to both measures. The committee included Johnson & Johnson and Pfizer despite their size because both compete directly with Lilly for management and scientific talent.

**CEO compensation.** To provide further assurance of independence, the compensation for the CEO is developed based upon a recommendation from the committee’s independent consultant, with limited support from company staff. The consultant prepares analyses showing competitive CEO compensation among the peer group for the individual elements of compensation and total direct compensation. Typically, the consultant develops a range of recommendations for any change in the CEO’s base salary, annual cash incentive target, equity grant value, and equity mix. The CEO has no prior knowledge of the recommendations and takes no part in the recommendations, committee discussions, or decisions.

Executive Compensation for 2012  
Overview

In setting target compensation for 2012, the committee reviewed 2011 individual and company performance and peer-group data as discussed above, and also considered expected competitive trends in executive pay. That review included:

24

---

Company performance. In 2011, the company performed in the upper tier of the peer group in one-year TSR, in the middle tier in revenue growth, and in the lower tier in adjusted non-GAAP EPS and five-year TSR. Company performance against corporate operating goals was slightly above target for adjusted non-GAAP EPS growth and slightly below target for return on assets. Growth in adjusted revenue, adjusted non-GAAP EPS, net cash flow, operating income per employee, and pipeline progress exceeded corporate goals.

Individual performance. In assessing the 2011 performance of executive officers, the independent directors (for the CEO) and the compensation committee (with regard to all executive officers) considered the company's and the executive officer's accomplishment of objectives established at the beginning of the year and their own subjective assessment of the executive officer's performance.

In assessing Dr. Lechleiter's performance, the independent directors noted that under Dr. Lechleiter's leadership in 2011, the company:

• Delivered above-plan growth in revenue, EPS, and cash flow.

• Achieved the infrastructure reduction goals set in 2009 of elimination of 5,500 positions and reduction of \$1 billion in costs from the 2009 plan, excluding acquisitions and strategic additions in Japan and key emerging markets.

• Continued to advance the product pipeline, with 11 molecules in late-stage development.

The directors also noted Dr. Lechleiter's strong leadership in establishing and executing the company's strategy to weather the period of patent expirations through 2014 and return to long-term growth following 2014. Dr. Lechleiter continued to set a clear tone throughout the organization emphasizing integrity, ethics, compliance, and quality. In addition, he continued his effective public advocacy on behalf of the company, especially in the areas of FDA and patent reform, and oversaw smooth transitions of two critical leadership roles in the organization.

Dr. Lechleiter requested that his base salary and incentive targets not be increased for 2012, as most employees worldwide did not receive increases. Despite his strong performance, the committee agreed to Dr. Lechleiter's request and his 2012 target compensation remained the same as 2011.

Mr. Rice assumed expanded operational responsibilities. He demonstrated effective leadership during the implementation of the global financial shared services centers, which will enable the company to streamline and standardize key global financial operations. Mr. Rice also showed continued strong financial stewardship and oversight of investor relations.

Dr. Lundberg's leadership was a key factor in very strong pipeline progress in 2011. He enhanced Lilly Research Laboratories' focus on achieving key pipeline milestones, made strong gains in employee engagement scores, and recruited key scientific talent.

Mr. Armitage is broadly recognized for his critical role in helping to reform the U.S. patent laws to better protect innovators, culminating in the America Invents Act of 2011. He also led the company to excellent results across a broad spectrum of Hatch-Waxman litigation. Mr. Armitage retired from the company on December 31, 2012.

Mr. Conterno provided key leadership to improve the company's competitive position in markets for our diabetes business products with the successful consummation of the Boehringer-Ingelheim partnership and the termination of the Amylin commercial partnership and settlement of related issues. He collaborated effectively with manufacturing personnel to improve gross margins on these products. His organization reported high employee-engagement scores and strong commitment to ethics and compliance.

• Pay relative to peer group. The company's total compensation to executive officers, in the aggregate, for 2011 was in the broad middle range of the peer group.



The committee determined the following:

**Program elements.** The 2012 program consisted of base salary, a cash incentive bonus, and two forms of performance-based equity grants: PAs and SVAs. Executives also received the company employee benefits package.

This total compensation program balances the mix of cash and equity compensation, the mix of current and longer-term compensation, the mix of internally and externally focused goals, and the security of foundational benefits in a way that furthers the compensation objectives discussed above.

**Targets.** The company generally maintained pay ranges and a balance of pay elements similar to 2011. The committee believes this overall program continues to provide cost-effective delivery of total compensation that:

encourages employee retention and engagement by delivering competitive cash and equity components

maintains a strong link to company performance and shareholder returns through a balanced equity incentive program without encouraging excessive risk-taking

—maintains appropriate internal pay relativity

provides opportunity for total pay within the broad middle range of expected peer-group pay when company performance is comparable to that of our peers.

The graph below shows the balance of fixed and performance-based target compensation determined by the committee and actual compensation received for 2012 bonus. The target compensation reflects decisions made by the compensation committee for 2012. This includes the 2012-2013 PA and the 2012-2014 SVA. Actual compensation includes base salary and cash incentive bonus earned in 2012 and the equity awards that completed their performance periods in 2012, namely, the 2011-2012 PA and the 2010-2012 SVA.

2012 Target and Actual Compensation (millions)

Fixed

Performance based

One-time

Base salary

Bonus

PA

SVA

RSU upon Hire