Corporate Governance Guidelines

These guidelines establish the basic principles of corporate governance by which Eli Lilly and Company operates. The company believes that a strong system of corporate governance is critical to creating long-term shareholder value. In pursuit of this objective, the interests of all the corporation's principal constituents are considered: shareholders, patients, health care professionals and payers, employees, partners and suppliers, and local communities. It is important to balance the interests of the corporation's many divergent constituents, as there can be no long-term shareholder value creation without fair treatment of all those who touch or are touched by the corporation.

These guidelines are approved and amended by the board of directors. The Directors and Corporate Governance Committee reviews the guidelines annually and recommends to the board any amendments to these guidelines.

Role of the Board

The directors of Eli Lilly and Company are elected by the company's 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 a succession plan is in place for all senior executives.

Composition of the Board

Board Size
The board believes that its appropriate size is 12-14 directors. However, it may be expedient to increase the size of the board temporarily from time to time in anticipation of retirements or to take advantage of the availability of outstanding director candidates.

Mix of Officer-Directors and Independent 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.

Criteria to Qualify as an Independent Director
The board annually determines and discloses the independence of directors. The Directors and Corporate Governance Committee reviews the independence of each non-employee director annually and makes recommendations to the board.

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.

In applying the general principles set forth above, the board has adopted the categorical independence standards for directors established in the New York Stock Exchange listing standards, except that the "look-back period" for determining whether a director's prior relationship with the company impairs independence is extended from three to four years.

In addition, members of the Audit, Compensation, and Directors and Corporate Governance committees must meet all applicable independence tests of the New York Stock Exchange, Securities and Exchange Commission, and Internal Revenue Service.

Selection of Director Candidates

The board is responsible for selecting candidates for board membership and for establishing the general criteria to be used in identifying potential candidates. The Directors and Corporate Governance Committee makes recommendations to the board for nominations. The committee identifies and screens potential new candidates and, with input from all other board members, assesses the ongoing contributions of incumbent directors whose terms are expiring.

The committee maintains a continuing program of director succession planning. The committee considers recommendations from other board members, management, and shareholders as to potential new director candidates, and may retain search firms to assist in identifying and screening candidates.

The board selects director candidates who represent a mix of backgrounds and experiences that will enhance the quality of the board's deliberations and decisions. Such 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 field. 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, but is not necessarily limited to, the following backgrounds:

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

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 its other constituencies.

The Directors and Corporate Governance Committee periodically reviews with the board the criteria for the selection of directors.

Process for Extending the Invitation to a Potential New Director

After the Directors and Corporate Governance Committee selects a new candidate for board membership, the committee presents its recommendation to the board for approval. Upon approval by the board, the invitation to join the board is extended to the candidate by the chairman of the board.

Director Tenure and Retirement Policy

The board comprises three classes of directors, with approximately one-third of the directors assigned to each class. The members of each class are elected for a term of three years. There is no limit on the number of terms for which a director may be elected.

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.
- Non-employee 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 non-employee 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.

Other Board Service

Effective November 1, 2009, any new directors may not serve on more than three other public company boards, and any incumbent directors may not 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 chairperson 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 Lilly 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 does not receive the favorable vote of a majority of the votes cast in his or her election shall promptly tender a resignation following certification of the shareholder vote.

The Directors and Corporate Governance Committee shall consider the resignation offer and recommend to the board whether to accept it. The board will act on the recommendation within 90 days following the certification of the results of the shareholder meeting. 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 furnished to the Securities and Exchange Commission 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 directors' 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 pursuant to this provision shall not participate in the committee or board deliberations regarding whether to accept the resignation offer.

If all members of the Directors and Corporate Governance Committee received a majority of "against" votes at the same election, then the independent directors who did not receive a majority of "against" votes shall appoint a committee amongst themselves to consider the resignation offers and recommend to the board whether to accept them.

Compensation of Board Members

Director Compensation Philosophy

The company targets the overall value of its non-employee director pay to the median of premier U.S. companies, with consideration of both the pharmaceutical industry and leading U.S. companies as a whole. The form and amount of director compensation should give due regard to the interests of the directors, the company, and the shareholders.

Director Equity Ownership
Directors should hold meaningful equity ownership positions in the company. Accordingly, a significant portion of director compensation is made in the form of company equity. Annual stock awards are made in the form of deferred shares that may not be sold by the director until his or her service as a director ends. As a result, directors build a substantial long-term ownership interest in the company over time. Non-employee directors are expected to hold Lilly stock, either directly or through company plans, valued at not less than five times their annual cash retainer. New directors are given five years to reach this ownership level.

Approval Process
Director compensation is reviewed annually by the board on the recommendation of the Directors and Corporate Governance Committee. Assisted by an independent consultant, company management reports annually to the committee concerning the status of the board compensation program relative to those of other comparable U.S. corporations.

Key Board Responsibilities

Selection of the Chairman and Chief Executive Officer
The board currently combines the role of chairman of the board with the role of chief executive officer, coupled with a strong, independent, and clearly defined 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
- Executive sessions of the independent director after every regular board meeting
- Annual performance evaluation of the 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.

Evaluation of the 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 CEO's compensation for the next year.

Succession Management and Election of Officers
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 this review, the CEO and independent directors discuss future candidates for senior leadership roles, succession timing, and development plans for the highest-potential candidates.

Consistent with the succession management plan, the chief executive officer recommends to the board candidates for the company's principal corporate offices.

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

Corporate Strategy
Once each year, the board devotes an extended meeting to an update from management regarding 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. This assists the board in its succession management responsibilities.

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, which is set out in:

- *The Red Book,* a comprehensive code of ethical and legal business conduct applicable to all employees and the board of directors; and
- *Code of Ethical Conduct for Lilly Financial Management,* a supplemental code for the CEO and all members of financial management that recognizes the unique responsibilities of those individuals in assuring proper accounting, financial reporting and controls, and financial stewardship.

The Audit Committee and the Public Policy and Compliance Committee assist in the board's oversight of compliance programs with respect to matters covered in the code of ethics.

Functioning of the Board

Executive Sessions of Directors
At every regular board meeting, the independent directors meet in executive session without any members of management present and also meet in executive session with the CEO.

Lead Director
The board annually appoints a lead director from among the independent directors. 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; it is not intended that this role impair communication between individual directors and the chairman;
- approves meeting agendas and schedules and generally approves information sent to the board;
- has the authority to call meetings of the independent directors; and
- has the authority to retain advisors 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. A director must disclose to the company all relationships that create a conflict or appearance of a conflict. The board, after consultation with counsel, takes appropriate steps to identify actual or apparent conflicts and to ensure that all directors

voting on an issue are disinterested with respect to that issue. A director will be excused from discussions on the issue, as appropriate.

Conflicts of Interest Unique to Officer-Directors
Board decisions on certain matters of corporate governance are made solely by the independent directors. These include executive compensation and the selection, evaluation, and removal of the chief executive officer.

Orientation of New Directors; Director Education
An orientation process is in place for all new directors and includes comprehensive background briefings by the chairman and CEO, other company leaders, and the corporate secretary. The orientation program is the responsibility of the chairman and is administered by the corporate secretary. The orientation includes reviews of the pharmaceutical industry and business environment, the company's strategy and operations, compliance and risk management, and corporate governance.

The company provides ongoing education to directors in a number of ways, including:

- financial and operational updates at each board meeting
- an extensive strategic review at the annual corporate strategy retreat as noted above under "Key Board Responsibilities"
- periodic news articles regarding the company, the pharmaceutical industry, the political environment, and corporate governance
- a formal financial education program for the Audit Committee, to which all directors are invited
- periodic presentations to the board by internal and external experts on governance and board fiduciary duties.

The company also affords directors the opportunity to attend external director education programs.

Assessment of Board Processes and Performance
The Directors and Corporate Governance Committee is responsible for annually conducting an assessment of the performance of the board, board committees, and board processes, as well as for reviewing with the board the results of these assessments. The committee develops and circulates to each director a questionnaire through which each director can provide his or her assessment.

Frequency of Board Meetings
The board holds regularly scheduled meetings six times annually. In addition, the board may hold additional meetings from time to time as determined by the needs of the business.

Director Attendance
Each director is expected to attend all meetings of the board and board committees of which the director is a member as well as the annual meeting of shareholders. The board recognizes that occasional meetings may need to be scheduled on short notice when the participation of a director is not possible and that conflicts may arise from time to time that will prevent a director from attending or participating in a regularly scheduled meeting. However, the board expects that each director will make every possible effort to keep such absences to a minimum.

Selection of Agenda Items for Board Meetings
The chairman of the board establishes the agenda for each board meeting, and the lead director approves meeting agendas. All directors are encouraged to discuss with the chairman, lead director or corporate secretary any additional items they believe should be considered for the agenda. Each director may raise at any regular board meeting subjects for discussion that are not on the meeting's formal agenda.

Information that is important to the board's understanding of the business of the company shall be distributed to the board prior to each board meeting and periodically, as appropriate, between board meetings.

Regular Attendance of Nondirectors at Board Meetings
The chairman, at his or her discretion, may invite executive officers of the company to attend all the nonexecutive sessions of board meetings. The chairman, at his or her discretion, may also invite other members of management to attend all or part of specific board meetings.

Director Access to Management and Independent Advisors
Independent directors have direct access to members of management whenever they deem it necessary. 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. All committees have sole authority to retain independent advisors to their respective committees.

Board's Interaction with Institutional Investors, the Press, Customers, and Other Constituencies of the Corporation
The board believes that management should speak for the company. If comments from the board are appropriate, they should ordinarily come from the chairman or from the board's designated spokesperson.

However, shareholders or other interested parties may communicate directly with the lead director or with the independent directors as a whole. Such communications should be directed in writing to the lead director in care of the company's secretary.

Board Committees

Number, Structure, and Independence of Committees
The board has established the following committees:

- Audit Committee:
- Compensation Committee
- Directors and Corporate Governance Committee
- Finance Committee
- Public Policy and Compliance Committee
- Science and Technology Committee

Only independent directors may serve on the committees.

The charter of each committee is reviewed and approved annually by the respective committee and by the Directors and Corporate Governance Committee. The charters are made available publicly along with these guidelines. The board has the flexibility to form a new committee or to disband a current committee (except the Audit, Compensation, and Directors and Corporate Governance committees) as it deems appropriate. The chair of each committee reports to the full board, at the next board meeting following committee action, with respect to those matters addressed by the committee.

Committee Meetings
Each committee chair, in consultation with committee members, determines the frequency of the meetings of the committee, subject to any minimums that may be specified in the committee charter. Each committee prepares minutes of its meetings.

The chair of each committee, in consultation with the appropriate members of management, develops the committee's agenda.

Each committee member may suggest the inclusion of additional items on the agenda. Each committee member may raise at any regular committee meeting subjects for discussion that are not on the meeting's formal agenda.

Management assigns an officer to provide and coordinate staff support for each committee. Each committee chair may invite members of management, as appropriate, to attend sessions of committee meetings.

Assignment and Rotation of Committee Members

The Directors and Corporate Governance Committee is responsible for recommending to the board the assignment of directors to various committees after consultation with the chairman of the board and after giving due consideration to the backgrounds, skills, and desires of individual directors. The committee is also responsible for recommending to the board the selection of committee chairs. The board has no set policy for the regular rotation of committee members or committee chairs but annually reviews committee memberships and chair positions, seeking the best blend of continuity and fresh perspectives on the committees.