LILLY ELI & CO
Form DEF 14A
March 24, 2014

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.)

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Check the appropriate box:
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ELI LILLY AND COMPANY
(Name of Registrant as Specified In Its Charter)

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Notice of 2014 Annual Meeting of Shareholders and Proxy Statement

Your vote is important
Please vote by using the Internet, telephone, or by signing, dating, and returning the enclosed proxy card.

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Notice of Annual Meeting of Shareholders

To the holders of Common Stock of Eli Lilly and Company:

The 2014 Annual Meeting of Shareholders of Eli Lilly and Company will be held as shown below:

WHEN:	11:00 a.m. EDT, Monday, May 5, 2014
WHERE:	The Lilly Center Auditorium Lilly Corporate Center Indianapolis, Indiana 46285
ITEMS OF BUSINESS:	Election of the five directors listed in the proxy statement to serve three-year terms Ratification of Ernst & Young LLP as the principal independent auditors for 2014 Approval, by non-binding vote, of the compensation paid to the company's named executive officers
WHO CAN VOTE:	Shareholders of record at the close of business on February 28, 2014

See the back page of this report for information regarding how to attend the meeting. Every shareholder vote is important. If you are unable to attend the meeting in person, please sign, date, and return your proxy and/or voting instructions by mail, telephone or through the Internet promptly so that a quorum may be represented at the meeting.

By order of the Board of Directors,

James B. Lootens

Secretary

March 24, 2014

Indianapolis, Indiana

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 5, 2014: The annual report and proxy statement are available at http://www.lilly.com/pdf/lillyar2013.pdf

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Proxy Statement Overview

General Information

This overview highlights information contained elsewhere in this proxy statement. It does not contain all the information you should consider, and you should read the entire proxy statement carefully before voting.

Meeting:	Annual Meeting of Shareholders	Date:	May 5, 2014
Time:	11:00 a.m. EDT	Location:	The Lilly Center Auditorium
Record Date:	February 28, 2014		Lilly Corporate Center
			Indianapolis, Indiana 46285

What Is New In This Year's Proxy

Below is a summary of changes to our compensation disclosures since our proxy filing last year, based on dialogue with shareholders:

1. We redesigned our proxy statement to make it easier for our shareholders and other stakeholders to understand our compensation programs and to highlight important information about our corporate governance and other company practices.

2. We expanded our compensation recovery policy to cover all executives and to encompass a broader range of executive misconduct.

3. We reassessed our peer group in 2012 and expanded it to include six smaller biopharmaceutical and medical device companies: Allergan, Inc.; Biogen IDEC Inc., Celgene Corporation, Covidien PLC, Gilead Sciences, Inc., and Medtronic, Inc. We selected a revised peer group that would place Lilly in the middle of the group in terms of revenue.

2013 Business Performance Highlights

2013 falls in the middle of what we call the "YZ" period, during which we lose patent protection for a number of important products, including Zyprexa in the U.S. and Europe in late 2011, Cymbalta in the U.S. in December 2013, and Evista in the U.S. in March 2014. Despite these challenges, we delivered on our financial commitments for 2013, with revenue increasing 2 percent to $23.1 billion, non-GAAP net income increasing 19 percent to $4.5 billion, and non-GAAP earnings per share increasing 22 percent to $4.15. Total operating expenses decreased 1 percent, even as we continued to advance the company's pipeline. Reported net income for 2013 increased 15 percent to $4.68 billion, and reported earnings per share increased 18 percent to $4.32. (See Appendix A for a more detailed summary of adjustments to EPS.) Further information on our financial performance during 2013 is available in our 2013 Form 10-K and fourth-quarter earnings release available on our website at http://investor.lilly.com/financials.cfm.

We also made significant progress in delivering on the pipeline, with regulatory submissions for four products – empagliflozin, dulaglutide, new insulin glargine, and ramucirumab – along with five other new indication or line extension ("NILEX") approvals during 2013. In addition to these submissions, as of March 1, 2014, we also had 12 molecules in Phase III or submission stage and 25 more in Phase II.

Executive Compensation Summary for 2013

Under the leadership of our chairman and chief executive officer (CEO), Dr. John Lechleiter, during the past five years the company has made significant strides in advancing the pipeline, as illustrated by the figures below:

	Phase II NMEs	Phase III NMEs	Regulatory Submissions
2008	10	5	2
	ò	ò	ò
2013	25	8	7*

* Representing four products.

Prior to 2013, Dr. Lechleiter had not received an increase in target compensation since 2009. For 2013, the Compensation Committee decided to increase Dr. Lechleiter's target equity compensation based on the following factors:

- Dr. Lechleiter's continued strong performance in leading the company during a difficult period of patent expirations to achieve solid financial results, reduce its cost structure, and progress the pipeline
- The company's strong 2012 financial performance compared to goals; and
- Peer group CEO pay trends as well as internal pay relativity compared to his direct reports

In keeping with the company's desire to maintain the substantial majority of the CEO's pay long-term focused and linked to company performance and shareholder value, the Compensation Committee only increased Dr. Lechleiter's target equity compensation. Dr. Lechleiter's base salary and annual bonus targets remained unchanged.

The named executive officers each received base salary increases of between 2 and 3 percent, excluding Mr. Harrington, who was promoted to Senior Vice President and General Counsel on January 1, 2013. These increases were consistent with those granted to other U.S. employees who were eligible for salary increases. The total compensation paid to the company's named executive officers in 2012 remained in the middle range of the updated peer group. As a result, the committee made no changes to target equity compensation for the other named executive officers for 2013, except for Mr. Harrington, as noted above.

Further information on executive compensation for 2013 can be found in the "Compensation Discussion and Analysis" and "Executive Compensation" sections below.

Voting Proposals

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

Agenda Item					Management recommendation	Vote required to pass
Item 1	Elect the following nominees for director to serve a three-year term that will expire in 2017:				Vote FOR all	Majority of votes cast
Name and principal occupation		Joined the Board	Age	Public boards		
Michael L. Eskew Former Chairman and CEO - UPS		2008	64	3M Corp. IBM Corp. UPS, Inc.	Vote FOR	
Karen N. Horn, Ph.D. Retired President, Private Client Services, and Managing Director -		1987	70	T. Rowe Price Mutual Funds Simon Property Group, Inc.	Vote FOR	

Marsh, Inc.			Norfolk Southern Corp.	
William G. Kaelin, Jr. Professor, Department of Medicine and Associate Director, Basic Science - Dana-Farber/ Harvard Cancer Center	2012	56	None	Vote FOR
John C. Lechleiter, Ph.D. Chairman, President, and CEO - Eli Lilly and Company	2005	60	Nike, Inc. Ford Motor Company	Vote FOR
Marschall S. Runge Executive Dean for the School of Medicine at the University of North Carolina at Chapel Hill	2013	59	None	Vote FOR

Item 2	Ratify the appointment of Ernst & Young LLP as the company's principal independent auditor for 2014.	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

Our Corporate Governance Policies Reflect Best Practices

- Board membership marked by leadership, experience, and diversity
- All 15 of our nonemployee directors are independent
- Strong, independent lead director role
- All board committees are fully independent
- Executive sessions are held at every regularly-scheduled board meeting
- Active board participation in company strategy and CEO succession planning
- Board oversight of compliance and enterprise risk management practices
- Meaningful director stock ownership guidelines
- Majority voting standard and resignation policy for the election of directors

Our Executive Compensation Programs Reflect Best Practices

- Strong shareholder support of compensation practices: in 2013, 97 percent of shares cast voted in favor of our executive compensation
- Compensation programs are designed to align with shareholder interests and link pay to performance through a blend of short- and long-term performance measures
- The Compensation Committee annually reviews compensation programs to ensure appropriate risk mitigation
- No "top hat" retirement plans - supplemental plans are open to all employees and are limited to restoring benefits lost due to IRS limits on qualified plans
- Broad compensation recovery policy that applies to all executives and covers a wide range of misconduct
- Executives and senior management are prohibited from engaging in hedging transactions with company stock or pledging their company stock
- Executives are subject to strong stock ownership guidelines
- No tax gross-ups provided to executives (except for limited gross-ups related to international assignments)
- Very limited perquisites; CEO did not use the corporate aircraft for personal use at any time during 2013. Other named executive officers (NEOs) are not permitted to use the corporate aircraft for

personal use
Severance plans related to change-in-control generally require double trigger
No employment agreements with executive officers

How to Vote in Advance of the Meeting

Even if you plan to attend the 2014 Annual Meeting in person, we encourage you to vote prior to the meeting via one of the methods described below. You can vote in advance via one of three ways:

8 Visit the website listed on your proxy card/voting instruction form to vote VIA THE INTERNET

) Call the telephone number on your proxy card/voting instruction form to vote BY TELEPHONE

* Sign, date and return your proxy card/voting instruction form to vote BY MAIL

Further information on how to vote is provided at the end of the proxy statement under "Meeting and Voting Logistics".

Voting at our 2014 Annual Meeting

You may also opt to vote in person at the 2014 Annual Meeting, which will be held on Monday, May 5, 2014 at the Lilly Corporate Center, Indianapolis, IN 46285, at 11:00 a.m., local time. See the section entitled "Meeting and Voting Logistics" for more information.

Board Operations and Governance

Board of Directors

In order of appearance, from left to right: Michael L. Eskew, Katherine Baicker, Alfred G. Gilman, Karen N. Horn, Jackson P. Tai, Franklyn G. Prendergast, J. Erik Fyrwald, R. David Hoover, John C. Lechleiter, Douglas R. Oberhelman, Ellen R. Marram, Sir Winfried Bischoff, William G. Kaelin, Jr., Marschall S. Runge, Kathi P. Seifert, Ralph Alvarez.

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.

Director Biographies

Set forth below is the information as of March 12, 2014, regarding the nominees for election, which has been confirmed by each of them for inclusion in this proxy statement. We have provided the most significant 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. Full biographies for each of our directors are available on our website at http://www.lilly.com/about/board-of-directors/Pages/board-of-directors.aspx.

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 in 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. See the "Other Matters" section of the proxy for information about shareholder derivative litigation in which certain directors are named as defendants. 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 2014

The following six directors' terms will expire at this year's annual meeting. Dr. Gilman will retire from the Board at the end of his term. The other five directors are standing for reelection. See "Item 1. Election of Directors" below for more information.

Michael L. Eskew, age 64, director since 2008
Board Committees: Audit (chair); Finance

Career Highlights

United Parcel Service, Inc.

- Former Chairman and Chief Executive Officer (2002 - 2007)
- UPS Board of Directors (1998 - present)
- Vice Chairman (2000 - 2002)

Other Board Service

- Public boards: 3M Corporation; IBM Corporation
- Non-profit service: Chairman of the board of trustees of The Annie E. Casey Foundation

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.

Alfred G. Gilman, M.D., Ph.D., age 72, director since 1995
Board Committees: Public Policy and Compliance; Science and Technology (chair)

Career Highlights

University of Texas Southwestern Medical Center

- Regental Professor Emeritus (2009 - present)
- Executive Vice President for Academic Affairs and Provost (2006 - 2009)
- Dean of the Medical School (2004 - 2009)

Cancer Prevention and Research Institute of Texas

- Chief Scientific Officer (2009 - 2012)

Career Honors

- Nobel Prize in Physiology or Medicine (1994)
- Nadine and Tom Craddick Distinguished Chair in Medical Science
- Raymond and Ellen Willie Distinguished Chair of Molecular Neuropharmacology

Other Board Service

- Public board: Regeneron Pharmaceuticals, Inc.

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.

Karen N. Horn, Ph.D., Age 70, Director since 1987
Board Committees: Compensation (chair); Directors and Corporate Governance

Career Highlights

Brock Capital Group, a provider of financial advising and consulting services

- Senior Managing Director (2004 - present)

Marsh, Inc., a global provider of risk and insurance services

- President, Private Client Services and Managing Director (1999 - 2003)

Bank One, Cleveland, N.A.

- Chairman and chief executive officer (1982 - 1987)

Other Board Service

- Public boards: T. Rowe Price Mutual Funds; Simon Property Group, Inc.; and Norfolk Southern Corporation
- Prior public board service: Fannie Mae; Georgia-Pacific Corporation

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.

William G. Kaelin, Jr., M.D., age 56, director since 2012
Board Committees: Finance; Science and Technology

Career Highlights

Dana-Farber/Harvard Cancer Center

- Professor of Medicine (2002 - present)
- Associate director, Basic Science (2009 - present)

Industry Memberships

- Institute of Medicine; National Academy of Sciences; Association of American Physicians

Career Honors

- Canada Gairdner International Award
- Lefoulon-Delalande Prize - Institute of France

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.

John C. Lechleiter, Ph.D., age 60, director since 2005
Board Committees: none

Career Highlights

Industry Memberships

-

Eli Lilly and Company
- President and CEO (2008 - present)
- Chairman of the Board (2009 - present)

American Chemical Society; Pharmaceutical Research and Manufacturers of America; Business Roundtable; President of International Federation of Pharmaceutical Manufacturers & Associations; Chairman of the U.S. - Japan Business Council

Career Honors
- Honorary doctorates: Marian University, University of Indianapolis, the National University of Ireland, and Indiana University

Other Board Service
- Public boards: Ford Motor Company; Nike, Inc.
- Non-profit boards: United Way Worldwide; Xavier University; the Life Sciences Foundation; and the Central Indiana Corporate Partnership

Qualifications: Dr. Lechleiter is our chairman, president, and chief executive officer. A Ph.D. chemist by training, 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.

Marschall S. Runge, M.D., Ph.D., age 59, director since 2013. Dr. Runge is serving under interim election by the board and was referred to the Directors and Corporate Governance Committee by an independent executive search firm.
Board Committees: Science and Technology; Public Policy and Compliance

Career Highlights
University of North Carolina, School of Medicine
- Executive Dean (2010 - present); Chair of the Department of Medicine (2000 - present)
- Principal Investigator and Director of the North Carolina Translational and Clinical Sciences Institute

Industry Memberships
- Experimental Cardiovascular Sciences Study Section of the National Institutes of Health

Qualifications: Dr. Runge brings the unique perspective of a practicing physician who has a broad background in health care, clinical research, and academia. He has extensive experience as a practicing cardiologist, and has deep expertise in biomedical research and clinical trial design.

Class of 2015

The following five directors will continue in office until 2015.

Katherine Baicker, Ph.D., age 42, director since 2011
Board Committees: Audit; Public Policy and Compliance

Career Highlights
Harvard University School of Public Health, Department of Health Policy and Management
- Professor of health economics (2007 - present)

Council of Economic Advisers, Executive Office of the President
- Member (2005 - 2007)
- Senior Economist (2001 - 2002)

Industry Memberships
- Commissioner of the Medicare Payment Advisory Commission
- Panel of Health Advisers to the Congressional Budget Office
- Editorial boards of Health Affairs; the Journal of Health Economics; Journal of Economic Perspectives
- 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 adviser 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.

J. Erik Fyrwald, age 54, director since 2005
Board Committees: Public Policy and Compliance (chair); Science and Technology

Career Highlights

Univar, Inc., a leading distributor of industrial and specialty chemicals and provider of related services

- President and Chief Executive Officer (2012 - present)

Nalco Company, a provider of integrated water treatment and process improvement services, chemicals and equipment programs for industrial and institutional applications

- Chairman and Chief Executive Officer (2008 - 2011)

E.I. duPont de Nemours and Company, a global chemical company

- Group Vice President, agriculture and nutrition (2003 - 2008)

Other board service

- Non-profit boards: Society of Chemical Industry; Amsted Industries; The Chicago Public Education Fund

Other organizations

- Field Museum of Chicago, Trustee

Qualifications: Mr. Fyrwald has a strong record of operational and strategy leadership in three complex worldwide businesses with a focus on technology and innovation. He is an engineer by training and has CEO experience with Univar and Nalco.

Ellen R. Marram, age 67, director since 2002, Lead director since 2012

Board Committees: Compensation; Directors and Corporate Governance (chair)

Career Highlights

The Barnegat Group LLC, provider of business advisory services

- President (2006 - present)

Tropicana Beverage Group - Pepsico

- President and Chief Executive Officer (1993 - 1998)

Nabisco Biscuit Company, a unit of Nabisco, Inc.

- President and Chief Executive Officer (1988 - 1993)

Other Board Service

- Public boards: Ford Motor Company, The New York Times Company
- Prior public board service: Cadbury plc
- Non-profit boards: 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.

Douglas R. Oberhelman, age 61, director since 2008

Board Committees: Audit; Finance

Career Highlights

Caterpillar Inc.

- Chairman and Chief Executive Officer (2010 - present)
- Group President (2001 - 2010)
- Chief Financial Officer (1995 - 1998)

Memberships and Other Organizations

- Business Roundtable, Executive Committee
- Business Council
- National Association of Manufacturers, Chairman

Other Board Service

- Public boards: Caterpillar Inc.
- Prior public board service: Ameren Corporation
- Non-profit boards: Wetlands America Trust

Qualifications: Mr. Oberhelman has a strong strategic and operational background as the 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.

Jackson P. Tai, age 63, director since 2013. Mr. Tai is serving under interim election by the board and was referred to the Directors and Corporate Governance Committee by an independent executive search firm.

Board Committees: Audit; Finance

Career Highlights

Other Board Service

DBS Group Holdings and DBS Bank (formerly the Development Bank of Singapore), one of the largest financial services groups in Asia
- Vice Chairman and Chief Executive Officer (2002 -2007)
- President and Chief Operating Officer (2001 - 2002)

J.P. Morgan & Co. Incorporated, a leading global financial institution
- 25 year career in investment banking, including senior management responsibilities in New York, Tokyo and San Francisco

- Public boards: The Bank of China Limited, Singapore Airlines, MasterCard Incorporated, Royal Philips NV
- Prior board service: NYSE Euronext; ING Groep NV; CapitaLand (Singapore); DBS Group Holdings and DBS Bank

Qualifications: Mr. Tai is a former CEO with extensive experience in international business and finance, and is an audit committee financial expert. He has deep expertise in the Asia-Pacific region, a key growth market for Lilly. He also has broad corporate governance experience from his service on public company boards in the U.S. and Asia.

Class of 2016

The following five directors will continue in office until 2016, with the exception of Sir Winfried Bischoff, who will retire from the Board on May 5, 2014, prior to the annual meeting of shareholders, and the Directors and Corporate Governance Committee does not plan to fill his vacant seat.

Ralph Alvarez, age 58, director since 2009
Board Committees: Compensation; Science and Technology

Career Highlights

Skylark Co., Ltd., a leading restaurant operator in Japan
- Executive Chairman (2013 - present)

McDonald's Corporation
- President and Chief Operating Officer (2006 - 2009)

Memberships and Other Organizations
- University of Miami: President's Council; School of Business Administration Board of Overseers; International Advisory Board

Other Board Service
- Public boards: Lowe's Companies, Inc.; Dunkin' Brands Group, Inc.; Realogy Holdings Corp.
- Private boards: Skylark Co., Ltd.
- Prior public board service: McDonald's Corporation; 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.

Sir Winfried Bischoff, age 72, director since 2000
Board Committees: Directors and Corporate Governance; Finance (chair)

Career Highlights

Lloyds Banking Group plc, a leading UK-based financial institution
- Chairman (2009 - present)

Citigroup Inc.
- Chairman (2007 - 2009)
- Interim Chief Executive Officer (2007)
- Chairman, Citigroup Europe (2000 - 2009)

Other Board Service
- Public boards: The McGraw-Hill Companies, Inc.
- Prior board service: Citigroup Inc.; Prudential plc; Land Securities plc; 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.

R. David Hoover, age 68, director since 2009
Board Committees: Finance; Public Policy and Compliance

Career Highlights

Ball Corporation, a provider of products and other technologies and services to commercial and governmental customers

- Chairman (2002 - 2013)
- President and Chief Executive Officer (2001 - 2010)
- Chief Operating Officer (2000 - 2001)
- Chief Financial Officer (1998 - 2000)

Memberships and Other Organizations

- Board of Trustees of DePauw University
- Indiana University Kelley School of Business, Dean's Council

Other Board Service

- Public companies: Ball Corporation; Energizer Holdings, Inc.; Steelcase, Inc.
- Non-profit companies: Boulder Community Hospital; Children's Hospital Colorado
- Prior public board service: Irwin Financial Corporation; Qwest International, Inc.

Qualifications: Mr. Hoover has extensive CEO experience at Ball Corporation, with a strong record of leadership in operations and strategy. He has deep financial expertise 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.

Franklyn G. Prendergast, M.D., Ph.D., age 69, director since 1995
Board Committees: Public Policy and Compliance; Science and Technology

Career Highlights

Mayo Medical School

- Edmond and Marion Guggenheim Professor of Biochemistry and Molecular Biology (1986 - present)
- Professor of Molecular Pharmacology and Experimental Therapeutics (1987 - present)
- Mayo Clinic Center for Individualized Medicine, Director Emeritus (2006 - 2012)

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.

Kathi P. Seifert, age 64, director since 1995
Board Committees: Audit; Compensation

Career Highlights

Kimberly-Clark Corporation, a global consumer products company

- Executive Vice President (1999 - 2004)

Katapult, LLC, a provider of pro bono mentoring and consulting services to non-profit organizations

- Chairman (2004 - present)

Other Board Service

- Public companies: Revlon Consumer Products Corporation; Lexmark International, Inc.
- Private companies: Appvion, Inc.
- Prior public board service: Supervalu Inc.; Appleton Papers, Inc.
- Non-profit companies: Fox Cities Performing Arts Center; Community Foundation for the Fox Valley Region; Fox Cities Building for the Arts

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.

Director Qualifications and Nomination Process

Director Qualifications

Experience: The Board seeks independent directors who represent a mix of experiences that will enhance the quality of the Board's deliberations and decisions. The Board is particularly focused on maintaining a mix of individuals with CEO, international business, medical/science, government/policy or other health care experience.

Diversity: The Board considers diversity as an important factor in selecting potential Board candidates but does not have a stand-alone diversity policy. The Board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, ethnicity, and experiences. Although the Board does not establish specific diversity goals, the Board's overall diversity is a significant consideration in the director selection and nomination process. The Directors and Corporate Governance Committee assesses the effectiveness of board diversity efforts in connection with the annual nomination process as well as in new director searches. The company's current Board includes members whose experiences cover a wide range of geographies and industries, and includes members with experience in academic research, healthcare, and governmental consulting. The company's directors range in age from 42 to 72, and include four women and three ethnically diverse members.

Character: Board members should possess the personal attributes necessary to be an effective director, including unquestioned integrity, sound judgment, independence, a collaborative spirit, and commitment to the company, our shareholders, and other constituencies.

Director Nomination Process

The Board delegates the director screening process to the Directors and Corporate Governance Committee, which receives input from other Board members.

Potential directors are identified from several sources, including incumbent directors, management, shareholders, and executive search firms. The committee employs the same process for evaluating all shareholder candidates, including those submitted by shareholders.

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).

Shareholder Recommendations and Nominations for Director Candidates

A shareholder who wishes to recommend a director candidate for evaluation should forward the candidates name and information about the candidate's qualifications to:

Chair of the Corporate Governance Committee
c/o Corporate Secretary
Lilly Corporate Center
Indianapolis, IN 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 2015 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 24, 2014 and no earlier than September 21, 2014. The notice should be addressed to the corporate secretary at the address provided above. 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.

We have not received any shareholder nominations for board candidates for the 2014 meeting.

Communication with 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, IN 46285

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 2013, 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:

Lead director: $30,000

Committee chairs: $12,000 ($18,000 for Audit Committee chair; $15,000 for Science and Technology Committee chair)

Audit Committee/Science and Technology Committee members: $3,000

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

Stock Compensation
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.

Nonemployee directors receive $145,000 of stock compensation, 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: 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 the following 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 as noted below 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 2013 for the participating directors was $130,990, at a rate of 2.85 percent. The rate for 2014 is 3.92 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.

2013 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) [1]	All Other Compensation and Payments ($)[2]		Total ($) [3]
Mr. Alvarez	$106,000	$145,000	$0		$251,000
Dr. Baicker	$103,000	$145,000	$0		$248,000
Sir Winfried Bischoff	$112,000	$145,000	$10,196	4	$267,196
Mr. Eskew	$121,000	$145,000	$0		$266,000
Mr. Fyrwald	$115,000	$145,000	$30,000		$290,000
Dr. Gilman	$118,000	$145,000	$28,576		$291,576
Mr. Hoover	$106,000	$145,000	$30,000		$281,000
Ms. Horn	$112,000	$145,000	$5,550		$262,550
Dr. Kaelin	$103,000	$145,000	$23,700		$271,700
Ms. Marram	$142,000	$145,000	$30,000		$317,000
Mr. Oberhelman	$106,000	$145,000	$30,000		$281,000
Dr. Prendergast	$103,000	$145,000	$0		$248,000
Dr. Runge	$34,333	$48,333	$0		$82,666
Ms. Seifert	$103,000	$145,000	$10,250		$258,250
Mr. Tai	$17,167	$24,167	$30,000		$71,334

[1] Each nonemployee director received an award of stock valued at $145,000 (approximately 2,841 shares), except Dr. Runge and Mr. Tai, 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 "Stock Units Not Distributable Within 60 Days" column. Aggregate outstanding stock options as of December 31, 2013 are shown in the table below. These

options, which were granted in 2004, expired in February 2014 with no value.

Name	Outstanding Stock Options (Exercisable)	Exercise Price
Sir Winfried Bischoff	2,800	$73.11
Dr. Gilman	2,800	$73.11
Ms. Horn	2,800	$73.11
Ms. Marram	2,800	$73.11
Dr. Prendergast	2,800	$73.11
Ms. Seifert	2,800	$73.11

2 This column consists of amounts donated by the Eli Lilly and Company Foundation, Inc. ("Foundation") 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.

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

4 For Sir Winfried Bischoff, this column includes $10,196 for expenses for his spouse to travel to and participate in board functions that included spouse participation.

Director Independence

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.
The company's process for determining director independence is set forth in our Standards for Director Independence which can be found on our website at http://www.lilly.com/about/corporate-governance/Pages/guidelines.aspx along with our Corporate Governance Guidelines.
On the recommendation of the Directors and Corporate Governance Committee, the Board determined that all 15 nonemployee directors are independent, and that the members of each committee also meet the independence standards referenced above. The Board determined that none of the 15 nonemployee directors has had during the last four years (i) any of the relationships referenced above or (ii) any other material relationship with the company that would compromise his or her independence. The table below includes a description of categories or types of transactions, relationships, or arrangements the Board considered in reaching its determinations.

Director	Organization	Type of Organization	Relationship to Organization	Primary Type of Transaction / Relationship / Arrangement	2013 Aggregate Magnitude of Organization's Revenue
K. Baicker	Harvard University	Educational Institution	Employee	Research grants	Less than 0.1 percent
J. E. Fyrwald	Univar, Inc.	For-profit Corporation	Executive Officer	Purchases of products	Less than 0.1 percent
W. G. Kaelin, Jr.	Harvard University	Educational Institution	Employee	Research grants	Less than 0.1 percent
			Employee	Research grants	

	Brigham and Women's Hospital	Health Care Institution			Less than 0.1 percent
	Dana-Farber Cancer Institute	Health Care Institution	Employee	Research grants	Less than 0.1 percent
F. G. Prendergast	Mayo Clinic and Mayo Medical School	Health Care and Educational Institution	Employee	Research grants	Less than 0.1 percent
	Mayo Foundation	Charitable Organization	Employee of affiliated Mayo Clinic and Mayo Medical School	Contributions	Less than 0.1 percent
M. S. Runge	University of North Carolina Medical School	Educational Institution	Executive Officer	Research grants	Less than 0.1 percent

All of the transactions described above 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. Aggregate payments to each of the relevant organizations, in each of the last four fiscal years, did not exceed the greater of $1 million or 2 percent of that organization's consolidated gross revenues in a single fiscal year for the relevant four-year period. No director had any direct business relationships with the company or received any direct personal benefit from any of these transactions, relationships, or arrangements.

Committees of the Board of Directors

The duties and membership of the six board-appointed committees are described below. All committee members are independent as defined in the NYSE listing requirements, and the members of the Audit and Compensation Committees each meet the additional independence requirements applicable to them as members of those 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.

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

Assists the Board of Directors in fulfilling its oversight responsibilities by monitoring:

- The integrity of financial information which will be provided to the shareholders and others;
- The systems of internal controls and disclosure controls which management has established;
- The performance of internal and independent audit functions; and
- The company's compliance with legal and regulatory requirements.

The Board of Directors has determined that Mr. Eskew, Mr. Oberhelman, and Mr. Tai are Audit Committee financial experts, as defined in the SEC rules.

Compensation Committee

- Oversees the company's global compensation philosophy and policies;
- Establishes the compensation of our chief executive officer and other executive officers; and
- 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.

Directors and Corporate Governance Committee

- Recommends to the Board candidates for membership on the Board and Board committees and for lead director; and
- Oversees matters of corporate governance, including Board performance, director independence and compensation, and the corporate governance guidelines.

Finance Committee

Reviews and makes recommendations to the Board regarding financial matters, including:

- Capital structure and strategies;
- Dividends;
- Stock repurchases;
- Capital expenditures;
- Investments, financings and borrowings;
- Financial risk management; and
- Significant business-development projects.

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

- 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 2013, 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 2013. Current committee membership and the number of meetings of the Board and each committee in 2013 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Finance	Public Policy and Compliance	Science and Technology
Mr. Alvarez	Member		Member				Member
Dr. Baicker	Member	Member				Member	
Sir Winfried Bischoff	Member			Member	Former Chair		
Mr. Eskew	Member	Chair			Member		
Mr. Fyrwald	Member					Chair	Member
Dr. Gilman	Member					Member	Former Chair
Mr. Hoover	Member				Chair	Member	
Ms. Horn	Member		Chair	Member			
Dr. Kaelin	Member				Member		Chair
Dr. Lechleiter	Chair						
Ms. Marram	Lead Director		Member	Chair			
Mr. Oberhelman	Member	Member			Member		
Dr. Prendergast	Member					Member	Member
Dr. Runge	Member					Member	Member
Ms. Seifert	Member	Member	Member				
Mr. Tai	Member	Member			Member		
Number of 2013 Meetings	8	11	7	5	8	8	6

Board Oversight of Compliance and Risk Management

The Board takes an active role in overseeing the company's compliance and enterprise risk management programs to ensure the company operates with the highest level of integrity and that the company is appropriately managing both current and potential future areas of risk.

Code of Ethics

The board approves the company's code of ethics, which 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. The Red Book is reviewed and approved annually by the Board.

Code of Ethical Conduct for Lilly Financial Management: a supplemental code for our CEO and all members of financial management, in recognition of their unique responsibilities to ensure 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.

Compliance and Risk Management

The Board, in concert with the Audit and Public Policy and Compliance Committees, oversee the processes by which the company conducts its business to ensure the company operates in a manner that complies with laws and regulations and reflects the highest standards of integrity.

The company also 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. Enterprise risks are identified and prioritized by management, and the top priorities are assigned to a Board committee or full Board for oversight.

Company management is charged with managing risk through robust internal processes and controls. 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 in periodic business unit reviews and at the annual board and senior management strategy session.

Highlights of the Company’s Corporate Governance

The company is committed to good corporate governance, which promotes the long-term interest of shareholders and other company stakeholders, builds confidence in our company leadership, and strengthens accountability for the Board and company management. The board has adopted corporate governance guidelines that set forth basic principles of corporate governance by which the company operates. The section that follows outlines a few key elements of the guidelines and other governance matters. Investors can learn more by reviewing the full corporate governance guidelines document, which is available online at http://investor.lilly.com/governance.cfm or upon request to the company’s corporate secretary.

Role of the Board

The directors are elected by the shareholders to oversee the actions and results of the company’s management. The Board exercises oversight over a broad range of areas, but the Board's key responsibilities include:

- Providing general oversight of the business;
- Approving corporate strategy;
- Approving major management initiatives;
- 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;
- Overseeing the company’s ethics and compliance program and management of significant business risks; and
- Nominating, compensating, and evaluating directors.

Board Composition

Mix of Independent Directors and Officer-Directors
There should always be a substantial majority (75 percent or more) of independent directors. The CEO should be a Board member.

Voting for Directors

In an uncontested election, directors are elected by a majority of votes cast. An incumbent nominee who fails to receive a majority of the votes cast will tender his or her resignation. The Board, on recommendation of the Directors and Corporate Governance Committee, will decide whether to accept the resignation. The company will promptly disclose the Board's decision, including, if applicable, the reasons why the Board rejected the resignation.

Director Tenure and Retirement Policy

The company has in place policies for director tenure and retirement, which include the limitation that non-employee directors must retire no later than the date of the annual meeting that follows their seventy-second birthday. The Directors and Corporate Governance Committee, with input from all Board members, also considers the contributions of the individual directors at least every three years when considering whether to nominate the director to a new three-year term.

Other Board Service

No director may serve on more than three other public company boards. The Directors and Corporate Governance Committee may approve exceptions if it determines that the additional service will not impair the director's effectiveness on the Lilly Board.

Leadership Structure; Oversight of Chairman, CEO, and Senior Management

Leadership Structure

The Board currently believes that combining the role of chairman of the board and the CEO, coupled with a strong lead director position, is the most efficient and effective leadership model for the company, fostering clear accountability, effective decision-making, and alignment on corporate strategy. The Board periodically reviews its leadership structure and developments in the area of corporate governance in order to ensure that the company's approach continues to strike the appropriate balance for the company and our stakeholders.

Board Independence

The Board has put in place a number of governance practices to ensure effective independent oversight, including:

•Executive sessions of the independent directors: held after every regular board meeting.

•Annual performance evaluation of the chairman and CEO: conducted by the independent directors, the results of which are reviewed with the chief executive officer and considered by Compensation Committee in establishing the CEO’s compensation for the next year.

•A strong, independent, clearly defined lead director: The lead director's responsibilities include:
Leading the Board’s processes for selecting and evaluating the CEO;
Presiding at all meetings of the Board at which the chairman is not present;
Serving as a liaison between the chairman and the independent directors;
If requested by major shareholders, ensures that she is available for consultation and direct communication;
Approving meeting agendas and schedules and generally approving information sent to the Board;
Conducting executive sessions of the independent directors; and
Overseeing the independent directors' annual performance evaluation of the chairman and CEO.

The lead director also has authority to call meetings of the independent directors and to retain advisers for the independent directors.

The lead director is appointed annually by the Board. Currently Ms. Marram is the lead director.

•Director access to management and independent advisors: Independent directors have direct access to members of management whenever they deem it necessary; and the company's executive officers attend at least part of each regularly scheduled Board meeting. The independent directors and all committees are also free to retain their own independent advisors, at company expense, whenever they feel it would be desirable to do so.

CEO Succession Planning
The lead director, Board and CEO maintain and annually review the company's succession plans for the CEO and other key senior leadership positions. During these reviews, the CEO and independent directors discuss future candidates for the CEO and other senior leadership positions, succession timing, and development plans for the highest-potential candidates. The company ensures that the directors have multiple opportunities to interact with the company's top leadership talent in both formal and informal settings in order to allow them to most effectively assess the candidates' qualifications and capabilities.

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.

Board Education and Annual Performance Assessment

The company engages in a comprehensive orientation process for incoming new directors. Directors also receive ongoing continuing educational sessions on areas of particular relevance or import to our company and we hold periodic mandatory training sessions for the Audit Committee.

Additionally, the Directors and Corporate Governance Committee conducts an annual assessment of the Board's performance, Board committee performance, and all Board processes based on input from all directors.

Prior Management Proposals to Eliminate Classified Board and Supermajority Voting Requirements

Between 2006 - 2012, each year 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 articles of incorporation. In addition, in 2010, 2011, 2012, 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. We have concluded that the proposals would achieve a similar result in 2014 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.

Conflicts of Interest and Transactions with Related Persons

Conflicts of Interest
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 may be excused from discussions on the issue, as appropriate.

Review and Approval of Transactions with Related Persons

The board has adopted a policy and 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 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) whether the matter should be considered by the Board or by one of its existing committees.
- 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 employment relationships which are considered related-party transactions under the SEC rules.

Dr. John Bamforth, vice president, chief marketing officer, Lilly Bio-Medicines, is the spouse of Dr. Susan Mahony, one of the company's executive officers, and has been employed by the company for over 20 years. In 2013, he was paid approximately $381,000 in cash compensation, and he received grants under the company's performance-based equity program valued at approximately $60,000 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, a Lilly executive officer, and has been employed by the company for over 10 years. His cash compensation in 2013 was approximately $700,000 and his equity grants were valued at approximately $375,000. 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.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis (CD&A) provides a detailed description of our executive compensation philosophy, the Compensation Committee's process for setting executive compensation, the elements of our compensation program, the factors the committee considered when setting executive compensation in 2013, and how the company's results impacted incentive payouts for 2013.

Say on Pay Results for 2013

At last year's annual meeting, 97 percent of the shares cast voted in favor of the company's Say on Pay proposal on executive compensation. Management and the Compensation Committee view this vote as supportive of the company's overall approach toward executive compensation. We communicate directly with shareholders on executive compensation matters and seek to ensure our programs are aligned with shareholder values and concerns.

Our Philosophy on Compensation

At Lilly, we aim to discover, develop, and market innovative therapies – medicines that make a real difference for patients and deliver clear value for payers. In order to accomplish our mission, 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 programs are designed to help us achieve these goals while balancing the long-term interests of our customers and shareholders.

Objectives

Our compensation and benefits program is based on the following principles:

- Reflect both individual and company performance. We reinforce a high-performance culture by linking pay with individual performance and company performance. As employees assume greater responsibilities, the proportion of total compensation based on company performance and shareholder returns increases. We perform an annual review to ensure the programs provide incentive to deliver long-term, sustainable business results while discouraging excessive risk-taking, or other adverse behaviors.

- Consider employee retention. Compensation should be competitive with our peer group and reflect the level of job impact and responsibilities. Employee retention is an important factor in the design of our compensation and benefit programs.

- Broad-based program design. While the amount of compensation paid to employees varies, the overall structure of our compensation and benefit programs is broadly similar across the organization to encourage and reward all employees who contribute to our success.

- Consider shareholder input. Management and the Compensation Committee consider the results of our annual Say on Pay vote and other sources of shareholder feedback when designing compensation and benefit programs.

Compensation Committee's Processes and Analyses

Process for setting compensation

The Compensation Committee considers the following in determining executive compensation:

- Assessment of the executive's individual performance and contribution.
- Chief Executive Officer ("CEO"): The independent directors, under the direction of the lead director, meet with the CEO at the beginning of each year to agree upon the CEO's performance objectives for the year, and at the end of each year to assess the CEO's achievement of those objectives along with other factors, including contribution to the company's performance and ethics and integrity. The year-end evaluation is used in setting the CEO's potential compensation for the next year.
- Other Executive Officers ("EOs"): The committee receives individual performance assessments and compensation recommendations from the CEO and also exercises its judgment based on the Board's knowledge and interactions

with the EOs. As with the CEO, each EO's performance assessment is based on his or her achievement of objectives established between the EO and the CEO at the start of the year as well as other factors.

- Assessment of company performance. The Compensation Committee considers company performance in two ways:
  - Prior to establishing total potential compensation for the coming year, the committee considers overall company performance during the prior year across a variety of metrics.
  - To determine payouts under the cash and equity incentive programs, the committee establishes specific company performance goals related to revenue, EPS, delivery of our pipeline portfolio, and stock price growth.

- Peer-group analysis. The committee uses peer-group data as a market check for compensation decisions, but does not use this data as the sole basis for its compensation targets. The company does not target a specific position within the range of market data.

- The Compensation Committee seeks input from an independent compensation consultant concerning CEO pay. The role of the independent compensation consultant is described in more detail under "Compensation Committee Matters" that follows the CD&A.

Competitive pay assessment

Our peer group is comprised of companies that directly compete with us, operate in a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. In selecting the peer group, the committee considers market cap and revenue as measures of size. The committee reviews the peer group at least every three years. The group includes: Abbott, Allergan, Amgen, AstraZeneca, Biogen, Baxter, Bristol-Myers Squibb, Celgene, Covidien (prior to the spin off of Mallinckrodt), Gilead, GlaxoSmithKline, Hoffman-La Roche, Johnson & Johnson, Medtronic, Merck, Novartis, Pfizer, and Sanofi-Aventis. Lilly fell in the middle of this peer group in terms of both revenue and market cap when the peer group was established in 2012. With the exception of Johnson & Johnson, Novartis, and Pfizer, peer companies were no greater than three times our size with regard to both measures. The committee included these three companies despite their size because they compete directly with Lilly, have similar business models, and seek to hire from the same pool of management and scientific talent. In the aggregate, the company’s total compensation to named executive officers for 2012 was in the middle range of the peer group.

Components of Our Compensation

We have three elements of compensation for executive officers: (1) base salary; (2) an annual bonus, which is calculated based on company performance on revenue, EPS, and the progress of the pipeline relative to internal targets; and (3) two different forms of equity incentives: (i) "Performance Awards" (PAs) - performance-based equity awards that pay out as restricted stock units based upon the company's two-year earnings per share (EPS) growth relative to the expected industry growth over the period; and (ii) "Shareholder Value Awards" (SVAs) - performance-based equity awards that pay out based on company stock price growth over a three-year period. Executives also receive the company benefits package, described below under "Employee Benefits".

The Compensation Committee has authority to adjust the reported earnings per share (EPS) on which PAs and the annual bonus are determined in order to eliminate the distorting effect of unusual income or expense items that may occur during a given year that impact year-over-year growth percentages. Further details on the adjustments for 2013 and the rationale for making these adjustments are set forth in Appendix A ("Summary of Adjustments to EPS Related to the Annual Bonus and PA") to this proxy. For ease of reference, throughout the CD&A and the other compensation disclosures we refer simply to "EPS" but we encourage you to review the information in Appendix A to understand the adjustments that may have been made to EPS.

1. Base Salary

Base salaries are reviewed and established annually, and may be adjusted upon promotion, following a change in job responsibilities, or to maintain market competitiveness. Salaries are based on each person's level of contribution, responsibility, expertise, and market data.

Base salary increases, if granted during a given year, are established based upon a corporate budget for salary increases, which is set considering company performance over the prior year, expected company performance for the following fiscal year, and general external trends. In setting salaries, the Compensation Committee seeks to retain, motivate, and reward successful performers while maintaining affordability within the company's business plan.

2. Annual Bonus

The Eli Lilly and Company Bonus Plan ("Bonus Plan") is designed to align employees' individual goals with the company's financial plans and pipeline delivery objectives for the year. The bonus is based on company performance in three areas over the course of the year, relative to internal targets: (1) revenue performance; (2) EPS performance; and (3) progress on advancing our product pipeline.

Individual bonus targets and company performance goals are set at the beginning of each year. In establishing the goals, the Compensation Committee references the annual operating plan. Each year, the Compensation Committee reviews the relative weighting for each of the factors. For 2013, the weightings were set as follows:

Goal	Weighting
Revenue performance	25%
EPS performance	50%
Pipeline progress	25%

Based on this weighting, the company bonus multiple is calculated as follows:

(0.25 x revenue multiple) + (0.50 x EPS multiple) + (0.25 x pipeline multiple)
= company bonus multiple

Individual payouts are calculated according to the following formula:

company bonus multiple x individual bonus target x base salary earnings
= payout

EOs are subject to the Executive Officer Incentive Plan ("EOIP"), which sets further limits on the allowable bonus amounts. Under the EOIP, the maximum annual bonus allowable is calculated based on non-GAAP net income (as defined under "Adjustments to Reported Results" in Appendix A to this proxy statement) for the year. For the CEO, the maximum bonus award is 0.3 percent of non-GAAP net income. For other EOs, the maximum amount is 0.15 percent of non-GAAP net income. EOs will not receive any annual cash incentive payments unless the company has a positive non-GAAP net income for the year.

Once the maximum payout for an EO is determined, the Compensation Committee has the discretion to reduce (but not increase) the amount of the bonus to be paid. In exercising this discretion, the committee intends to generally award EOs the lesser of (i) the bonuses they would have received under the Bonus Plan or (ii) the EOIP maximum amounts.

3. Equity Incentives

The company has two equity incentive programs - PAs and SVAs. The PAs are designed to focus company leaders on multi-year operational performance relative to peer companies and the SVAs align compensation with long-term growth in shareholder value. The Compensation Committee has the discretion to adjust downward (but not upward) any executive officer's equity award payout from the amount yielded by the applicable formula.

Performance Awards

PAs are structured as a schedule of potential shares earned based on cumulative, aggregated annual growth in EPS over a two-year period. The growth rate targets are set relative to the median expected EPS growth for the peer group for the period. As reflected in the chart below, following the two-year performance period, PAs pay out to EOs in restricted stock units that vest 13 months after the end of the performance period. These awards do not accumulate dividends during the two-year performance period, but do accumulate dividends during the one-year restriction period.

Performance and Holding Periods for PAs

2011	2012	2013	2014	2015	2016	2017