

ELI LILLY AND COMPANY
2021 ANNUAL REPORT
ON FORM 10-K

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the fiscal year ended December 31, 2021

Commission file number 001-06351

ELI LILLY AND COMPANY

(Exact name of Registrant as specified in its charter)

Indiana	35-0470950
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Lilly Corporate Center, Indianapolis, Indiana 46285
(Address and zip code of principal executive offices)

Registrant's telephone number, including area code (317) 276-2000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
Common Stock (no par value)	LLY	New York Stock Exchange
1.000% Notes due 2022	LLY22	New York Stock Exchange
7 1/8% Notes due 2025	LLY25	New York Stock Exchange
1.625% Notes due 2026	LLY26	New York Stock Exchange
2.125% Notes due 2030	LLY30	New York Stock Exchange
0.625% Notes due 2031	LLY31	New York Stock Exchange
0.500% Notes due 2033	LLY33	New York Stock Exchange
6.77% Notes due 2036	LLY36	New York Stock Exchange
1.625% Notes due 2043	LLY43	New York Stock Exchange
1.700% Notes due 2049	LLY49A	New York Stock Exchange
1.125% Notes due 2051	LLY51	New York Stock Exchange
1.375% Notes due 2061	LLY61	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
Yes ☐ No ☒

Aggregate market value of the common equity held by non-affiliates computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter: approximately $193,649,000,000.

Number of shares of common stock outstanding as of February 18, 2022: 952,347,126

Portions of the Registrant's Proxy Statement for the 2022 Annual Meeting of Shareholders have been incorporated by reference into Part III of this report.

Eli Lilly and Company

Form 10-K
For the Year Ended December 31, 2021

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Forward-Looking Statements

This Annual Report on Form 10-K and our other publicly available documents include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (Exchange Act), and are subject to the safe harbor created thereby under the Private Securities Litigation Reform Act of 1995. In particular, information appearing under "Business," "Risk Factors," and "Management's Discussion and Analysis of Results of Operations and Financial Condition" includes forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and generally can be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "intend," "anticipate," "plan," "continue," or similar expressions or future or conditional verbs.

Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those expressed in forward-looking statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, it is based on management's current plans and expectations, expressed in good faith and believed to have a reasonable basis. However, we can give no assurance that any such expectation or belief will result or will be achieved or accomplished. Investors therefore should not place undue reliance on forward-looking statements. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- the impact of the evolving COVID-19 pandemic or any future pandemic, epidemic, or similar public health threat and the global response thereto;
- uncertainties related to our efforts to develop, manufacture, and distribute potential treatments for COVID-19;
- the significant costs and uncertainties in the pharmaceutical research and development process, including with respect to the timing and process of obtaining regulatory approvals;
- the impact and outcome of acquisitions and business development transactions and related integration costs;
- the expiration of intellectual property protection for certain of our products and competition from generic and/or biosimilar products;
- our ability to protect and enforce patents and other intellectual property;
- changes in patent law or regulations related to data package exclusivity;
- competitive developments affecting current products and our pipeline;
- market uptake of recently launched products;
- information technology system inadequacies, breaches, or operating failures;
- unauthorized access, disclosure, misappropriation, or compromise of confidential information or other data stored in our information technology systems, networks, and facilities, or those of third parties with whom we share our data;
- unexpected safety or efficacy concerns associated with our products;
- litigation, investigations, or other similar proceedings involving past, current, or future products or commercial activities as we are largely self-insured;
- issues with product supply and regulatory approvals stemming from manufacturing difficulties, disruptions, or shortages, including as a result of demand, labor shortages, third-party performance, or regulatory actions relating to our facilities;
- reliance on third-party relationships and outsourcing arrangements;
- regulatory changes or other developments;
- regulatory actions regarding currently marketed products;
- continued pricing pressures and the impact of actions of governmental and private payers affecting pricing of, reimbursement for, and access to pharmaceuticals;
- devaluations in foreign currency exchange rates, changes in interest rates, and inflation;
- changes in tax law, tax rates, or events that differ from our assumptions related to tax positions;
- asset impairments and restructuring charges;

- the impact of global macroeconomic conditions, trade disruptions, global disputes, unrest, war, or other costs, uncertainties and risks related to engaging in business in foreign jurisdictions;
- changes in accounting and reporting standards promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission (SEC); and
- regulatory compliance problems or government investigations.

Investors should also carefully read the factors described under Item 1A, "Risk Factors" in this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from those expressed in forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider the risks described above and under Item 1A, "Risk Factors" to be a complete statement of all potential risks and uncertainties.

All forward-looking statements speak only as of the date of this Annual Report and are expressly qualified in their entirety by the risk factors and cautionary statements included in this Annual Report. Except as is required by law, we expressly disclaim any obligation to publicly release any revisions to forward-looking statements to reflect events after the date of this Annual Report.

Part I
Item 1. Business

Eli Lilly and Company (referred to as the company, Lilly, we, or us) was incorporated in 1901 in Indiana to succeed to the drug manufacturing business founded in Indianapolis, Indiana, in 1876 by Colonel Eli Lilly. We discover, develop, manufacture, and market products in a single business segment—human pharmaceutical products.

Our purpose is to unite caring with discovery to create medicines that make life better for people around the world. Most of the products we sell today were discovered or developed by our own scientists, and our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines.

We manufacture and distribute our products through facilities in the United States (U.S.), including Puerto Rico, and 7 other countries. Our products are sold in approximately 120 countries.

Products

Our products include:

Diabetes products, including:

- *Basaglar*®, in collaboration with Boehringer Ingelheim, a long-acting human insulin analog for the treatment of diabetes.
- *Humalog*®, *Humalog Mix 75/25, Humalog U-100, Humalog U-200, Humalog Mix 50/50*, *insulin lispro, insulin lispro protamine*, and *insulin lispro mix 75/25,* human insulin analogs for the treatment of diabetes.
- *Humulin*®, *Humulin 70/30, Humulin N, Humulin R,* and *Humulin U-500*, human insulins of recombinant DNA origin for the treatment of diabetes.
- *Jardiance*®, in collaboration with Boehringer Ingelheim, for the treatment of type 2 diabetes; to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease; and to reduce the risk of cardiovascular death and hospitalizations for heart failure in adults with heart failure and reduced ejection fraction.
- *Trajenta*®, in collaboration with Boehringer Ingelheim, for the treatment of type 2 diabetes.
- *Trulicity*®, for the treatment of type 2 diabetes and to reduce the risk of major adverse cardiovascular events in adult patients with type 2 diabetes and established cardiovascular disease or multiple cardiovascular risk factors.

Oncology products, including:

- *Alimta*®, for the first-line treatment, in combination with two other agents, of advanced non-small cell lung cancer (NSCLC) for patients with non-squamous cell histology and no epidermal growth factor receptor or anaplastic lymphoma kinase genomic tumor aberrations; for the first-line treatment, in combination with another agent, of advanced non-squamous NSCLC; for the second-line treatment of advanced non-squamous NSCLC; as monotherapy for the maintenance treatment of advanced non-squamous NSCLC in patients whose disease has not progressed immediately following chemotherapy treatment; and in combination with another agent for the treatment of malignant pleural mesothelioma.
- *Cyramza*®, for use as monotherapy or in combination with another agent as a second-line treatment of advanced or metastatic gastric cancer or gastro-esophageal junction adenocarcinoma; in combination with another agent as a second-line treatment of metastatic NSCLC; in combination with another agent as a second-line treatment of metastatic colorectal cancer; as a monotherapy as a second-line treatment of hepatocellular carcinoma; and in combination with another agent as a first-line treatment of adult patients with metastatic NSCLC with activating epidermal growth factor receptor mutations.
- *Erbitux*®, indicated both as monotherapy and in combination with another agent for the treatment of certain types of colorectal cancers; and as monotherapy, in combination with chemotherapy, or in combination with radiation therapy for the treatment of certain types of head and neck cancers.

- *Retevmo*®, for the treatment of metastatic NSCLC in adult patients; for the treatment of advanced metastatic medullary thyroid cancer who require systemic therapy in adult and pediatric patients; and for the treatment of advanced metastatic thyroid cancer in adult and pediatric patients who require systemic therapy and are radioactive iodin-refractory.
- *Tyvyt*®, in collaboration with Innovent Biologics, Inc., for the treatment of relapsed or refractory classic Hodgkin's lymphoma and for the first-line treatment of non-squamous NSCLC in combination with Alimta and another agent in China.
- *Verzenio*®, for use as monotherapy or in combination with endocrine therapy for the treatment of HR+, HER2- metastatic breast cancer and in combination with endocrine therapy for treatment of HR+, HER2-, node positive, early breast cancer at high risk of recurrence and a Ki-67 score at least 20%, as determined by a U.S. Food and Drug Administration (FDA) approved test.

Immunology products, including:

- *Olumiant*®, in collaboration with Incyte Corporation, for the treatment of adults with moderately-to-severely active rheumatoid arthritis and for moderate to severe atopic dermatitis.
- *Baricitinib* was granted Emergency Use Authorization (EUA) in 2021 for the treatment of COVID-19 in hospitalized adults and pediatric patients 2 years of age or older requiring supplemental oxygen, non-invasive or invasive mechanical ventilation, or extracorporeal membrane oxygenation.
- *Taltz*®, for the treatment of adults and pediatric patients aged 6 years or older with moderate-to-severe plaque psoriasis, adults with active psoriatic arthritis, adults with ankylosing spondylitis, and adults with active non-radiographic axial spondyloarthritis.

Neuroscience products, including:

- *Cymbalta*®, for the treatment of major depressive disorder, diabetic peripheral neuropathic pain, generalized anxiety disorder, fibromyalgia, and chronic musculoskeletal pain due to chronic low back pain or chronic pain due to osteoarthritis.
- *Emgality*®, for migraine prevention and the treatment of episodic cluster headache in adults.
- *Zyprexa*®, for the treatment of schizophrenia, acute mixed or manic episodes associated with bipolar I disorder, and bipolar maintenance.

Other therapies, including:

- *Bamlanivimab* and *etesevimab*, administered together, for the treatment of mild-to-moderate COVID-19 in adults and pediatric patients from birth to 12 years old with positive results of direct SARS-CoV-2 viral testing and who are at high risk for progression to severe COVID-19, including hospitalization or death (EUA granted in 2021). In January 2022, the FDA revised the EUA for bamlanivimab and etesevimab administered together to limit their use to only when the patient is likely to have been infected with or exposed to a variant that is susceptible to this combination treatment.
- *Bebtelovimab*, for the treatment of mild-to-moderate COVID-19 in adults and pediatric patients (12 years of age and older and weighing at least 40 kilograms) with positive results of direct SARS-CoV-2 viral testing, and who are at high risk for progression to severe COVID-19, including hospitalization or death, and for whom alternative COVID-19 treatment options approved or authorized by the FDA are not accessible or clinically appropriate (EUA granted in 2022).
- *Cialis*®, for the treatment of erectile dysfunction and benign prostatic hyperplasia.
- *Forteo*®, for the treatment of osteoporosis in postmenopausal women and men at high risk for fracture and for glucocorticoid-induced osteoporosis in men and postmenopausal women.

Marketing and Distribution

We sell most of our products worldwide. We adapt our marketing methods and product emphasis in various countries to meet local customer needs and comply with local regulations.

U.S.

We promote our major products in the U.S. through sales representatives who engage with physicians and other health care professionals. We also educate healthcare providers about our products in various other ways, including promoting in online health care channels, distributing literature and samples of certain products to physicians, and exhibiting at medical meetings. In addition, we advertise certain products directly to consumers in the U.S., and we maintain websites and other media channels with information about our major products. We supplement our employee sales force with contract sales organizations to leverage our resources and reach additional patients in need.

We maintain special business groups to service wholesalers, pharmacy benefit managers, managed care organizations, group purchasing organizations, government and long-term care institutions, hospitals, and certain retail pharmacies. We enter into arrangements with these organizations providing for discounts or rebates on our products.

In the U.S., most of our products are distributed through wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. In 2021, 2020, and 2019, three wholesale distributors in the U.S. —McKesson Corporation, AmerisourceBergen Corporation, and Cardinal Health, Inc.—each accounted for between 15 percent and 20 percent of our consolidated revenue. No other customer accounted for more than 10 percent of our consolidated revenue in any of these years.

Outside the U.S.

Outside the U.S., we promote our products to healthcare providers primarily through sales representatives and other health care channels. While the products we market vary from country to country, diabetes products constitute the largest single group of our consolidated revenue. Distribution patterns for our products also vary from country to country. In most countries in which we operate, we maintain our own sales organizations, but in some smaller countries we market our products through third-party distributors, some of which we have engaged through distribution and promotion arrangements.

Marketing Collaborations

Certain of our products are marketed in arrangements with other pharmaceutical companies. For example, we and Boehringer Ingelheim have a global agreement to develop and commercialize a portfolio of diabetes products, including Trajenta, Jentadueto®, Jardiance, Glyxambi®, Synjardy®, Trijardy® XR, and Basaglar.

For additional information, see Item 8, "Financial Statements and Supplementary Data - Note 4, Collaborations and Other Arrangements."

Competition

Our products compete globally with many other pharmaceutical products in highly competitive markets.

Important competitive factors include effectiveness, safety, and ease of use; formulary placement, price, and demonstrated cost-effectiveness; marketing effectiveness; and research and development of new products, processes, modalities, and uses. Most new products that we introduce must compete with other branded, biosimilar, or generic products already on the market or that are later developed by competitors. When competitors introduce new products or delivery systems with therapeutic or cost advantages, including by developing new modalities, our products become subject to decreased sales, progressive price reductions, or both.

We believe our long-term competitive success depends on discovering and developing (either alone or in collaboration with others) or acquiring innovative, cost-effective products that provide improved outcomes for patients and deliver value to payers, and continuously improving the productivity of our operations in a highly competitive environment. There can be no assurance that our efforts will result in commercially successful products, and it is possible that our products will be, or will become, uncompetitive from time to time as a result of products developed by our competitors.

Generic Pharmaceuticals

One of the biggest competitive challenges we face is from generic pharmaceuticals. In the U.S. and Europe, the regulatory approval process for pharmaceuticals (other than biological products (biologics)) exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy of the innovator product. As a result, generic manufacturers generally invest far fewer resources than we do in research and development and can price their products significantly lower than our branded products. Accordingly, when a branded non-biologic pharmaceutical loses its market exclusivity, it normally faces intense price competition from generic forms of the product, which can cause us to lose a significant portion of the product's revenue in a very short period of time.

Further, public and private payers typically encourage the use of generics as alternatives to brand-name drugs in their healthcare programs. Laws in the U.S. generally allow, and in many cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be essentially equivalent to a brand-name drug. Where substitution is mandatory, it must be made unless the prescribing physician expressly forbids it. In many countries outside the U.S., intellectual property protection is weak, and we must compete with generic or counterfeit versions of our products relatively shortly after launch.

Biosimilars

A number of our products and potential new medicines in our clinical-stage pipeline are biologics. In the U.S., the FDA regulates biologics under the Federal Food, Drug and Cosmetic Act, the Public Health Service Act, and implementing regulations. Competition for Lilly's biologics may be affected by the approval of follow-on biologics, also known as biosimilars. A biosimilar is a subsequent version of an approved innovator biologic that, due to its analytical and clinical similarity to the innovator biologic, may be approved based on an abbreviated data package that relies in part on the full testing required of the innovator biologic. Approval by the FDA ultimately depends on many factors, including a showing that the biosimilar is "highly similar" to the original product and has no clinically meaningful differences from the original product in terms of safety, purity, and potency.

Globally, most governments have developed abbreviated regulatory pathways to approve biosimilars as follow-ons to innovator-developed biologics, including the Biologics Price Competition and Innovation Act of 2009 (the BPCIA) in the U.S. A number of biosimilars have been licensed under the BPCIA and in Europe. The patent and regulatory exclusivity for the existing innovator biologic generally must expire in a given market before biosimilars may enter that market. However, in the U.S., the product exclusivity period under the BPCIA could be affected by recent government proposals and litigation. See "- Patents, Trademarks, and Other Intellectual Property Rights." In addition, the extent to which a biosimilar, once approved, will be substituted for the innovator biologic in a way that is similar to traditional generic substitution for non-biologic products is not yet entirely clear, and will depend on a number of regulatory and marketplace factors that are still developing. In the U.S., currently only a biosimilar product that is determined to be "interchangeable" by the FDA will be considered substitutable for the original biologic product without the intervention of the health care provider who prescribed the original biologic product. To prove that a biosimilar product is interchangeable, the applicant must demonstrate that the product can be expected to produce the same clinical results as the original biologic product in any given patient, and if the product is administered more than once in a patient, that safety risks and potential for diminished efficacy of alternating or switching between the use of the interchangeable biosimilar biologic product and the original biologic product is no greater than the risk of using the original biologic product without switching. The FDA has begun to issue "interchangeable" designations for biosimilar products.

Biosimilars may present both competitive challenges and opportunities. For example, a competitor company has developed a version of insulin lispro that competes with our product Humalog. On the other hand, in collaboration with Boehringer Ingelheim, we developed Basaglar, an insulin glargine product, which has the same amino acid sequence as a product currently marketed by a competitor and has launched as a follow-on biologic in the U.S., and as a biosimilar in Europe and Japan. However, in March 2020, the FDA began regulating all of our insulin products as "biologics" rather than "drugs." Based on FDA draft guidance, this change may lessen the amount of data required for competitor biosimilar products to enter the market, some of which could be designated as interchangeable and therefore substituted for our insulin products at U.S. pharmacies. For example, in June 2020, the FDA approved a New Drug Application (NDA) for Semglee, a follow-on insulin glargine product that competes with Basaglar in the U.S., and, in July 2021, Semglee received additional FDA approval as a biosimilar that is interchangeable to its reference insulin glargine product. The FDA's interpretation of important aspects of the laws regulating biosimilars continues to evolve and, therefore, the impact of these laws on our business remains subject to substantial uncertainty.

U.S. Private Sector Dynamics

In the U.S. private sector, consolidation and integration among healthcare providers significantly affects the competitive marketplace for pharmaceuticals. Health plans, managed care organizations, pharmacy benefit managers, wholesalers, and other supply chain stakeholders have been consolidating into fewer, larger entities, thus enhancing their purchasing strength and importance. Private third-party insurers, as well as governments, typically maintain formularies that specify coverage (the conditions under which drugs are included on a plan's formulary) and reimbursement (the associated out-of-pocket cost to the consumer) to control costs by negotiating discounted prices in exchange for formulary inclusion.

Formulary placement can lead to reduced usage of a drug for the relevant patient population due to coverage restrictions, such as prior authorizations and formulary exclusions, or due to reimbursement limitations that result in higher consumer out-of-pocket cost, such as non-preferred co-pay tiers, increased co-insurance levels, and higher deductibles. Consequently, pharmaceutical companies face increased pressure in pricing and usage negotiation, and compete fiercely for formulary placement, not only on the basis of product attributes such as efficacy, safety profile, or patient ease of use, but also by providing rebates. As payers and pharmaceutical companies continue to negotiate formulary placement and pricing, value-based agreements, where pricing is based on achievement (or not) of specified outcomes, are another tool that may become increasingly prevalent. Price is an increasingly important factor in formulary decisions, particularly in treatment areas in which the payer has taken the position that multiple branded products are therapeutically comparable. We expect these downward pricing pressures will continue to negatively affect our consolidated results of operations. In addition to formulary placement, changes in insurance designs continue to drive greater consumer cost-sharing through high deductible plans and higher co-insurance or co-pays. For additional information on pricing and reimbursement for our pharmaceutical products, see "- Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access - U.S."

Patents, Trademarks, and Other Intellectual Property Rights

Overview

Intellectual property protection is critical to our ability to successfully commercialize our life sciences innovations and invest in the search for new medicines. We own, have applied for, or are licensed under, a large number of patents in the U.S. and many other countries relating to products, product uses, formulations, and manufacturing processes. In addition, as discussed below, for some products we have effective intellectual property protection in the form of data protection under pharmaceutical regulatory laws.

The patent protection anticipated to be of most relevance to pharmaceuticals is provided by national patents claiming the active ingredient (the compound patent), particularly those in major markets such as the U.S., major European countries, and Japan. These patents may be issued based upon the filing of international patent applications, usually filed under the Patent Cooperation Treaty (PCT). Patent applications covering compounds are generally filed during the Discovery Phase of the drug discovery process, which is described in the "Research and Development" section below. In general, national patents in each relevant country are available for a period of 20 years from the filing date of the PCT application, which is often years prior to the launch of a commercial product. Further patent term adjustments and restorations may extend the original patent term:

- Patent term adjustment is a statutory right available to all U.S. patent applicants to provide relief in the event that a patent grant is delayed during examination by the United States Patent and Trademark Office (USPTO).
- Patent term restoration is a statutory right provided to U.S. patent holders that claim inventions subject to review by the FDA. To make up for a portion of the time invested in clinical trials and the FDA review process, a single patent for a pharmaceutical product may be eligible for patent term restoration. Patent term restoration is limited by a formula and cannot be calculated until product approval due to uncertainty about the duration of clinical trials and the time it takes the FDA to review an application. There is a five-year cap on any restoration, and no patent's expiration date may be extended beyond 14 years from FDA approval. Some countries outside the U.S. similarly offer forms of patent term restoration for patents claiming inventions subject to a local review by a regulatory agency. For example, Supplementary Protection Certificates are available to extend the life of a European patent up to an additional five years (subject to a 15-year cap from European Medicines Agency (EMA) approval). Also, in Japan, South Korea, and Australia, patent terms can be extended up to five years, depending on the length of regulatory review and other factors.

Loss of effective patent protection for pharmaceuticals, especially for non-biologic products, typically results in the loss of effective market exclusivity for the product, which often results in severe and rapid decline in revenues for the product. However, in some cases the innovator company may retain exclusivity despite approval of the generic, biosimilar, or other follow-on versions of a new medicine beyond the expiration of the compound patent through manufacturing trade secrets, later-expiring patents on manufacturing processes, methods of use or formulations, or data protection that may be available under pharmaceutical regulatory laws. Changes to the laws and regulations governing these protections could result in earlier loss of effective market exclusivity. The primary forms of data protection are as follows:

- Regulatory authorities in major markets generally grant data package protection for a period of years following new drug approvals in recognition of the substantial investment required to complete clinical trials. Data package protection prohibits other manufacturers from submitting regulatory applications for marketing approval in reliance on the innovator company's regulatory submission data for the drug. The base period of data package protection depends on the country. For example, the period is generally five years in the U.S. (12 years for new biologics as described below), effectively 10 years in Europe, and eight years in Japan. The period begins on the date of product approval and runs concurrently with the patent term for any relevant patent.
- Under the BPCIA, the FDA has the authority to approve biosimilars. A competitor seeking approval of a biosimilar must file an application to show its molecule is highly similar to an approved innovator biologic and include a certain amount of safety and efficacy data that the FDA will consider on a case-by-case basis. Under the data protection provisions of this law, the FDA cannot approve a biosimilar application until 12 years after initial marketing approval of the innovator biologic, subject to certain conditions.
- In the U.S., the FDA has the authority to grant additional data protection for approved drugs where the sponsor conducts specified testing in pediatric or adolescent populations within a specified time period. If granted, this "pediatric exclusivity" provides an additional six months of exclusivity, which is added to the term of data protection and, for products other than biologics, to the term of any relevant patents, to the extent these protections have not already expired. While the term of the pediatric exclusivity attaches to the term of any relevant patent, pediatric exclusivity is a regulatory exclusivity—i.e., a bar to generic or biosimilar approval, not a patent right.
- Under the U.S. orphan drug law, a specific use of a drug or biologic can receive "orphan" designation if it is intended to treat a disease or condition affecting fewer than 200,000 people in the U.S., or affecting more than 200,000 people but not reasonably expected to recover its development and marketing costs through U.S. sales. Among other benefits, orphan designation entitles the particular use of the drug to seven years of market exclusivity, meaning that the FDA cannot (with limited exceptions) approve another marketing application for the same drug for the same indication until expiration of the seven-year period. Unlike pediatric exclusivity, the orphan exclusivity period is independent of and runs in parallel with any applicable patents.

Outside the major markets, the adequacy and effectiveness of intellectual property protection for pharmaceuticals varies widely, and in a number of these markets we are unable to patent our products or to enforce the patents we receive for our products. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization, more than 140 countries have agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to patent owners. Certain developing countries limit protection for biopharmaceutical products under their interpretation of "flexibilities" allowed under the agreement. Thus, some types of patents, such as those on new uses of compounds or new forms of molecules, are not available in certain developing countries. Further, many developing countries, and some developed countries, do not provide effective data package protection even though it is specified in TRIPs.

Our Intellectual Property Portfolio

We consider intellectual property protection for certain products, processes, uses, and formulations—particularly with respect to those products discussed below—to be important to our operations. In addition to the patents and data protection identified below, we may hold patents on manufacturing processes, formulations, devices, or uses that extend exclusivity beyond the dates shown below. For approved products, dates include, where applicable, pending or granted patent term extensions.

The most relevant U.S. patent protection or data protection and associated expiry dates for our major or recently launched patent-protected marketed products are as follows:

- Alimta is protected by pediatric exclusivity (2022). See Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies," for information regarding our settlement agreement with Eagle Pharmaceuticals, Inc. and its impact on our exclusivity for Alimta.
- Baqsimi® is protected by data protection (2022).
- Cyramza is protected by a compound patent and biologics data protection (2026).
- Emgality is protected by a compound patent (2033) and biologics data protection (2030).
- Jardiance, and the related combination product Glyxambi, is protected by a compound patent (2028).
- Olumiant is protected by a compound patent (2032).
- Retevmo is protected by a compound patent (2037) and by data protection (2025).
- Reyvow® is protected by a compound patent (2030).
- Taltz is protected by a compound patent (2030) and by biologics data protection (2028).
- Trulicity is protected by a compound patent (2027) and by biologics data protection (2026).
- Verzenio is protected by a compound patent (2031) and by data protection (2022).

Outside the U.S., important patent protection or data protection includes:

- Baqsimi is protected by data protection in Japan (2026).
- Cyramza is protected by a compound patent (2028) and by data protection (2024) in major European countries, and by a compound patent (2026) and by data protection (2023) in Japan.
- Emgality is protected by a compound patent (2033) and by data protection (2028) in major European countries, and by a compound patent (2035) and by data protection (2029) in Japan.
- Jardiance is protected by a compound patent in major European countries (2029) and Japan (2030).
- Olumiant is protected by a compound patent (2032) and by data protection (2027) in major European countries, and by a compound patent (2033) and by data protection (2025) in Japan.
- Retevmo is protected by a compound patent (2037) and by data protection (2031) in major European countries, and by a compound patent (2038) and by data protection (2029) in Japan.
- Reyvow is protected by a compound patent (2026) and by data protection (2032) in Japan.
- Taltz is protected by a compound patent (2031) and data protection (2027) in major European countries and a compound patent (2030) and data protection (2024) in Japan.
- Trulicity is protected by a compound patent (2029) and by data protection (2024) in major European countries and by a compound patent (2029) and by data protection (2023) in Japan.
- Verzenio is protected by a compound patent (2033) and data protection (2028) in major European countries and by a compound patent (2034) and data protection (2026) in Japan.

The following product candidates are currently under regulatory review. Upon approval, we expect relevant compound patent and data protections to apply:

- We have commenced a rolling submission in the U.S. for donanemab for the treatment of Alzheimer's disease.
- We have commenced a rolling submission in the U.S. for pirtobrutinib (LOXO-305) for the treatment of mantle cell lymphoma.
- Reyvow has been submitted for regulatory review in certain major European countries for the acute treatment of migraine.
- Tirzepatide has been submitted for regulatory review in the U.S., in Japan, and in certain major European countries as an adjunct to diet and exercise to improve glycemic control in adults with type 2 diabetes.

Worldwide, we sell all of our major products under trademarks consisting of our product names, logos, and unique product appearances (e.g., the appearance of our Trulicity autoinjector) which we consider in the aggregate to be important to our operations. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used, and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms. Trademark protection typically extends beyond the patent and data protection for a product.

Patent Licenses and Collaborations

Most of our major products are not subject to significant license and collaboration agreements. For information on our license and collaboration agreements, see Item 8, "Financial Statements and Supplementary Data - Note 4, Collaborations and Other Arrangements."

Patent Challenges

In the U.S., the Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch-Waxman Act, authorizes the FDA to approve generic versions of innovative pharmaceuticals (other than biologics, which are discussed below in more detail) when the generic manufacturer has not conducted safety and efficacy studies but files an Abbreviated New Drug Application (ANDA). In an ANDA, the generic manufacturer must demonstrate only "pharmaceutical equivalence" and "bioequivalence" between the generic version and the NDA-approved drug—not safety and efficacy. Establishing pharmaceutical equivalence and bioequivalence is generally straightforward and inexpensive for the generic company.

Absent a patent challenge, the FDA cannot approve an ANDA until after certain of the innovator's patents expire. However, after the innovator has marketed its product for four years, a generic manufacturer may file an ANDA alleging that one or more or all of the patents listed in the innovator's NDA are invalid or not infringed. This allegation is commonly known as a "Paragraph IV certification." If the innovator responds by filing suit against the generic manufacturer, the FDA is then prohibited from approving the generic company's application for a 30-month period (which can be shortened or extended by the trial court judge hearing the patent challenge). If one or more of the NDA-listed patents are challenged, the first filer(s) of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers.

Generic manufacturers use Paragraph IV certifications extensively to challenge patents on innovative pharmaceuticals. In addition, generic companies have shown willingness to launch "at risk," i.e., after receiving ANDA approval but before final resolution of their patent challenge.

Under the BPCIA, the FDA cannot approve an application for a biosimilar product until data protection expires, 12 years after initial marketing approval of the innovator biologic, and an application may not be submitted until four years following the date the innovator biologic was first approved. However, the BPCIA does provide a mechanism for a competitor to challenge the validity of an innovator's patents as early as four years after initial marketing approval of the innovator biologic.

The patent litigation scheme under the BPCIA, and the BPCIA itself, is complex and continues to be interpreted and implemented by the FDA as well as courts. Courts have held that biosimilar applicants are not required to engage in the BPCIA patent litigation scheme and patent holders retain the right to bring suit under normal patent law procedures if a biosimilar applicant attempts to commercialize a product prior to patent expiration. Further, in the U.S., the increased likelihood of generic and biosimilar challenges to innovators' intellectual property has increased the risk of loss of innovators' market exclusivity. See also "- Competition - Biosimilars." In addition, there is a procedure in U.S. patent law, known as inter partes review (IPR), which allows any member of the public to file a petition with the USPTO seeking the review of any issued U.S. patent for validity. IPRs are conducted before Administrative Patent Judges in the USPTO using a lower standard of proof than used in federal district court. In addition, the challenged patents are not accorded the presumption of validity as they are in federal district court. Generic drug companies and even some investment firms have engaged in the IPR process in attempts to invalidate our patents. The use of IPR proceedings after the institution of litigation pursuant to the BPCIA or Hatch-Waxman Act is currently a topic of debate among legislators. We expect additional changes to the Patent Trial and Appeal Board (PTAB), including potentially to the policy to discretionarily deny an otherwise meritorious petition for IPR in light of a concurrent district court proceeding. See "Risk Factors—Risks Related to Our Business—Our long-term success depends on intellectual property protection; if our intellectual property rights are invalidated, circumvented, or weakened, our business will be adversely affected."

Outside the U.S., the legal doctrines and processes by which pharmaceutical patents can be challenged vary widely. In recent years, we have experienced an increase in patent challenges from generic manufacturers in many countries outside the U.S.

For more information on administrative challenges and litigation involving our intellectual property rights, see Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies."

Government Regulation of Our Operations

Our operations are regulated extensively by numerous national, state, and local agencies.

Regulation of Products

The lengthy process of laboratory and clinical testing, data analysis, manufacturing development, and regulatory review necessary for governmental approvals of our products is extremely costly and can significantly delay product introductions and revenue generation. In addition, our operations are subject to complex federal, state, local, and foreign laws and regulations concerning relationships with healthcare providers and suppliers, the environment, occupational health and safety, data privacy, and other matters. Evolving regulatory priorities have intensified governmental scrutiny of our operations, including with respect to current Good Manufacturing Practices (cGMP), quality assurance, and similar regulations. Compliance with the laws and regulations affecting the manufacture and sale of current products and the discovery, development, and introduction of new products will continue to require substantial effort, expense, and capital investment.

Of particular importance to our business is regulation by the FDA in the U.S. Pursuant to laws and regulations that include the Federal Food, Drug, and Cosmetic Act, the FDA has jurisdiction over all of our products and devices in the U.S. and administers requirements covering the testing, safety, effectiveness, manufacturing, quality control, distribution, labeling, marketing, promotion, advertising, dissemination of information, and post-marketing surveillance of those products.

Following approval, our products remain subject to regulation by various agencies in connection with labeling, import, export, storage, recordkeeping, advertising, promotion, and safety reporting. We conduct extensive post-marketing surveillance of the safety of the products we sell. The FDA may withdraw approval if compliance with regulatory requirements and standards is not maintained or if problems occur after a product reaches the market. The FDA strictly regulates marketing, labeling, advertising, and promotion of products that are placed on the market. Pharmaceutical products may be promoted only for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses.

The FDA extensively regulates all aspects of manufacturing quality for pharmaceuticals under its cGMP regulations. Outside the U.S., our products and operations are subject to similar regulatory requirements, notably by the EMA in Europe, the Ministry of Health, Labor and Welfare in Japan, and the National Medical Products Administration in China. Specific regulatory requirements vary from country to country. Regulatory requirements and approval processes outside the U.S. may differ from those in the U.S. and may involve additional costs, uncertainties, and risks.

We make substantial investments of capital and operating expenses to implement comprehensive, company-wide quality systems and controls in our manufacturing, product development, and process development operations in an effort to maintain sustained compliance with cGMP and similar regulations. However, in the event we fail to adhere to these requirements, we become subject to potential government investigations, regulatory and legal actions, product recalls and seizures, fines and penalties, interruption of production leading to product shortages, import bans or denials of import certifications, delays or denials in new product approvals, and reputational harm, any of which would adversely affect our business. Certain of our products are manufactured by third parties, and their failure to comply with these regulations could adversely affect us, including through failure to supply product to us or delays in new product approvals. Any determination by the FDA or other regulatory authorities of manufacturing or other deficiencies could adversely affect our business.

We are also subject to a variety of federal, state, local, and foreign environmental, health and safety, and other laws and regulations that may affect our research, development or production efforts.

Emergency Use Authorizations

The Secretary of Health and Human Services may authorize unapproved medical products to be manufactured, marketed, and sold in the context of an actual or potential emergency that has been designated by the government. After an emergency has been announced, the Secretary of Health and Human Services may authorize EUAs for the use of specific products based on criteria established by statute, including that the product at issue may be effective in diagnosing, treating, or preventing serious or life-threatening diseases when there are no adequate, approved, and available alternatives. An EUA is subject to additional conditions and restrictions, such as the obligation to provide fact sheets for healthcare providers administering the product and those to whom it is administered, adverse event monitoring and reporting, and recordkeeping and reporting requirements by product manufacturers. The FDA may also establish additional discretionary conditions of authorization that the FDA deems necessary or appropriate to protect the public health, including conditions related to product distribution, product administration and data collection and analysis concerning the safety and effectiveness of the product. In issuing an EUA, the FDA considers the totality of available scientific evidence regarding quality, safety and efficacy, including the known and potential risks of such products and the adequacy and availability of approved alternatives, among other factors. An EUA is not a substitute for obtaining FDA approval, licensure, or clearance for use of a product. An EUA terminates when the emergency determination underlying the EUA terminates, and EUAs can be revoked under other circumstances, the timing of which may occur unexpectedly or be difficult to predict.

Outside the U.S., the emergency use of medical products is subject to regulatory processes and requirements that differ from those in the U.S.

The COVID-19 pandemic has been designated as a national emergency in the U.S. On the basis of such determination, the Secretary of Health and Human Services declared that circumstances exist justifying the authorization of emergency use of drugs and biologics during the COVID-19 pandemic. The FDA has granted EUAs for bamlanivimab and etesevimab administered together, baricitinib, and bebtelovimab, and similar actions have been taken by other regulators in certain jurisdictions outside the U.S. However, the FDA has revised, and may in the future revise, any EUA for our COVID-19 antibodies in response to the prevalence of variants against which our antibodies have varying degrees of efficacy. For example, in January 2022, the FDA revised the EUA for bamlanivimab and etesevimab administered together to limit their use to only when the patient is likely to have been infected with or exposed to a variant that is susceptible to this combination treatment.

Other Laws and Regulations

The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to various other U.S. federal and state laws, as well as analogous foreign laws and regulations, including the federal anti-kickback statute, the False Claims Act, and state laws governing kickbacks, false claims, unfair trade practices, and consumer protection. These laws are administered by, among others, the Department of Justice, the Office of Inspector General of the Department of Health and Human Services, the Federal Trade Commission, the Office of Personnel Management, and state attorneys general. Over the past several years, state, federal, and foreign governments, agencies, and other regulatory bodies have increased their oversight, enforcement activities, and coordination with respect to pharmaceutical companies, which has resulted in intensified scrutiny, corporate criminal sanctions, and substantial civil settlements in the pharmaceutical industry.

In December 2020, the Office of Inspector General of the U.S. Department of Health and Human Services and the Centers for Medicare & Medicaid Services (CMS) issued final rules expanding and modifying existing, and adding new, regulatory "safe harbors" and exceptions, respectively, under the anti-kickback statute and the Ethics in Patient Referrals Act. We are currently evaluating the impact, if any, these regulatory amendments will have upon becoming effective on our consolidated results of operations, liquidity, and financial position, which is uncertain at this time.

The U.S. Foreign Corrupt Practices Act of 1977 (FCPA) prohibits certain individuals and entities, including U.S. publicly traded companies, from promising, offering, or giving anything of value to foreign officials with the corrupt intent of influencing the foreign official for the purpose of helping the company obtain or retain business or gain any improper advantage. The FCPA also imposes specific recordkeeping and internal controls requirements on U.S. publicly traded companies. As noted above, outside the U.S., our business is heavily regulated and therefore involves significant interaction with foreign officials. Additionally, in many countries outside the U.S., healthcare providers who prescribe pharmaceuticals are employed by the government and purchasers of pharmaceuticals are government entities; therefore, our interactions with these prescribers and purchasers are subject to regulation under the FCPA.

In addition to the U.S. application and enforcement of the FCPA, the various jurisdictions in which we operate and supply our products have laws and regulations aimed at preventing and penalizing corrupt and anticompetitive behavior. In recent years, several jurisdictions have enhanced their laws and regulations in this area, increased their enforcement activities, and/or increased the level of cross-border coordination and information sharing.

We are and could in the future become subject to administrative and legal proceedings and actions, which could include claims for civil penalties (including treble damages under the False Claims Act), criminal sanctions, and administrative remedies, including exclusion from U.S. federal and other health care programs. It is possible that an adverse outcome in future actions could have a material adverse impact on our consolidated results of operations, liquidity, and financial position.

We are also subject to a variety of federal, state, local, and foreign environmental, health and safety, and other laws and regulations that may affect our research, development or production efforts.

Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access

U.S.

There continues to be considerable public and government scrutiny of pharmaceutical pricing, and measures to address the perceived high cost of pharmaceuticals are being considered at various levels of state and federal government. In addition, U.S. government action to reduce federal spending on entitlement programs, including Medicare and Medicaid, may affect payment for our products or services associated with the provision of our products. Additionally, there has been heightened governmental scrutiny recently over the manner in which drug manufacturers set prices for their marketed products, which has resulted in several Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs and reform government program reimbursement methodologies for drug products. Restrictive or unfavorable pricing, coverage, or reimbursement determinations for our medicines or product candidates by governments, regulatory agencies, or private payers could also adversely impact our business and financial results. For example, in January 2022, the CMS proposed a national coverage determination (NCD) decision memorandum stating that the proposed NCD would cover FDA approved monoclonal antibodies that target amyloid for the treatment of Alzheimer's disease for people with Medicare only if they are enrolled in qualifying clinical trials (the Alzheimer’s Monoclonal Antibody NCD). If finalized in its current form, the proposed Alzheimer’s Monoclonal Antibody NCD would result in reduced coverage for, and negatively impact, our product candidate donanemab, and may negatively impact our business and financial results. The regulatory priorities of the current U.S. presidential administration could further intensify these efforts, which could have a material adverse impact on our business.

In the U.S., we are required to provide rebates to the federal government and respective state governments on their purchases of our pharmaceuticals under various federal and state healthcare programs, including state Medicaid and Medicaid Managed Care programs (minimum of 23.1 percent plus adjustments for price increases over time) and discounts to private entities who treat patients in certain types of health care facilities intended to serve low-income and uninsured patients (known as 340B facilities). No rebates are required at this time in the Medicare Part B (physician and hospital outpatient) program where reimbursement is set on an "average sales price plus 4.3 percent" formula. Additionally, an annual fee is imposed on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs. Since 2019, the Bipartisan Budget Act has required manufacturers of brand-name drugs, biologics, and biosimilars to provide a discount of 70 percent of the cost of branded prescription drugs for Medicare Part D participants who are in the "doughnut hole" (the coverage gap in Medicare prescription drug coverage).

Rebates are also negotiated in the private sector. We pay rebates to private payers that provide prescription drug benefits to seniors covered by Medicare and to private payers that provide prescription drug benefits to their customers. These rebates are affected by the introduction of competitive products and generics in the same class. Our approach to the rebates we offer to private payers that provide prescription drug benefits to seniors covered by Medicare may be impacted by the 2020 regulatory amendments to the anti-kickback statute's discount safe harbor, which have currently been stayed until at least January 1, 2026. Pending legislation could repeal the amendments to the discount safe harbor. Accordingly, their impact on our business is uncertain at this time.

Outside the U.S.

Globally, public and private payers are increasingly restricting access to pharmaceuticals based on assessments of comparative effectiveness and value, including through the establishment of formal health technology assessment processes. In addition, third-party organizations, including professional associations, academic institutions, and non-profit entities associated with payers, are conducting and publishing comparative effectiveness and cost/benefit analyses on medicines, the impact of which are uncertain at this time.

In most international markets, we operate in an environment of government-mandated cost-containment programs, which may include price controls, international reference pricing (to other countries' prices), discounts and rebates, therapeutic reference pricing (to other, often generic, pharmaceutical choices), restrictions on physician prescription levels, and mandatory generic substitution. We may experience additional pricing pressures resulting from the financial strain of the COVID-19 pandemic on government-funded healthcare systems around the world.

We cannot predict the extent to which our business may be affected by these or other potential future legislative, regulatory, or payer developments. However, in general we expect to see continued focus on regulating pricing resulting in additional state, federal, and international legislative and regulatory developments that could have further negative effects on pricing and reimbursement for our products.

See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access" for additional information regarding recent legislative, administrative, and other pricing initiatives and their impact on our results.

Research and Development

Our commitment to research and development dates back more than 140 years. We invest heavily in research and development because we believe it is critical to our long-term competitiveness. At the end of 2021, we employed approximately 8,100 people in pharmaceutical research and development activities, including a substantial number of physicians, scientists holding graduate or postgraduate degrees, and highly skilled technical personnel.

Our internal pharmaceutical research focuses primarily on the areas of diabetes, immunology, neuroscience, and oncology. During the past two years, we have also focused on researching and developing potential treatments for COVID-19. In addition to discovering and developing new medicines, we seek to expand the value of existing products through new uses, formulations, and therapeutic approaches that provide additional value to patients.

To supplement our internal efforts, we collaborate with others, including academic institutions and research-based pharmaceutical and biotechnology companies. We use the services of physicians, hospitals, medical schools, and other research organizations worldwide to conduct clinical trials to establish the safety and effectiveness of our medicines. We also invest in external research and technologies that we believe complement and strengthen our own efforts. These investments can take many forms, including, among others, licensing arrangements, co-development agreements, co-promotion arrangements, joint ventures, acquisitions, and equity investments.

Pharmaceutical development is time-consuming, expensive, and risky. Very few of the candidates discovered by researchers ultimately become approved medicines. The process from discovery to regulatory approval can take over a decade. Candidates can fail at any stage of the process, and even late-stage candidates sometimes fail to receive regulatory approval or achieve commercial success. The following describes in more detail the research and development process for pharmaceutical products:

Phases of New Drug Development

- **Discovery Phase**

  In the discovery phase, scientists identify, design, and synthesize promising candidates by analyzing their effect on biological targets thought to play a role in disease. Targets are often unproven and only candidates that have the desired effect on the target and meet other design criteria move to the next phase of development, which includes the initiation of studies in animals to support regulatory and safety requirements for clinical research in humans. The discovery phase can take years and the probability of any one candidate becoming a medicine is extremely low.

- **Early Development Phase**

  Early development includes initial testing for safety and efficacy and early analyses of manufacturing requirements. Safety testing is initially performed in laboratory tests and animals, as necessary. In general, the first human tests (often referred to as Phase I) are conducted in small groups of subjects to assess safety and evaluate the potential dosing range. Subsequently, larger populations of patients are studied (Phase II) to identify initial signs of efficacy while continuing to assess safety. In parallel, scientists work to identify safe, effective, and economical manufacturing processes. Long-term animal studies continue to test for potential safety issues. Of the candidates that enter the early development phase, approximately 10 percent move to the late development phase. The early development phase varies but can take several years to complete.

- **Late Development Phase**

  Late phase development projects (typically Phase III) have met initial safety requirements and shown initial evidence of efficacy in earlier studies. As a result, these candidates generally have a higher likelihood of success and trials include larger patient populations to demonstrate safety and efficacy in the disease. These studies are designed to demonstrate the benefit and risk of the potential new medicine and may be compared to competitive therapies, placebo, or both. Phase III studies are generally conducted globally and are designed to support regulatory filings for marketing approval. The duration of Phase III testing varies by disease and may take two to four years.

- **Submission Phase**

  Once a potential new medicine is submitted to regulatory agencies, the time to final marketing approval can vary from several months to several years, depending on the disease state, the strength and complexity of available data, the degree of unmet need, and the time required for the regulatory agency(ies) to evaluate the submission, which can depend on prioritization by regulators and other factors. There is no guarantee that a potential medicine will receive marketing approval, or that decisions on marketing approvals or indications will be consistent across geographic areas.

We believe our investments in research, both internally and in collaboration with others, have resulted in a robust pipeline of potential new medicines and new treatment indications in all stages of development. We currently have approximately 45 new medicine candidates in clinical development or under regulatory review, and a larger number of projects in the discovery phase. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline," for more information on certain of our product candidates.

Raw Materials and Product Supply

Most of the principal materials we use in our manufacturing operations are available from more than one source. However, we obtain certain raw or intermediate materials primarily from only one source. We generally seek to maintain sufficient inventory to supply the market until an alternative source of supply could be implemented, in the event one of these suppliers was unable to provide the materials or product. However, various developments from time to time lead to interruption or shortages in supply until we establish new sources or, in some cases, implement alternative processes.

The majority of our revenue comes from products produced in our own facilities. Our principal active ingredient manufacturing occurs at sites we own in the U.S., including Puerto Rico, and Ireland. Finishing operations, including formulation, filling, assembling, delivery device manufacturing, and packaging, take place at a number of sites throughout the world. We utilize third parties for certain active ingredient manufacturing and finishing operations.

We manage our supply chain (including our own facilities, contracted arrangements, and inventory) in a way that is intended to allow us to meet substantially all expected product demand while maintaining flexibility to reallocate manufacturing capacity to improve efficiency and respond to changes in supply and demand. To maintain a stable supply of our products, we use a variety of techniques including comprehensive quality systems, inventory management, and back-up sites.

However, pharmaceutical production processes are complex, highly regulated, and vary widely from product to product. Shifting or adding manufacturing capacity can be a very lengthy process requiring significant capital expenditures, process modifications, and regulatory approvals. Accordingly, developments such as unplanned plant shutdowns, manufacturing or quality assurance difficulties at one of our facilities or contracted facilities, failure or refusal of a supplier or contract manufacturer to supply contracted quantities, increases in demand on a supplier, or difficulties in predicting or variability in demand for our products, from time to time lead to interruption or higher costs in the supply of certain products or product shortages. Further, global transportation and logistics challenges, as well as tight labor markets, have caused, and in the future may cause, delays in, and/or increase costs related to, distribution of our medicines, the construction or acquisition of manufacturing capacity, procurement activity, and supplier or contract manufacturer arrangements. For more information on the additional risks we face in connection with any difficulties, disruptions, and shortages in the manufacturing, distribution, and sale of our products, see "Risk Factors - Risks Related to Our Business - Manufacturing and supply chain difficulties, disruptions, or shortages could lead to product supply problems."

In addition, the strain on global transportation, logistics, and labor markets caused by the COVID-19 pandemic and an increase in overall demand in our industry for certain materials have had, and may continue to have, a number of impacts on our business, including increased costs to provide a consistent supply of our medicines where they are needed and disruptions in the supply of our medicines. For more information, see Item 1A, "Risk Factors - Risks Related to Our Business - The COVID-19 pandemic has adversely impacted and may continue to adversely impact our business and operations. We are currently unable to predict the full extent to which the COVID-19 pandemic or any future pandemic, epidemic, or similar public health threat will adversely impact our business and operations in the future." and Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - COVID-19 Pandemic."

Quality Assurance

Our success depends in great measure on customer confidence in the quality of our products and in the integrity of the data that support their safety and effectiveness. Product quality arises from a total commitment to quality in all parts of our operations, including research and development, purchasing, facilities planning, manufacturing, distribution, and dissemination of information about our medicines.

Quality of production processes involves strict control of ingredients, equipment, facilities, manufacturing methods, packaging materials, and labeling. We perform tests at various stages of production processes and on the final product in an effort to ensure that the product meets all applicable regulatory requirements and our internal standards. These tests may involve chemical and physical chemical analyses, microbiological testing, testing in animals, or a combination thereof. Additional assurance of quality is provided by quality assurance groups that audit and monitor all aspects of quality related to pharmaceutical manufacturing procedures and systems in company operations and at third-party suppliers.

Executive Officers of the Company

The following table sets forth certain information regarding our current executive officers.

The term of office for each executive officer expires on the date of the annual meeting of the board of directors, to be held on May 2, 2022 in connection with the company's annual meeting of shareholders, or on the date his or her successor is chosen and qualified. No director or executive officer has a "family relationship" with any other director or executive officer of the company, as that term is defined for purposes of this disclosure requirement. There is no understanding between any executive officer or director and any other person pursuant to which the executive officer was selected.

Name	Age	Titles and Business Experience
David A. Ricks	54	Chair, President, and Chief Executive Officer (CEO) (since 2017). Previously, Mr. Ricks held various leadership roles with Lilly, including senior vice president and president, Lilly Bio-Medicines. Mr. Ricks has 25 years of service with Lilly.
Anat Ashkenazi	49	Senior Vice President and Chief Financial Officer (since 2021). Previously, Ms. Ashkenazi held various leadership roles with Lilly, including senior vice president, controller and chief financial officer, Lilly Research Laboratories, and vice president, finance and chief financial officer, Lilly Diabetes and Lilly global manufacturing and quality. Ms. Ashkenazi has 20 years of service with Lilly.
Stephen F. Fry	56	Senior Vice President, Human Resources and Diversity (since 2011). Previously, Mr. Fry held various leadership roles with Lilly, including vice president, human resources. Mr. Fry has 34 years of service with Lilly.
Anat Hakim	52	Senior Vice President, General Counsel and Secretary (since 2020). Prior to joining Lilly, Ms. Hakim was senior vice president, general counsel and secretary of WellCare Health Plans, Inc. (WellCare) from 2016 to 2018, and executive vice president, general counsel and secretary of WellCare from 2018 to 2020. Prior to joining WellCare, she served as divisional vice president and associate general counsel of intellectual property litigation at Abbott Laboratories from 2010 to 2013 and divisional vice president and associate general counsel of litigation from 2013 to 2016. Ms. Hakim has two years of service with Lilly.
Edgardo Hernandez	47	Senior Vice President and President, Manufacturing Operations (since 2021). Previously, Mr. Hernandez held various leadership roles with Lilly, including senior vice president, global parenteral drug product, delivery devices and regional manufacturing, and vice president, Fegersheim operations. Mr. Hernandez has 17 years of service with Lilly.
Patrik Jonsson	55	Senior Vice President and President, Lilly Immunology, Lilly USA, and Chief Customer Officer (since 2021). Previously, Mr. Jonsson held various leadership roles with Lilly, including senior vice president and president, Lilly USA, and chief customer officer, senior vice president and president, Lilly Bio-Medicines and president and general manager, Lilly Japan. Mr. Jonsson has 31 years of service with Lilly.
Michael B. Mason	55	Senior Vice President and President, Lilly Diabetes (since 2020). Previously, Mr. Mason held various leadership roles with Lilly, including senior vice president, connected care and insulins and vice president of U.S. Diabetes. Mr. Mason has 32 years of service with Lilly.
Johna L. Norton	55	Senior Vice President, Global Quality (since 2017). Previously, Ms. Norton held various leadership roles with Lilly, including vice president, global quality assurance API manufacturing and product research and development. Ms. Norton has 31 years of service with Lilly.
Leigh Ann Pusey	59	Senior Vice President, Corporate Affairs and Communications (since 2017). Prior to joining Lilly, Ms. Pusey was president and chief executive officer of the American Insurance Association from 2009 to 2017. Ms. Pusey has four years of service with Lilly.
Diogo Rau	47	Senior Vice President and Chief Information and Digital Officer (since 2021). Prior to joining Lilly, Mr. Rau was senior director of information systems and technology for retail and online stores of Apple Inc. from 2011 to 2021. Prior to his tenure at Apple, he served as a partner at McKinsey & Company.
Daniel M. Skovronsky, M.D., Ph.D.	48	Senior Vice President, Chief Scientific and Medical Officer, and President, Lilly Research Laboratories (since 2021). Previously, Dr. Skovronsky held various leadership roles with Lilly, including senior vice president, chief scientific officer, and president, Lilly Research Laboratories, and senior vice president, clinical and product development. Dr. Skovronsky has 11 years of service with Lilly.
Jacob Van Naarden	37	Senior Vice President, CEO Loxo Oncology at Lilly, and President, Lilly Oncology (since 2021). Previously, Mr. Van Naarden served as Chief Executive Officer-Loxo Oncology at Lilly, and Chief Operating Officer-Loxo Oncology at Lilly. Mr. Van Naarden joined Lilly in 2019 when the company acquired Loxo Oncology, Inc., where he was the chief operating officer. In previous roles, Mr. Van Naarden worked in various biotechnology investing, operating, and advisory capacities, including positions with HealthCor Management, Aisling Capital, and Goldman Sachs. Mr. Van Naarden has three years of service with Lilly.
Alonzo Weems	51	Senior Vice President, Enterprise Risk Management, and Chief Ethics and Compliance Officer (since 2021). Previously, Mr. Weems held various leadership roles with Lilly, including vice president and deputy general counsel for corporate legal functions, general counsel for Lilly USA, and general counsel for biomedicines and diabetes. Mr. Weems has 24 years of service with Lilly.
Anne E. White	53	Senior Vice President and President, Lilly Neuroscience (since 2021). Previously, Ms. White held various leadership roles with Lilly, including senior vice president and president, Lilly Oncology, vice president of Portfolio Management, Chorus, and Next Generation Research and Development. Ms. White has 26 years of service with Lilly.
Ilya Yuffa	47	Senior Vice President and President, Lilly International (since 2021). Previously, Mr. Yuffa held various leadership roles with Lilly, including senior vice president and president, Lilly Bio-Medicines, vice president of U.S. Diabetes, general manager of Italy Hub, and vice president, global ethics and compliance officer since 2014. Mr. Yuffa has 25 years of service with Lilly.

Human Capital Management

Our core values—integrity, excellence, and respect for people—shape our approach to attracting, retaining, engaging, and developing a highly skilled and ethical workforce, which is critical to executing our strategy. We believe the strength of our workforce significantly contributes to our financial performance and enables us to make life better for people around the world. For instance, most of the products we sell today were discovered or developed by our own scientists, and our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines. We believe that fostering a positive culture that values the contributions of our talented colleagues helps drive our success.

We are committed to creating a safe, supportive, ethical, and rewarding work environment through strategic focus on our human capital management process, fairness and nondiscrimination in our employment practices, robust training and development opportunities, and competitive pay and benefits. We believe our dedication to promoting diversity, equity, and inclusion (DEI) within our company reflects our values and is a key driver of business success and growth.

We regularly conduct anonymous employee surveys to seek feedback from our workforce on a variety of topics. These results are reviewed and analyzed by our leaders in order to implement changes to our policies and benefits designed to improve our employees' well-being. As a result of our efforts, we believe that we have a highly performing, cohesive workforce and that our employee relations are good.

At the end of 2021, we employed approximately 35,000 people, including approximately 19,600 employees outside the U.S. Our employees include approximately 8,100 people engaged in research and development activities.

Strategy and Oversight

In order to build diverse and inclusive teams, our CEO and executive committee set expectations for inclusive leadership and hold leaders accountable for achieving results. Because dedication to human capital management is also a core component of our corporate governance, our board of directors regularly engages with management and facilitates a system of reporting designed to monitor human capital management initiatives and progress as part of the overarching framework that guides how we attract, retain, engage, and develop a workforce that aligns with our values and mission.

Diversity, Equity, and Inclusion

We are committed to fairness and nondiscrimination in our employment practices, and we deeply value diverse backgrounds, skills, and global perspectives. To fulfill our purpose, we believe we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us.

We believe that fostering DEI begins with understanding. For example, our *Employee Journeys* research has yielded important insights about the experiences of women, Black/African American, Latinx, Asian, and LGBTQ+ employees at Lilly. The results of this research are reviewed by our senior leadership, and we deploy actions and activities in response to these insights to improve our workplace and corporate culture.

In 2020, as part of our DEI and community initiatives, Lilly and the Lilly Foundation launched the Racial Justice Commitment and pledged $25 million and 25,000 volunteer hours over five years to help decrease the burden of racial injustice and its effects on communities of color. The Racial Justice Commitment aims to drive change across five areas: internal people development, health equity, social impact, diversity partners, and family sustaining jobs, through the use of financial and people resources. In 2021, we made progress in these efforts, including through the development of two apprenticeship programs at Lilly for individuals without college degrees.

Since 2017, we have committed to increasing the number of women, Black/African American, Latinx, and Asian populations in leadership roles, and we actively monitor our progress. From the end of 2017 through the end of 2021, we increased the percentage of women in management globally from 41 percent to 48 percent. For minority group members (MGM) in the U.S. over the same period, we increased management representation from 16 percent to 24 percent. Across all levels of our workforce, from the end of 2017 through the end of 2021, we have seen increased representation for MGMs in the U.S. and women globally. Our focus on DEI is also evident at our executive committee and board of directors. Five of 15 current members (approximately 33 percent) of our executive committee (which includes our CEO) are women and two are MGM. In addition, as of the filing of this report, the company's 13-member board of directors includes four women and six members who are MGMs.

Our efforts in DEI and workplace benefits have garnered numerous recognitions, including, in 2021, Top 50 Companies for Diversity by DiversityInc., America's Best Employers for Diversity by Forbes, America's Most JUST Companies and Forbes JUST 100 by Forbes and JUST Capital, Perfect Score on the Human Rights Campaign Foundation Corporate Equality Index, World's Most Ethical Companies by Ethisphere, Leading Disability Employer by the National Organization on Disability, Top Employers by Science Magazine, and 100 Best Companies, Top Companies for Executive Women, Best Companies for Dads, and Best Companies for Multicultural Women by Working Mother Magazine.

Employee Development

We believe talent begins with the hiring process. We therefore require hiring managers to consider a diverse pool of candidates and we strive to provide a diverse panel of interviewers for open positions. We believe that hiring in this way helps ensure that people from all backgrounds have equal opportunity to advance their careers.

We offer training to enable our employees to perform their duties in our highly regulated industry. We also strive to cultivate a culture that promotes ongoing learning by encouraging employees to seek further education and growth experiences, helping them build rewarding careers. We have introduced online programming to facilitate access to our learning and development offerings. Many training courses are designed to improve accessibility for people with disabilities and other unique needs. Across Lilly, we are working to design learning experiences to be more inclusive and effective. In addition, we have implemented tools and resources and improved our talent programs and processes to provide broad access to information and transparency regarding career development and advancement at Lilly.

In early 2022, we launched *Discover*, a 12-month new employee onboarding program with multiple touchpoints designed to foster integration into the Lilly culture, to accelerate learning in their new roles and to create connections to further a sense of belonging at Lilly. *Discover* was shaped in part by external benchmarking, feedback from employees, and learnings from onboarding remotely during the COVID-19 pandemic.

Employee resource groups (ERGs) are another important component of developing talent at Lilly. We currently have 11 ERGs representing groups including women, MGMs, LGBTQ+ individuals, veterans, and people with disabilities. ERGs offer our diverse workforce opportunities to build relationships, engage with senior leaders, advance our caring community, and offer unique insights and perspectives to improve our business.

We have continued our efforts to create an inclusive workplace with the goal of ensuring that all employees feel safe to speak up and share their ideas at work. Our *Make it Safe to Thrive* education and awareness program is designed to help employees and leaders understand how individual psychological safety can be created and enhanced and includes live and online training and a monthly video series.

Lilly is committed to fostering a culture of diversity and respect in the workplace—an environment free of discrimination, harassment, or retaliation of any kind. In 2022, as part of our annual review of The Red Book (Lilly's comprehensive code of business conduct applicable to our board and all employees worldwide) and related policies and procedures, we revised the Global Conduct in the Workplace procedure to continue to help ensure that we maintain a respectful, safe, inclusive, and professional workplace.

Employee Health and Safety

We strive to foster a healthy, vibrant work environment, which includes keeping our employees safe. We seek to create a companywide culture where best-in-class safety practices are consistently followed. To do this, we assess and continuously attempt to improve our companywide safety performance to promote the well-being of employees and to help safeguard communities where we operate. As the COVID-19 pandemic has evolved, we have taken various measures to protect and support the health and safety of our employees globally, including instituting travel restrictions and work-from-home arrangements, offering onsite testing and vaccination options where possible, and instituting safety precautions such as masking, social distancing, and enhanced cleaning practices. To support employee well-being in the U.S., we also enhanced local benefits related to health care, childcare, and time off. We believe this holistic approach and dedication to safety helps us be our best as we deliver on our company purpose to improve lives around the world.

Information Available on Our Website

Our company website is **www.lilly.com**. None of the information accessible on or through our website is incorporated into this Annual Report on Form 10-K. We make available through the website, free of charge, our company filings with the SEC as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. These include our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. The link to our SEC filings is **investor.lilly.com/financial-information/sec-filings**.

Paper copies of the company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q that are filed with the SEC are available without charge upon written request to:

ELI LILLY AND COMPANY
c/o General Counsel and Secretary
Lilly Corporate Center
Indianapolis, Indiana 46285

In addition, the Governance portion of our website includes our corporate governance guidelines, board of directors and committee information (including committee charters), and our articles of incorporation and bylaws. The link to our corporate governance information is **lilly.com/leadership/governance**.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the following risk factors should be considered carefully in evaluating our company. It is possible that our business, financial condition, liquidity, cash flows, or results of operations could be materially adversely affected by any of these risks. Certain of these risks could also adversely affect the company's reputation. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could also adversely affect our business and reputation.

Risks Related to Our Business

- **The COVID-19 pandemic has adversely impacted and may continue to adversely impact our business and operations. We are currently unable to predict the full extent to which the COVID-19 pandemic or any future pandemic, epidemic, or similar public health threat will adversely impact our business and operations in the future.**

  The COVID-19 pandemic continues to burden healthcare systems worldwide. The focus of resources on COVID-19, widespread protective measures implemented to control the spread of COVID-19, and the resulting strain on global transportation, manufacturing, and labor markets have negatively impacted development, manufacturing, supply, distribution, and sales of our medicines.

  Although in-person interactions with healthcare professionals have largely resumed, we continue to see a lack of "normal" access and fewer in-person interactions by patients and our employees with healthcare professionals. As the COVID-19 pandemic continues to develop, we may decide to halt such in-person interactions in the future and, in those cases, expect to resume such interactions as it is safe to do so and in compliance with applicable guidance and requirements.

  The strain on global transportation, logistics, and labor markets caused by the COVID-19 pandemic and an increase in overall demand in our industry for certain materials resulting in changed buying patterns and constrained supply have had, and may continue to have, a number of impacts on our business, including increased costs to provide a consistent supply of our medicines where they are needed and disruptions and shortages in the supply of our medicines. These factors may negatively affect our results of operations.

  We also face risks and uncertainties related to our COVID-19 therapies, including heightened regulatory scrutiny of our manufacturing practices, quality assurance, and similar regulations, restrictions on administration that limit widespread and timely access to our therapies, and risks related to handling, return, and/or refund of product after delivery by us. In addition, expedited authorization processes have allowed restricted distribution of products with less than typical safety and efficacy data, and additional data that become available may call into question the safety or effectiveness of our COVID-19 therapies. The availability of superior or competitive therapies, including therapies that can be administered more easily, or preventative measures such as vaccines, coupled with the unpredictable nature of pandemics, have and could further negatively impact or eliminate demand for our COVID-19 therapies. We also expect that additional revenue from the sale of bamlanivimab and etesevimab after the first quarter of 2022 will be limited. Mutations or the spread of other variants of the coronavirus have in some cases impacted the effectiveness of our COVID-19 therapies, and may further render our therapies more or less effective or ineffective. Furthermore, the FDA has revised, and may in the future revise, any EUA for our COVID-19 therapies in response to the prevalence of variants against which our therapies have varying degrees of efficacy. These and other risks related to COVID-19 could affect other aspects of our business or intensify other risks inherent in our business, including potentially resulting in delays or denials in the approval or launch of other products or indications.

  It remains difficult to reasonably assess or predict the full extent of the ongoing impact of the COVID-19 pandemic on us. The degree to which the COVID-19 pandemic continues to affect us will depend on developments that are highly uncertain and beyond our knowledge or control, including, but not limited to, the duration and severity of the pandemic, the actions taken to reduce its transmission, including widespread availability and efficacy of vaccines, the introduction and spread of new variants of the coronavirus that may be resistant to currently approved vaccines, the continuation of existing or implementation of new government restrictions and the speed with which, and extent to which, more stable economic and operating conditions resume. Should the COVID-19 pandemic, or any future pandemic, epidemic, or similar public health threat, and any associated supply chain disruption, labor

market impact, recession, or depression continue for a prolonged period, these risks could be exacerbated, causing further impact on our business and operations in the future.

- **Pharmaceutical research and development is very costly and highly uncertain; we may not succeed in developing, licensing, or acquiring commercially successful products sufficient in number or value to replace revenues of products that have lost or will soon lose intellectual property protection or are displaced by competing products or therapies.**

  There are many difficulties and uncertainties inherent in pharmaceutical research and development, the introduction of new products, and business development activities to enhance our product pipeline.

  There is a high rate of failure inherent in new drug discovery and development. To bring a drug from the discovery phase to market can take over a decade and often costs in excess of $2 billion. Failure can occur at any point in the process, including in later stages after substantial investment. As a result, most funds invested in research programs will not generate financial returns. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain or maintain necessary regulatory approvals or payer reimbursement or coverage, limited scope of approved uses, label changes, changes in the relevant treatment standards or the availability of new or better competitive products, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies establish high hurdles for the efficacy and safety of new products and indications. Delays and uncertainties in drug approval processes can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict revenue growth rates of new products and indications.

  We cannot state with certainty when or whether our products now under development will be approved or launched; whether, if initially granted, such approval will be maintained; whether we will be able to develop, license, or otherwise acquire additional product candidates or products; or whether our products, once launched, will be commercially successful.

  We must maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products, both through our internal efforts and our business development activities, sufficient both to cover our substantial research and development costs and to replace revenues that are lost as profitable products lose intellectual property exclusivity or are displaced by competing products or therapies. Failure to do so in the short-term or long-term would have a material adverse effect on our business, results of operations, cash flows, and financial position.

  We engage in various forms of business development activities to enhance our product pipeline, including licensing arrangements, co-development agreements, co-promotion arrangements, joint ventures, acquisitions, and equity investments. There are substantial risks associated with identifying successful business development targets and consummating related transactions. Increased focus on business combinations in our industry, including by the Federal Trade Commission, and heightened competition for attractive targets has and could continue to delay, jeopardize or increase the costs of our business development activities. In addition, failures or difficulties in integrating or retaining new personnel or the operations of the businesses, products, or assets we acquire (including related technology, commercial operations, compliance programs, manufacturing, distribution, and general business operations and procedures) may affect our ability to realize the expected benefits of business development transactions and may result in our incurrence of substantial asset impairment or restructuring charges. We also may fail to generate the expected revenue and pipeline enhancement from business development activities due to developments outside our control, including unsuccessful clinical trials, issues related to the quality, integrity, or broad applicability of data, regulatory impediments, and commercialization challenges. Accordingly, business development transactions may not be completed in a timely manner (if at all), may not result in successful commercialization of any product, and may give rise to legal proceedings or regulatory scrutiny.

  See Item 1, "Business - Research and Development - Phases of New Drug Development" and Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Late-Stage Pipeline," for more details about our current product pipeline.

- **We depend on products with intellectual property protection for most of our revenues, cash flows, and earnings; we have lost or soon will lose effective intellectual property protection for a number of our products, which has resulted and is likely to continue to result in rapid and severe declines in revenues.**

  A number of our products, including Alimta and Forteo, have recently lost, or soon will lose, significant patent protection and/or data protection in the U.S. as well as in key jurisdictions outside the U.S. We have faced, and remain exposed to, generic competition following the loss of such intellectual property protection. In particular, we expect that the entry of generic competition for Alimta in the U.S. following the loss of patent exclusivity will cause a rapid and severe decline in revenue for the product and have a material adverse effect on our consolidated results of operations and cash flows.

  Certain other significant products no longer have effective exclusivity through patent protection or data protection. For non-biologic products, loss of exclusivity (whether by expiration of legal rights or by termination thereof as a consequence of litigation) typically results in the entry of one or more generic competitors, leading to a rapid and severe decline in revenues, especially in the U.S. For biologics (such as Humalog, Humulin, Erbitux, Cyramza, Trulicity, Taltz, and Emgality), loss of exclusivity may or may not result in the near-term entry of competitor versions (i.e., biosimilars) due to many factors, including development timelines, manufacturing challenges, and/or uncertainties regarding the regulatory pathways for approval of the competitor versions. Generic pharmaceutical companies could also introduce a generic product before resolution of any related patent litigation.

  There is no assurance that the patents we are seeking will be granted or that the patents we hold will be found valid and enforceable if challenged. Moreover, patents relating to particular products, uses, formulations, or processes do not preclude other manufacturers from employing alternative processes or marketing alternative products or formulations that compete with our patented products. In addition, competitors or other third parties may assert claims that our activities infringe patents or other intellectual property rights held by them, or allege a third-party right of ownership in our existing intellectual property. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Patent Matters," and Item 1, "Business - Patents, Trademarks, and Other Intellectual Property Rights," for more details.

- **Our long-term success depends on intellectual property protection; if our intellectual property rights are invalidated, circumvented, or weakened, our business will be adversely affected.**

  Our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines. Without strong intellectual property protection, we would be unable to generate the returns necessary to support our significant investments in research and development, as well as the other expenditures required to bring new drugs to the market. Intellectual property protection varies throughout the world and is subject to change over time, depending on local laws and regulations. Changes to such laws and regulations could reduce protections for our innovative products. In the U.S., in addition to the process for challenging patents set forth in the BPCIA, which applies to biologic products, the Hatch-Waxman Act provides generic companies substantial incentives to seek to invalidate our patents covering pharmaceutical products. As a result, we expect that our U.S. patents on major pharmaceutical products, including biologics, will continue to be routinely challenged in litigation and may not be upheld. In addition, a separate IPR process currently allows competitors to seek invalidation of patents at the USPTO without the protections of the BPCIA or Hatch-Waxman Act. The use of IPR proceedings after the institution of litigation pursuant to the BPCIA or Hatch-Waxman Act is currently a topic of debate among legislators and the future ability of our competitors to use IPR proceedings as an alternative to Hatch-Waxman Act or BPCIA litigation procedures to challenge our patents remains uncertain. However, if our patents are challenged through this expedited review process, even if we prevail in demonstrating the validity of our patent, our win provides limited precedential value at the PTAB and no precedential value in federal district court, meaning the same patent can be challenged by other competitors. We face many generic manufacturer challenges to our patents outside the U.S. as well. The entry of generic competitors typically results in rapid and severe declines in revenues. In addition, competitors or other third parties may claim that our activities infringe patents or other intellectual property rights held by them. If successful, such claims could result in our being unable to market a product in a particular territory or being required to pay significant damages for past infringement or royalties on future sales. In addition, intellectual property protection in certain jurisdictions outside the U.S. is weak and we face additional risks to our intellectual property rights, including competition with generic or counterfeit versions of our products relatively shortly after launch. See Item 1, "Business -

Patents, Trademarks, and Other Intellectual Property Rights," and Item 8, "Financial Statements and Supplementary Data - Note 16: Contingencies," for more details.

- **We and our products face intense competition from multinational pharmaceutical companies, biotechnology companies, and lower-cost generic and biosimilar manufacturers, and such competition could have a material adverse effect on our business.**

  We compete with a large number of multinational pharmaceutical companies, biotechnology companies, and generic pharmaceutical companies and, in many cases, our products compete against the leading products of one or more of our competitors. To compete successfully, we must continue to deliver to the market innovative, cost-effective products that meet important medical needs. Our product revenues can be adversely affected by the introduction by competitors of branded products that are perceived as superior by the marketplace, by generic or biosimilar versions of our branded products, and by generic or biosimilar versions of other products in the same therapeutic class as our branded products. Our revenues can also be adversely affected by treatment innovations that eliminate or minimize the need for treatment with our drugs.

  Regulation of generic and biosimilar products varies around the world and such regulation is complex and subject to ongoing interpretation and implementation by regulatory agencies and courts. Particularly for biosimilars, recent health authority guidelines and legislative proposals could make it less burdensome for competitor products to enter the market and further incentivize uptake of biosimilars. In the U.S., the FDA has begun issuing "interchangeability" designations for biosimilar products, which could – subject to state law requirements – enable pharmacies to substitute biosimilars for innovator biological products. Given the importance of biologic products to our clinical-stage pipeline, such regulation could have a material adverse effect on our business. See Item 1, "Business - Competition" and "Business - Research and Development," for more details.

  In addition, we rely on our ability to attract, engage, and retain highly qualified and skilled personnel in order to compete effectively. To continue to commercialize our products, and advance the research, development, and commercialization of additional modalities and product candidates, we may need to expand our workforce, including in the areas of manufacturing, clinical trials management, regulatory affairs, and sales and marketing, both in and outside the U.S. We continue to face intense competition for qualified individuals from numerous multinational pharmaceutical companies, biotechnology companies, academic and other research institutions, as well as employers near our manufacturing and other facilities, which has and may continue to increase our labor costs. Our ability to attract and retain talent in our increasingly competitive environment may be further complicated by evolving employment trends arising from the COVID-19 pandemic, including vaccination mandates, increased preferences for remote, alternative, or flexible work arrangements, and other factors. Our failure to compete effectively for talent could negatively affect sales of our current and any future approved products, and could result in material financial, legal, commercial, or reputational harm to our business.

- **Failure, inadequacy, breach of, or unauthorized access to, our IT systems or those of our third-party service providers, unauthorized access to our confidential information, or violations of data protection laws, could each result in material harm to our business and reputation.**

  A great deal of confidential information owned by us or our business partners or other third parties is stored in our information systems, networks, and facilities or those of third parties. This includes valuable trade secrets and intellectual property, clinical trial information, corporate strategic plans, marketing plans, customer information, and personally identifiable information, such as employee and patient information (collectively, confidential information). We also rely, to a large extent, on the efficient and uninterrupted operation of complex information technology systems, infrastructure, and hardware (together, IT systems), some of which are within our control and some of which are within the control of third parties, to accumulate, process, store, and transmit large amounts of confidential information and other data. We are subject to a variety of continuously evolving and developing laws and regulations around the world related to privacy, data protection, and data security. Maintaining the security, confidentiality, integrity and availability of our IT systems and confidential information is vital to our business. Our failure, or the failure of our third party service providers, to protect and maintain the security, confidentiality, integrity, and availability of our (or their) IT systems and our confidential information and other data could significantly harm our reputation as well as result in significant costs, including those related to fines, litigation, and obligations to comply with applicable data breach laws.

IT systems are vulnerable to system inadequacies, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources. Cyber-attacks are growing in their frequency, sophistication, and intensity, and are becoming increasingly difficult to detect, mitigate, or prevent. Cyber-attacks come in many forms, including the deployment of harmful malware, exploitation of vulnerabilities (including those of third-party software or systems), denial-of-service attacks, the use of social engineering, and other means to compromise the confidentiality, integrity and availability of our IT systems, confidential information, and other data. Breaches resulting in the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information, or the unauthorized access to, disruption of, or interference with our IT systems, products and services, can occur in a variety of ways, including but not limited to, negligent or wrongful conduct by employees or others with permitted access to our systems and information, or wrongful conduct by hackers, competitors, certain governments or nation-states, or other current or former company personnel. Our third-party partners, including third-party providers of data hosting or cloud services, as well as suppliers, distributors, alliances, and other third parties with whom we may share data, face similar risks, which could affect us directly or indirectly. The healthcare industry has been and continues to be a target for cyber-attacks, and the number of threats has only increased over time. Numerous federal agencies that monitor and regulate internet and cyber-crime have issued guidance, alerts and directives warning of software vulnerabilities that require immediate patching, malicious actors targeting healthcare related systems and nation-state sponsored hacking designed to steal valuable information.

The failure, inadequacy, or breach of our IT systems or business processes, the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized access to, disclosure or use of, confidential information, or the unauthorized access to, disruption of, or interference with our products and services that rely on IT systems or business processes, could impair our ability to secure and maintain intellectual property rights; result in a product manufacturing interruption or failure, or in the interruption or failure of products or services that rely on IT systems or business processes; damage our operations, customer relationships, or reputation; result in unfavorable clinical trial results by virtue of incorrect or unreliable data; and/or cause us to lose trade secrets or other competitive advantages. Unauthorized disclosure of personally identifiable information could expose us to significant sanctions for violations of data privacy laws and regulations around the world and could damage public trust in our company. In addition, IT system security in jurisdictions outside the U.S. is weaker and may result in additional costs, uncertainties, and risks.

To date, system inadequacies, operating failures, unauthorized access, service interruptions or failures, security breaches, malicious intrusions, cyber-attacks, and the compromise, disruption, degradation, manipulation, loss, theft, destruction, or unauthorized disclosure or use of confidential information have not had a material impact on our consolidated results of operations. We maintain cyber liability insurance; however, this insurance may not be sufficient to cover the financial, legal, business, or reputational losses that may result from an interruption or breach of our IT systems. We continue to implement measures in an effort to protect, detect, respond to, and minimize or prevent these risks and to enhance the resiliency of our IT systems; however, these measures may not be successful and we may fail to detect or remediate security breaches, malicious intrusions, cyber-attacks, or other compromises of our systems. Any of these events could result in material financial, legal, commercial, or reputational harm to our business.

- **Significant economic downturns or international trade and other global disruptions or disputes could adversely affect our business and operating results.**

  While pharmaceuticals have generally been less sensitive to overall economic cycles, prolonged economic slowdowns could lead to decreased utilization of our products, affecting our sales volume. Declining tax revenues attributable to economic downturns increase the pressure on governments to reduce health care spending, leading to increasing government efforts to control drug prices and utilization. Additionally, some customers, including governments or other entities reliant upon government funding, may be unable to pay for our products in a timely manner. Also, if our customers, suppliers, or collaboration partners experience financial difficulties, we could experience slower customer collections, greater bad debt expense, and performance defaults by suppliers or collaboration partners. Similarly, in the event of a significant economic downturn, we could have difficulty accessing credit markets.

Significant portions of our business are conducted in Europe, including the United Kingdom, in Asia, including China, and in other international geographies. Trade and other global disputes and interruptions in international relationships, including related to tariffs, trade protection measures, import or export licensing requirements, the imposition of trade sanctions or similar restrictions by the U.S. or other governments, unrest or war, as well as pandemic diseases, such as COVID-19, affect our ability to do business. For example, tensions between the U.S. and China have led to a series of tariffs and sanctions being imposed by the U.S. on imports from China mainland, as well as other business restrictions. These and similar events could adversely affect us, or our business partners or customers.

- **Pharmaceutical products can develop unexpected safety or efficacy concerns, which could have a material adverse effect on our revenues, income, and reputation.**

  Pharmaceutical products receive regulatory approval based on data obtained in controlled clinical trials of limited duration. After approval, the products are used for longer periods of time by much larger numbers of patients. Accordingly, we and others (including regulatory agencies and private payers) collect extensive information on the efficacy and safety of our marketed products by continuously monitoring the use of our products in the marketplace. In addition, we or others may conduct post-marketing clinical studies on efficacy and safety of our marketed products. New safety or efficacy data from both market surveillance and post-marketing clinical studies may result in product label changes or other measures that could reduce the product's market acceptance and result in declining sales. Serious safety or efficacy issues that arise after product approval have, and could in the future, result in voluntary or mandatory product recalls or withdrawals from the market. Safety issues have, and could in the future, result in costly product liability claims. See also " - The COVID-19 pandemic has adversely impacted and may continue to adversely impact our business and operations. We are currently unable to predict the full extent to which the COVID-19 pandemic or any future pandemic, epidemic, or similar public health threat will adversely impact our business and operations in the future."

- **We face litigation and investigations related to our products, how we price our products, and how we commercialize our products; we could face large numbers of claims in the future, which could adversely affect our business, and we are self-insured for such matters.**

  We are subject to a substantial number of product liability claims involving various current and historical products, litigation and investigations related to how we commercialize and/or how we price our products, including relating to our 340B drug pricing program, as well as contractual disputes. See Item 8, "Financial Statements and Supplementary Data - Note 16, Contingencies" for more information on our current product liability litigation, as well as pricing litigation, investigations, and inquiries. Because of the nature of pharmaceutical products, we are and could in the future become subject to large numbers of product liability claims for our previous, current, or future products, or to further litigation or investigations, including related to pricing or other commercial practices. Such matters could affect our results of operations or require us to recognize substantial charges to resolve and, if involving marketed products, could adversely affect sales of the product. Due to a very restrictive market for liability insurance, we are self-insured for litigation liability losses for all our currently marketed products, as well as for litigation or investigations related to our pricing practices or other similar matters.

- **Manufacturing and supply chain difficulties, disruptions, or shortages could lead to product supply problems.**

  Pharmaceutical manufacturing is complex and highly regulated. Manufacturing or quality assurance difficulties at our facilities or contracted facilities, the failure or refusal of a supplier or contract manufacturer to supply contracted quantities, or increases in demand on a supplier could result in delays and disruptions in the manufacturing, distribution, and sale of our products and/or product shortages, leading to lost revenue. Further, global transportation and logistics challenges, as well as tight labor markets, have caused, and in the future may cause, delays in, and/or increase costs related to, distribution of our medicines, the construction or other acquisition of manufacturing capacity, procurement activity, and supplier or contract manufacturer arrangements. Such difficulties, disruptions, or challenges could result from quality, oversight, or regulatory compliance problems; natural disasters or pandemic disease; equipment, mechanical, data, or information technology system vulnerabilities, such as system inadequacies, inadequate controls or procedures, operating failures, service interruptions or failures, security breaches, malicious intrusions, or cyber-attacks from a variety of sources; labor shortages; contractual disputes with our suppliers and contract manufacturers; or inability to obtain single-source or other raw or intermediate materials. In addition, difficulties in predicting or variability in demand for our

products and indications and the very long lead times necessary for the expansion and regulatory qualification of pharmaceutical manufacturing capacity from time to time result in difficulty meeting demand for, or disruptions, shortages, and higher costs in the supply of, our products. See Item 1, "Business - Raw Materials and Product Supply," for more details.

- **Reliance on third-party relationships and outsourcing arrangements could adversely affect our business.**

  We rely on third parties, including suppliers, distributors, alliances, and collaborations with other pharmaceutical and biotechnology companies, and third-party service providers, for selected aspects of product and clinical development, manufacturing, commercialization, hosting of, and support for, information technology systems, product distribution, and certain financial transactional processes. As examples, we outsource the day-to-day management and oversight of some of our clinical trials to contract research organizations and the distribution of our products through logistics providers. Outsourcing these functions involves the risk that the third parties may not perform to our standards or legal requirements; may not produce reliable results; may not perform in a timely manner; may not maintain the confidentiality, integrity, and availability of confidential and proprietary information relating to us, our clinical trial subjects, or patients; may experience disruption or fail to perform due to information technology system vulnerabilities, breaches, cyber-attacks, or inadequate controls or procedures; may be unable to satisfy their commitments to us in which case we may not be able to achieve acceptable alternative sourcing; or may fail to perform at all. The foregoing risks may be heightened in jurisdictions outside the U.S., where we may face additional costs, uncertainties, and risks. Failure of these third parties to meet their contractual, regulatory, confidentiality, privacy, security, or other obligations to us, our clinical trial subjects, and our patients could have a material adverse effect on our business.

Risks Related to Government Regulation

- **Our business is subject to increasing government price controls and other public and private restrictions on pricing, reimbursement, and access for our drugs, which could have a material adverse effect on our reputation or business.**

  Public and private payers continue to take aggressive steps to control their expenditures for pharmaceuticals by placing restrictions on pricing and reimbursement for, and patient access to, our medicines. These pressures could continue to negatively affect our future revenues and net income. Governments and private payers worldwide have intensified their scrutiny of, and actions intended to address, pricing, reimbursement, and access to pharmaceutical products. Additional policies, regulations, legislation, or enforcement, including as a result of the regulatory priorities of the current U.S. presidential administration and other regulatory authorities worldwide, could adversely impact our business and revenue. For example, pending legislation in the U.S. could result in government negotiation of the price of some of our medicines, including insulin. Furthermore, restrictive or unfavorable pricing, coverage, or reimbursement determinations for our medicines or product candidates by governments, regulatory agencies, or private payers, such as the recently proposed Alzheimer’s Monoclonal Antibody NCD, may adversely impact our business and financial results. However, we cannot predict the likelihood, nature, or extent of current and future health care reform efforts. We also may continue to experience potential additional pricing pressures resulting from the financial strain of the COVID-19 pandemic on government-funded healthcare systems around the world.

  For more details, see Item 1, "Business - Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access," Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access," and Item 8, "Financial Statements and Supplementary Data - Note 16: Contingencies."

- **Changes in foreign currency rates, interest rate risks, or inflation could materially affect our results of operations.**

  As a global company, we face foreign currency risk exposure from fluctuating currency exchange rates, interest rate risk from our exposure to floating and variable interest rates, and inflation risk from existing and expected rates of inflation in the U.S. and other jurisdictions. While we seek to manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates, interest rates, and inflation can have a material impact, either positive or negative, on our

results of operations. Further, in the event of an extreme devaluation of local currency, the price of our products could become unsustainable in the relevant market. In addition, the discontinuation, modification, or other reform of the London Interbank Offered Rate (LIBOR), or the replacement of LIBOR with a different reference rate, could increase our interest expense, decrease our cash flows, and/or require us to amend certain of our existing agreements. See Item 7, "Management's Discussion and Analysis - Financial Condition and Liquidity" and Item 8, "Financial Statements and Supplementary Data - Note 1: Summary of Significant Accounting Policies and Implementation of New Financial Accounting Standard" for more details.

- **Changes in tax laws or exposure to additional tax liabilities could increase our income taxes and decrease our net income.**

  We are subject to income taxes in the U.S. and numerous foreign jurisdictions, and in the course of our business, we make judgments about the expected tax treatment of various transactions and events. Changes in tax laws, regulations, administrative practices, principles, and interpretations, as well as events that differ from our expectations, have affected and may adversely affect our effective tax rates, cash flows, and/or and results of operations. For example, in December 2017, the U.S. enacted tax reform legislation significantly revising U.S. tax laws, and a number of other countries are also actively considering or enacting tax changes. Significant uncertainty currently exists regarding proposed tax policies of the current U.S. presidential administration and Congress, including modifications to certain aspects of the 2017 tax law. In addition, tax authorities in the U.S. and other jurisdictions in which we do business routinely examine our tax returns and are intensifying their scrutiny and examinations of profit allocations among jurisdictions, which could unfavorably impact our results of operations. Further, actions taken with respect to tax-related matters by associations such as the Organisation for Economic Cooperation and Development and the European Commission could influence tax laws in countries in which we operate. Modifications to key elements of the current U.S. or international tax framework could have a significant impact on our effective tax rate, results of operations, and cash flows. See Item 7, "Management's Discussion and Analysis - Results of Operations - Executive Overview - Other Matters - Tax Matters" and Item 8, "Financial Statements and Supplementary Data - Note 14: Income Taxes," for more details.

- **Regulatory compliance problems could be damaging to the company.**

  The marketing, promotional, and pricing practices of pharmaceutical manufacturers, as well as the manner in which manufacturers interact with purchasers, prescribers, and patients, are subject to extensive regulation. Many companies, including us, have been subject to claims related to these practices asserted by federal, state, and foreign governmental authorities, private payers, and consumers. These claims have resulted in substantial expense and other significant consequences to us. We are and could in the future become subject to such investigations, the outcomes of which could include criminal charges and fines, penalties, or other monetary or non-monetary remedies, including exclusion from U.S. federal and other health care programs. Such investigations have intensified and may continue to intensify as a result of the regulatory priorities of the current U.S. presidential administration and other regulatory authorities worldwide. In addition, regulatory issues concerning compliance with cGMP, quality assurance, and similar regulations (and comparable foreign regulations) for our products can lead to regulatory and legal actions, product recalls and seizures, fines and penalties, interruption of production leading to product shortages, import bans or denials of import certifications, delays or denials in the approvals of new products or supplemental approvals of current products pending resolution of the issues, and reputational harm, any of which would adversely affect our business. Regulatory compliance and processes in jurisdictions outside the U.S. may also be less predictable and result in additional costs, uncertainties, and risks. See Item 1, "Business - Government Regulation of Our Operations," for more details.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal domestic and international executive offices are located in Indianapolis. At December 31, 2021, we owned 9 production and distribution sites in the United States (U.S.), including Puerto Rico. Together with the corporate administrative offices, these facilities contain an aggregate of approximately 8.1 million square feet of floor area dedicated to production, distribution, and administration. Major production sites include Indianapolis, Indiana; Carolina, Puerto Rico; and Branchburg, New Jersey.

We own production and distribution sites in 7 countries outside the U.S., containing an aggregate of approximately 4.7 million square feet of floor area. Major production sites include facilities in Ireland, France, Spain, Italy, and China.

In the U.S., our research and development facilities contain an aggregate of approximately 4.4 million square feet of floor area, primarily consisting of owned facilities located in Indianapolis and smaller leased sites primarily in San Diego, California; San Francisco, California; and New York, New York. Outside the U.S., we own a small research and development facility in Spain and lease a small site in Singapore.

We believe that none of our properties is subject to any encumbrance, easement, or other restriction that would detract materially from its value or impair its use in the operation of the business. The buildings we own are of varying ages and in good condition.

Item 3. Legal Proceedings

We are a party to various currently pending legal actions, government investigations, and environmental proceedings. Information pertaining to legal proceedings is described in Item 8, "Financial Statements and Supplementary Data - Note 16: Contingencies," and incorporated by reference herein.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Information relating to the principal market for our common stock and related stockholder matters is described in Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters." This information is incorporated herein by reference.

As of February 18, 2022, there were approximately 20,641 holders of record of our common stock based on information provided by EQ Shareowner Services, our transfer agent. Our common stock is listed under the ticker symbol LLY on the New York Stock Exchange (NYSE).

The following table summarizes the activity related to repurchases of our equity securities during the fourth quarter ended December 31, 2021:

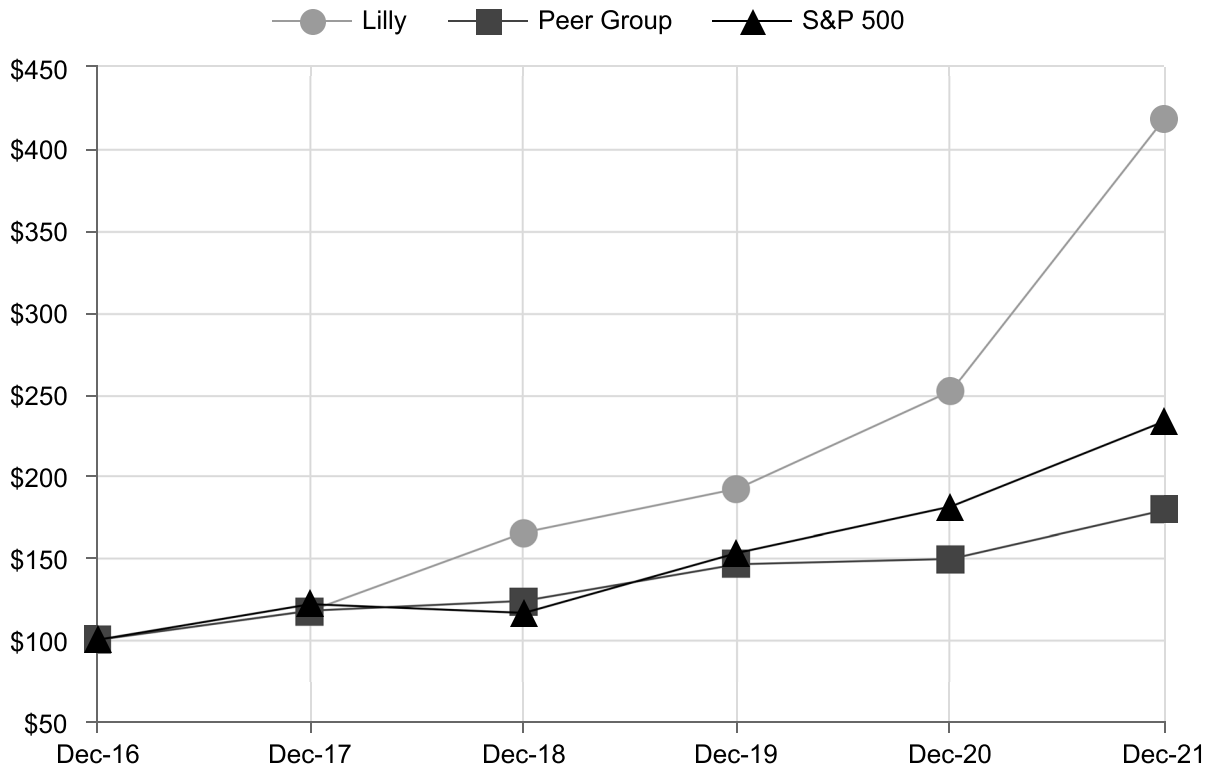
Period	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (dollars in millions)
October 2021	2,398	$ 254.70	2,398	$ 4,889.1
November 2021	—	—	—	4,889.1
December 2021	546	254.70	546	4,750.0
Total	2,944	254.70	2,944	

During the three months ended December 31, 2021, we repurchased the remaining $500.0 million of shares available under the $8.00 billion share repurchase program authorized in June 2018 and $250.0 million of shares available under the $5.00 billion share repurchase program authorized in May 2021.

PERFORMANCE GRAPH

The following graph compares the return on Lilly stock with that of the Standard & Poor's (S&P) 500 Stock Index and our peer group for the years 2017 through 2021. The graph assumes that, on the last business day of 2016, a person invested $100 each in Lilly stock, the S&P 500 Stock Index, and the peer group's collective common stock. The graph measures total shareholder return, which takes into account both stock price and dividends. It assumes that dividends paid by a company are immediately reinvested in that company's stock.

Value of $100 Invested on Last Business Day of 2016 Comparison of Five-Year Cumulative Total Shareholder Return Among Lilly, S&P 500 Stock Index, and Peer Group[(1)]



	Lilly	Peer Group	S&P 500
Dec-16	$ 100.00	$ 100.00	$ 100.00
Dec-17	117.83	117.86	121.83
Dec-18	165.50	123.85	116.49
Dec-19	192.23	146.23	153.17
Dec-20	251.93	149.47	181.35
Dec-21	418.40	179.16	233.41

(1) We constructed the peer group as the industry index for this graph. It is comprised of the following companies in the pharmaceutical and biotechnology industries: AbbVie Inc.; Amgen Inc.; AstraZeneca PLC; Biogen Inc.; Bristol-Myers Squibb Company; Gilead Sciences Inc.; GlaxoSmithKline plc; Johnson & Johnson; Merck & Co., Inc.; Novartis AG.; Novo Nordisk A/S; Pfizer Inc.; Roche Holding AG; Sanofi S.A.; and Takeda Pharmaceutical Company Limited. The peer group used for performance benchmarking aligns with the peer group used for executive compensation purposes for 2021 other than our peer group for performance benchmarking excludes Allergan plc, Celgene Corporation, and Shire plc as they were acquired in 2020, 2019 and 2019, respectively.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS
(Tables present dollars in millions, except per-share data)

General

Management's discussion and analysis of results of operations and financial condition is intended to assist the reader in understanding and assessing significant changes and trends related to the results of operations and financial position of our consolidated company. This discussion and analysis should be read in conjunction with Item 8, "Financial Statements and Supplementary Data." Certain statements in this Item 7 constitute forward-looking statements. Various risks and uncertainties, including those discussed in "Forward-Looking Statements" and Item 1A, "Risk Factors," may cause our actual results, financial position, and cash generated from operations to differ materially from these forward-looking statements.

Executive Overview

This section provides an overview of our financial results, recent product and late-stage pipeline developments, and other matters affecting our company and the pharmaceutical industry. Earnings per share (EPS) data are presented on a diluted basis.

COVID-19 Pandemic

In response to the COVID-19 pandemic, we have focused on maintaining a supply of our medicines; reducing the strain on the medical system; developing treatments for COVID-19; protecting the health, safety, and well-being of our employees; supporting our communities; and ensuring affordability of and access to our medicines, particularly insulin. As part of our response to the COVID-19 pandemic, and at the request of the United States (U.S.) and international governments, we invested in large-scale manufacturing of COVID-19 antibodies at risk, in order to ensure rapid access to patients around the world.

The U.S. Food and Drug Administration (FDA) granted Emergency Use Authorizations (EUA) for bamlanivimab and etesevimab administered together for higher-risk patients who have been recently diagnosed with mild-to-moderate COVID-19 and for baricitinib for treatment with or without remdesivir in hospitalized COVID-19 patients. In the third quarter of 2021, the FDA expanded the EUA for bamlanivimab and etesevimab administered together to include post-exposure prophylaxis in certain individuals for the prevention of SARS-CoV-2 infection. We expect that additional revenue from the sale of bamlanivimab and etesevimab after the first quarter of 2022 will be limited. In February 2022, the FDA granted an EUA for bebtelovimab for certain high-risk patients who have been recently diagnosed with mild-to-moderate COVID-19. We have agreed with the U.S. government to supply up to 600,000 doses of bebtelovimab no later than March 31, 2022 for at least $720 million with an option of 500,000 additional doses no later than July 31, 2022. The FDA has revised, and may in the future revise, any EUA for our COVID-19 therapies in response to the prevalence of variants against which our therapies have varying degrees of efficacy.

The COVID-19 pandemic has, and may continue to, adversely impact our business and operations. The focus of resources on COVID-19, widespread protective measures implemented to control the spread of COVID-19, and the resulting strain on global transportation, manufacturing, and labor markets have negatively impacted development, manufacturing, supply, distribution, and sales of our medicines. In addition to decreases in new prescriptions, changes in payer segment mix, and the increased use of patient affordability programs in the U.S., we have experienced, and may continue to experience if the COVID-19 pandemic undergoes resurgent or more severe waves, decreased demand as a result of lack of "normal" access and fewer in-person interactions by patients and our employees with healthcare professionals.

We also face risks and uncertainties related to our COVID-19 therapies, including heightened regulatory scrutiny of our manufacturing practices, quality assurance, and similar regulations, restrictions on administration that limit widespread and timely access to our therapies, and risks related to handling, return, and/or refund of product after delivery by us. The availability of superior or competitive therapies, including therapies that can be administered more easily, or preventative measures such as vaccines, coupled with the unpredictable nature of pandemics, have and could further negatively impact or eliminate demand for our COVID-19 therapies. Mutations or the spread of other variants of the coronavirus have in some cases impacted the effectiveness of our COVID-19 therapies, and may further render our therapies more or less effective or ineffective.

The strain on global transportation, logistics, and labor markets caused by the COVID-19 pandemic and an increase in overall demand in our industry for certain materials resulting in changed buying patterns and constrained supply have had, and may continue to have, a number of impacts on our business, including increased costs to provide a consistent supply of our medicines where they are needed and potential disruptions in the supply of our medications. These factors may negatively affect our results of operations.

It remains difficult to reasonably assess or predict the full extent of the ongoing impact of the COVID-19 pandemic on us. The degree to which the COVID-19 pandemic continues to affect us will depend on developments that are highly uncertain and beyond our knowledge or control. We are currently unable to predict the full extent to which the COVID-19 pandemic or any future pandemic, epidemic or similar public health threat will adversely impact our business and operations in the future.

See Item 1A, "Risk Factors" for additional information on risk factors that could impact our business and operations.

Financial Results

The following table summarizes our key operating results:

	Year Ended December 31		Percent Change
	2021	2020	
Revenue	**$ 28,318.4**	$ 24,539.8	15
Gross margin	**21,005.6**	19,056.5	10
Gross margin as a percent of revenue	**74.2 %**	77.7 %	
Operating expenses	**$ 13,457.5**	$ 12,206.9	10
Acquired in-process research and development	**874.9**	660.4	32
Asset impairment, restructuring, and other special charges	**316.1**	131.2	NM
Other—net, (income) expense	**201.6**	(1,171.9)	NM
Income before income taxes	**6,155.5**	7,229.9	(15)
Income taxes	**573.8**	1,036.2	(45)
Net income	**5,581.7**	6,193.7	(10)
EPS	**6.12**	6.79	(10)

NM - not meaningful

Revenue increased in 2021 driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices. Operating expenses, defined as the sum of research and development and marketing, selling, and administrative expenses, increased in 2021, driven primarily by higher development expenses for late-stage assets. The decreases in net income and EPS in 2021 were driven primarily by reduction in other-net, (income) expense and higher operating expenses, partially offset by higher gross margin.

The following highlighted items affect comparisons of our 2021 and 2020 financial results:

2021

Cost of Sales (See Note 6 to the consolidated financial statements)

- We recognized a net inventory impairment charge related to our COVID-19 antibodies of $339.7 million. As part of our response to the COVID-19 pandemic, and at the request of the U.S. and international governments, we invested in large-scale manufacturing of COVID-19 antibodies at risk, in order to ensure rapid access to patients around the world. As the COVID-19 pandemic evolved during 2021, we incurred a net inventory impairment charge primarily due to the combination of changes to current and forecasted demand from U.S. and international governments, including changes to our agreement with the U.S. government, and near-term expiry dates of COVID-19 antibodies.

Acquired In-Process Research and Development (IPR&D) (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $874.9 million related to business development transactions.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $316.1 million primarily related to an impairment of a contract-based intangible asset from our acquisition of Loxo Oncology, Inc. (Loxo), an intangible asset impairment resulting from the sale of the rights to Qbrexza®, as well as acquisition and integration costs associated with the acquisition of Prevail Therapeutics Inc. (Prevail).

Other-Net, (Income) Expense (Note 18 to the consolidated financial statements)

- We recognized a debt extinguishment loss of $405.2 million related to the repurchase of debt.
- We recognized $176.9 million of net investment gains on equity securities.

2020

Acquired IPR&D (Note 3 to the consolidated financial statements)

- We recognized acquired IPR&D charges of $660.4 million related to business development transactions.

Asset Impairment, Restructuring, and Other Special Charges (Note 5 to the consolidated financial statements)

- We recognized charges of $131.2 million primarily related to severance costs incurred as a result of actions taken worldwide to reduce our cost structure.

Other-Net, (Income) Expense (Note 18 to the consolidated financial statements)

- We recognized $1.44 billion of net investment gains on equity securities.

Late-Stage Pipeline

Our long-term success depends on our ability to continually discover or acquire, develop, and commercialize innovative new medicines. We currently have approximately 45 new medicine candidates in clinical development or under regulatory review, and a larger number of projects in the discovery phase.

The following certain new molecular entities (NMEs) are currently in Phase II or Phase III clinical trials or have been submitted for regulatory review in the U.S., Europe, or Japan. The following table reflects the status of certain NMEs, including certain other developments since our Quarterly Report on Form 10-Q for the quarter ended September 30, 2021.

Compound	Indication	Status	Developments
COVID-19 Antibodies			
Bebtelovimab (LY-CoV1404)	COVID-19	Emergency Use Authorization	The FDA granted EUA for certain high-risk patients recently diagnosed with mild-to-moderate COVID-19 in February 2022.
Diabetes			
Tirzepatide	Type 2 diabetes	Submitted	Submitted in the U.S. using a priority review voucher and in Europe and Japan in 2021.
	Heart failure with preserved ejection fraction	Phase III	Phase III trials are ongoing.
	Obesity		
	Nonalcoholic steatohepatitis	Phase II	Phase II trial is ongoing.
Basal Insulin-Fc	Type 1 and 2 diabetes	Phase II	Phase II trials are ongoing.
GGG Tri-Agonist	Obesity	Phase II	Phase II trials are ongoing.
	Type 2 diabetes		
GLP-1R NPA	Obesity	Phase II	Phase II trials are ongoing.
	Type 2 diabetes		
Immunology			
Lebrikizumab[(1)]	Atopic dermatitis	Phase III	Granted FDA Fast Track designation[(2)]. Announced in 2021 that Phase III trials met primary and all key secondary endpoints. Phase III trials are ongoing.
Mirikizumab	Crohn's Disease	Phase III	Phase III trials are ongoing.
	Ulcerative colitis		Announced in 2021 that Phase III trials met primary and all key secondary endpoints.
CXCR1/2 Ligands Monoclonal Antibody	Hidradenitis suppurativa	Phase II	Phase II trial is ongoing.
IL-2 Conjugate	Systemic lupus erythematosus	Phase II	Phase II trials are ongoing.
	Ulcerative colitis		
PD-1 MAB Agonist	Rheumatoid arthritis	Phase II	Phase II trial is ongoing.

Compound	Indication	Status	Developments
Neuroscience			
Donanemab	Early Alzheimer's disease	Submission initiated	Granted FDA Breakthrough Therapy designation[3]. Initiated a rolling submission in the U.S. for accelerated approval in 2021. Phase III trials are ongoing.
	Preclinical Alzheimer's disease	Phase III	Phase III trial is ongoing.
Solanezumab	Preclinical Alzheimer's disease	Phase III	Phase III trial is ongoing.
Epiregulin/TGFα MAB	Chronic pain	Phase II	Phase II trials are ongoing.
GBA1 Gene Therapy (PR001)	Parkinson's disease	Phase II	Acquired in the Prevail acquisition in 2021. Granted FDA Fast Track designation[2]. Phase II trials are ongoing.
GRN Gene Therapy (PR006)	Frontotemporal dementia	Phase II	
O-glc-NAcase	Alzheimer's disease	Phase II	Phase II trial initiated in the fourth quarter of 2021.
PACAP38 Antibody	Chronic pain	Phase II	Phase II trial is ongoing.
SSTR4 Agonist	Chronic pain	Phase II	Phase II trials are ongoing.
TRPA1 Antagonist	Pain	Phase II	Phase II trials are ongoing.
Oncology			
Selpercatinib (Retevmo®)	Lung cancer	Approved[4]	Phase III trials are ongoing.
	Thyroid cancer		
Sintilimab injection[5]	Lung cancer	Submitted	In February 2022, the Oncologic Drugs Advisory Committee recommended that the FDA require additional clinical trials prior to a final regulatory decision.
Pirtobrutinib (LOXO-305)	Mantle cell lymphoma	Submission initiated	Initiated a rolling submission in the U.S. for accelerated approval in the fourth quarter of 2021. Phase II and Phase III trials are ongoing.
	Chronic lymphocytic leukemia	Phase III	Phase III trials are ongoing.
	B-cell malignancies	Phase II	Phase II trial is ongoing.
Imlunestrant	ER+HER2- metastatic breast cancer	Phase III	Phase III trial is ongoing.

[1] In collaboration with Almirall, S.A. in Europe.
[2] Fast Track designation is designed to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.
[3] Breakthrough Therapy designation is designed to expedite the development and review of potential medicines that are intended to treat a serious condition where preliminary clinical evidence indicates that the treatment may demonstrate substantial improvement over available therapy on a clinically significant endpoint.
[4] Continued approval may be contingent on verification and description of clinical benefit in confirmatory Phase III trials.
[5] In collaboration with Innovent Biologics, Inc.

Our pipeline also contains several new indication line extension (NILEX) products. The following certain NILEX products for use in the indication described are currently in Phase II or Phase III clinical trials or have been submitted for regulatory review in the U.S., Europe, or Japan. The following table reflects the status of certain NILEX products, including certain other developments since our Quarterly Report on Form 10-Q for the quarter ended September 30, 2021:

Compound	Indication	Status	Developments
Diabetes			
Empagliflozin (Jardiance®)[1]	Heart failure with preserved ejection fraction	Submitted	Granted FDA Breakthrough Therapy designation[2] and FDA Fast Track designation[3]. Submitted in the U.S. and Europe in 2021 and in Japan in January 2022. The FDA granted priority review for adults with heart failure independent of left ventricular ejection fraction.
	Chronic kidney disease	Phase III	Granted FDA Fast Track designation[3]. Phase III trials are ongoing.
Immunology			
Baricitinib (Olumiant®)	COVID-19	Emergency Use Authorization[4]	Submitted in the U.S. and the FDA granted priority review in January 2022.
	Alopecia areata	Submitted	Granted FDA Breakthrough Therapy designation[2]. Submitted in U.S., Europe and Japan in 2021.
	Systemic lupus erythematosus	Discontinued	Announced in January 2022 that, based on top-line efficacy results from Phase III trials, we discontinued development.
Oncology			
Abemaciclib (Verzenio®)	HR+, HER2- Adjuvant breast cancer	Approved	Approved in the U.S. and Japan in the fourth quarter of 2021.
	Prostate cancer	Phase III	Phase III trial is ongoing.
	HR+, HER2+ Adjuvant breast cancer	Discontinued	Announced in January 2022 that we will discontinue the Phase III trial in response to the changing treatment landscape and global enrollment challenges.

[1] In collaboration with Boehringer Ingelheim.
[2] Breakthrough Therapy designation is designed to expedite the development and review of potential medicines that are intended to treat a serious condition where preliminary clinical evidence indicates that the treatment may demonstrate substantial improvement over available therapy on a clinically significant endpoint.
[3] Fast Track designation is designed to expedite the development and review of new therapies to treat serious conditions and address unmet medical needs.
[4] The FDA granted EUA for treatment with or without remdesivir in hospitalized COVID-19 patients.

There are many difficulties and uncertainties inherent in pharmaceutical research and development and the introduction of new products, as well as a high rate of failure inherent in new drug discovery and development. To bring a drug from the discovery phase to market can take over a decade and often costs in excess of $2 billion. Failure can occur at any point in the process, including in later stages after substantial investment. As a result, most funds invested in research programs will not generate financial returns. New product candidates that appear promising in development may fail to reach the market or may have only limited commercial success because of efficacy or safety concerns, inability to obtain or maintain necessary regulatory approvals or payer reimbursement or coverage, limited scope of approved uses, label changes, changes in the relevant treatment standards or the availability of new or better competitive products, difficulty or excessive costs to manufacture, or infringement of the patents or intellectual property rights of others. Regulatory agencies establish high hurdles for the efficacy and safety of new products and indications. Delays and uncertainties in drug approval processes can result in delays in product launches and lost market opportunity. In addition, it can be very difficult to predict revenue growth rates of new products and indications.

We manage research and development spending across our portfolio of potential new medicines. A delay in, or termination of, any one project will not necessarily cause a significant change in our total research and development spending. Due to the risks and uncertainties involved in the research and development process, we cannot reliably estimate the nature, timing, and costs of the efforts necessary to complete the development of our research and development projects, nor can we reliably estimate the future potential revenue that will be generated from any successful research and development project. Each project represents only a portion of the overall pipeline, and none is individually material to our consolidated research and development expense. While we do accumulate certain research and development costs on a project level for internal reporting purposes, we must make significant cost estimations and allocations, some of which rely on data that are neither reproducible nor validated through accepted control mechanisms. Therefore, we do not have sufficiently reliable data to report on total research and development costs by project, by preclinical versus clinical spend, or by therapeutic category.

Other Matters

Patent Matters

We depend on patents or other forms of intellectual property protection for most of our revenue, cash flows, and earnings.

In 2021, our vitamin regimen patents for Alimta® expired worldwide. Following the loss of patent exclusivity in major European countries and Japan, we faced, and remain exposed to, generic competition which has eroded revenue and is likely to continue to rapidly and severely erode revenue from current levels. In the U.S., we expect pediatric data exclusivity to provide us with protection through May 2022. However, we and Eagle Pharmaceuticals, Inc. (Eagle) reached an agreement in December 2019 to settle all pending U.S. patent litigation, allowing Eagle a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022. We expect that the entry of generic competition in the U.S. following the loss of exclusivity will cause a rapid and severe decline in revenue and will have a material adverse effect on our consolidated results of operations and cash flows. See Note 16 to the consolidated financial statements for a more detailed account of the legal proceedings currently pending regarding, among others, our Alimta patents.

Our compound patent for Humalog® (insulin lispro) has expired in major markets. Global regulators have different legal pathways to approve similar versions of insulin lispro. A competitor has similar version of insulin lispro in the U.S. and in certain European markets. While it is difficult to estimate the severity of the impact of insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue; however, we expect additional pricing pressure and some loss of market share that may continue over time.

Our formulation and use patents for Forteo® have expired in major markets. We expect further decline in revenue as a result of the entry of generic and biosimilar competition due to the loss of patent exclusivity in major markets.

Our regulatory data and patent exclusivity for Cymbalta® expired in Japan. Beginning in mid-2021, we have faced, and remain exposed to, generic competition which has eroded revenue and is likely to continue to rapidly and severely erode revenue from current levels.

Foreign Currency Exchange Rates

As a global company, we face foreign currency risk exposure from fluctuating currency exchange rates, primarily the U.S. dollar against the euro, Japanese yen, and Chinese yuan. While we seek to manage a portion of these exposures through hedging and other risk management techniques, significant fluctuations in currency rates can have a material impact, either positive or negative, on operating expenses. While there is uncertainty in the future movements in foreign exchange rates, fluctuations in these rates could adversely impact our future consolidated results of operations and cash flows.

Trends Affecting Pharmaceutical Pricing, Reimbursement, and Access

Global concern over access to and affordability of pharmaceutical products continues to drive regulatory and legislative debate, as well as worldwide cost containment efforts by governmental authorities. Such measures may include the use of mandated discounts, price reporting requirements, mandated reference prices, restrictive formularies, changes to available intellectual property protections, as well as other efforts. In addition, consolidation of private payors in the U.S. has significantly impacted the market for pharmaceuticals by increasing payor leverage in negotiating manufacturer price concessions and pharmacy reimbursement rates. Furthermore, restrictive or unfavorable pricing, coverage, or reimbursement determinations for our medicines or product candidates by governments, regulatory agencies, or private payers, such as the recently proposed Alzheimer's Monoclonal Antibody national coverage determination, may adversely impact our business and financial results. We expect that these actions may intensify and could particularly affect certain products, such as insulin, as governments manage and emerge from the COVID-19 pandemic, which could adversely affect our business. In addition, we are engaged in litigation and investigations related to our 340B program that, if resolved adversely to us, could negatively impact our business and consolidated results of operations. It is not currently possible to predict the overall potential adverse impact to us or the general pharmaceutical industry of continued cost containment efforts worldwide.

In addition, evolving regulatory priorities have intensified governmental scrutiny of our operations and our industry, including with respect to current Good Manufacturing Practices, quality assurance, and similar regulations, and increased focus on business combinations in our industry. Any regulatory issues concerning these matters could lead to regulatory and legal actions, product recalls and seizures, fines and penalties, interruption of production leading to product shortages, import bans or denials of import certifications, delays or denials in the approvals of new products or supplemental approvals of current products pending resolution of the issues, impediments to the completion of business combinations, and reputational harm, any of which would adversely affect our business.

See Item 1, "Business - Regulations and Private Payer Actions Affecting Pharmaceutical Pricing, Reimbursement, and Access" and Note 16 to the consolidated financial statements for additional information.

Tax Matters

We are subject to income taxes and various other taxes in the U.S. and in many foreign jurisdictions; therefore, changes in both domestic and international tax laws or regulations have affected and may affect our effective tax rate, results of operations, and cash flows. In 2017, the U.S. enacted the Tax Cuts and Jobs Act (the 2017 Tax Act), which contains a provision that requires capitalization and amortization of research and development expenses for tax purposes starting in 2022. Previously, these expenses could be deducted in the year incurred. While this provision of the 2017 Tax Act is expected to have an immaterial impact on our consolidated results of operations, if it is not deferred or repealed by Congress, we expect that the implementation of this provision will increase our cash payments of income taxes by up to $1.50 billion in 2022 and subsequently decrease our cash payments of income taxes moderately over the five-year amortization period.

The U.S. and countries around the world are actively considering and enacting tax law changes. Tax proposals introduced by Congress and the U.S. presidential administration contain significant changes, including increases to the tax rates at which both domestic and foreign income of U.S. companies would be taxed. In addition, tax authorities in the U.S. and other jurisdictions in which we do business routinely examine our tax returns and are intensifying their scrutiny and examinations of profit allocations among jurisdictions, which could adversely impact our future consolidated results of operations and cash flows. Further, actions taken with respect to tax-related matters by associations such as the Organisation for Economic Co-operation and Development and the European Commission could influence tax laws in countries in which we operate.

Acquisitions

We opportunistically invest in external research and technologies that we believe complement and strengthen our own efforts. These investments can take many forms, including acquisitions, collaborations, investments, and licensing arrangements. We view our business development activity as a way to enhance our pipeline and strengthen our business.

In January 2021, we acquired all shares of Prevail for a purchase price that included $22.50 per share in cash (or an aggregate of $747.4 million, net of cash acquired) plus one non-tradable contingent value right (CVR) per share. The CVR entitles Prevail stockholders up to an additional $4.00 per share in cash (or an aggregate of approximately $160 million) payable, subject to certain terms and conditions, upon the first regulatory approval of a Prevail product in one of the following countries: U.S., Japan, United Kingdom, Germany, France, Italy, or Spain. Under the terms of the agreement, we acquired potentially disease-modifying AAV9-based gene therapies for patients with neurodegenerative diseases. The acquisition establishes a new modality for drug discovery and development, extending our research efforts through the creation of a gene therapy program that is being anchored by Prevail's portfolio of assets.

In February 2020, we acquired all shares of Dermira, Inc. for a purchase price of $849.3 million, net of cash acquired. Under the terms of the agreement, we acquired lebrikizumab, a novel, investigational, monoclonal antibody being evaluated for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the FDA. We also acquired Qbrexza cloth, a medicated cloth for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating). In 2021, we sold the rights to Qbrexza. See Note 5 to the consolidated financial statements for additional information regarding the sale of the rights to Qbrexza.

In February 2019, we acquired all shares of Loxo for a purchase price of $6.92 billion, net of cash acquired. Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib, an oral RET inhibitor, and LOXO-305 (pirtobrutinib), an oral BTK inhibitor. In the second quarter of 2020, the FDA approved selpercatinib (Retevmo) under its Accelerated Approval regulations and continued approval may be contingent upon verification and description of clinical benefit in confirmatory trials.

See Note 3 to the consolidated financial statements for additional information regarding our recent acquisitions.

Operating Results—2021

Revenue

The following table summarizes our revenue activity by region:

	Year Ended December 31,		
	2021	2020	Percent Change
U.S.	**$ 16,811.0**	$ 14,229.3	18
Outside U.S.	**11,507.4**	10,310.5	12
Revenue	**$ 28,318.4**	$ 24,539.8	15

The following are components of the change in revenue compared with the prior year:

	2021 vs. 2020		
	U.S.	Outside U.S.	Consolidated
Volume	19 %	13 %	16 %
Price	(1)%	(4)%	(2)%
Foreign exchange rates	— %	3 %	1 %
Percent change	18 %	12 %	15 %

Numbers may not add due to rounding.

In the U.S the increase in volume in 2021 was primarily driven by COVID-19 antibodies, Trulicity®, and Taltz®.

Outside the U.S. the increase in volume in 2021 was primarily driven by Trulicity, Olumiant, COVID-19 antibodies, Verzenio, and Taltz. The decrease in realized prices outside the U.S. was primarily driven by the price impact of the updated National Reimbursement Drug List formulary for certain products, largely Tyvyt®, in China.

The following table summarizes our revenue activity in 2021 compared with 2020:

	Year Ended December 31,				
	2021			2020	
Product	U.S.	Outside U.S.	Total	Total	Percent Change
Trulicity	**$ 4,914.4**	**$ 1,557.6**	**$ 6,471.9**	$ 5,068.1	28
Humalog[(1)]	**1,320.7**	**1,132.3**	**2,453.0**	2,625.9	(7)
COVID-19 antibodies[(2)]	**1,978.0**	**261.4**	**2,239.3**	871.2	NM
Taltz	**1,542.4**	**670.4**	**2,212.8**	1,788.5	24
Alimta	**1,233.9**	**827.5**	**2,061.4**	2,329.9	(12)
Jardiance[(3)]	**807.3**	**683.5**	**1,490.8**	1,153.8	29
Verzenio	**834.9**	**515.0**	**1,349.9**	912.7	48
Humulin®	**832.9**	**389.6**	**1,222.6**	1,259.6	(3)
Olumiant[(4)]	**324.1**	**791.0**	**1,115.1**	638.9	75
Cyramza®	**358.1**	**674.8**	**1,033.0**	1,032.6	—
Basaglar®	**588.3**	**304.2**	**892.5**	1,124.4	(21)
Forteo	**441.6**	**360.3**	**801.9**	1,046.3	(23)
Cialis®	**10.6**	**707.9**	**718.4**	607.1	18
Cymbalta	**38.7**	**542.8**	**581.5**	767.7	(24)
Emgality®	**434.5**	**142.7**	**577.2**	362.9	59
Erbitux®	**481.8**	**66.4**	**548.3**	536.4	2
Zyprexa®	**39.6**	**390.7**	**430.3**	406.5	6
Tyvyt	**—**	**418.1**	**418.1**	308.7	35
Trajenta®[(5)]	**82.1**	**290.4**	**372.5**	358.5	4
Other products	**547.1**	**780.8**	**1,327.9**	1,340.1	(1)
Revenue	**$ 16,811.0**	**$ 11,507.4**	**$ 28,318.4**	$ 24,539.8	15

Numbers may not add due to rounding.
NM - Not meaningful
(1) Humalog revenue includes insulin lispro.
(2) COVID-19 antibodies include sales for bamlanivimab administered alone as well as sales for bamlanivimab and etesevimab administered together and were made pursuant to EUAs or similar regulatory authorizations.
(3) Jardiance revenue includes Glyxambi®, Synjardy®, and Trijardy® XR.
(4) Olumiant revenue includes sales for baricitinib, for treatment in hospitalized COVID-19 patients, that were made pursuant to EUA or similar regulatory authorizations.
(5) Trajenta revenue includes Jentadueto®.

Revenue of Trulicity, a treatment for type 2 diabetes and to reduce the risk of major adverse cardiovascular events in adult patients with type 2 diabetes and established cardiovascular disease or multiple cardiovascular risk factors, increased 28 percent in the U.S., driven by increased demand. Revenue outside the U.S. increased 26 percent, driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices.

Revenue of Humalog, an injectable human insulin analog for the treatment of diabetes, decreased 11 percent in the U.S., primarily driven by lower realized prices. Humalog's lower realized prices in the U.S. in 2021 were driven by higher contracted rebates and discounts and increased utilization in more highly-rebated government segments, partially offset by lower utilization in the 340B segment. Revenue outside the U.S. decreased 1 percent, driven by decreased volume and, to a lesser extent, lower realized prices, largely offset by the favorable impact of foreign exchange rates. Included in the revenue of Humalog in the U.S. are our own insulin lispro authorized generics. While it is difficult to estimate the severity of the impact of similar insulin lispro products entering the market, we do not expect and have not experienced a rapid and severe decline in revenue. However, due to the impact of competition and due to pricing pressure in the U.S. and some international markets, we expect some price decline and loss of market share to continue over time.

Revenue of COVID-19 antibodies, treatments for mild to moderate COVID-19 for higher-risk patients and for post-exposure prophylaxis in certain individuals for the prevention of SARS-CoV-2 infection, was $1.98 billion in the U.S. during the year ended December 31, 2021. Revenue outside the U.S. was $261.4 million during the year ended December 31, 2021. The availability of superior or competitive therapies, including therapies that can be administered more easily, or preventative measures, such as vaccines, coupled with the unpredictable nature of pandemics, have and could further negatively impact or eliminate demand for these COVID-19 antibodies. The FDA has revised, and may in the future revise, any EUA for our COVID-19 antibodies in response to the prevalence of variants against which our antibodies have varying degrees of efficacy. We expect that additional revenue from the sale of bamlanivimab and etesevimab after the first quarter of 2022 will be limited.

Revenue of Taltz, a treatment for moderate-to-severe plaque psoriasis, active psoriatic arthritis, ankylosing spondylitis, and active non-radiographic axial spondyloarthritis, increased 20 percent in the U.S., driven by increased demand, partially offset by lower realized prices due to increased rebates to gain commercial access. Revenue outside the U.S. increased 34 percent, primarily driven by increased volume.

Revenue of Alimta, a treatment for various cancers, decreased 2 percent in the U.S., driven by decreased volume, partially offset by higher realized prices. Revenue outside the U.S. decreased 22 percent, primarily driven by decreased volume due to the entry of generic competition in certain markets and, to a lesser extent, lower realized prices, partially offset by the favorable impact of foreign exchange rates. Following the loss of exclusivity in major European countries and Japan in June 2021, we faced, and remain exposed to, generic competition which has eroded revenue and is likely to continue to rapidly and severely erode revenue from current levels. In the U.S., we expect the limited entry of generic competition starting February 2022 and subsequent unlimited entry starting April 2022. We expect that the entry of generic competition following the loss of exclusivity in the U.S. will cause a rapid and severe decline in revenue. See "Executive Overview - Other Matters- Patent Matters" for additional information.

Revenue of Jardiance, a treatment for type 2 diabetes, to reduce the risk of cardiovascular death in adult patients with type 2 diabetes and established cardiovascular disease, and to reduce the risk of cardiovascular death and hospitalization for heart failure in adults with heart failure and reduced ejection fraction, increased 30 percent in the U.S., primarily driven by increased demand. Revenue outside the U.S. increased 28 percent, primarily driven by increased volume. See Note 4 to the consolidated financial statements for information regarding our collaboration with Boehringer Ingelheim involving Jardiance.

Revenue of Verzenio, a treatment for HR+, HER2- metastatic breast cancer and high risk early breast cancer, increased 35 percent in the U.S., driven by increased demand. Revenue outside the U.S. increased 75 percent, driven by increased volume.

Revenue of Humulin, an injectable human insulin for the treatment of diabetes, decreased 4 percent in the U.S., driven by decreased demand and, to a lesser extent, lower realized prices. Revenue outside the U.S. decreased 1 percent, driven by decreased volume, largely offset by higher realized prices and the favorable impact of foreign exchange rates.

Revenue of Olumiant, a treatment for adults with moderately-to-severely active rheumatoid arthritis, moderate to severe atopic dermatitis, and of baricitinib, a treatment, with or without remdesivir, of hospitalized patients with COVID-19, increased $260.3 million in the U.S., driven by increased volume and, to a lesser extent, higher realized prices. Revenue outside the U.S. increased 38 percent, driven by increased volume and, to a lesser extent, the favorable impact of foreign exchange rates, partially offset by lower realized prices. Increased volume worldwide was partially driven by utilization of Olumiant for the treatment of hospitalized patients with COVID-19.

Revenue of Cyramza, a treatment for various cancers, decreased 6 percent in the U.S., driven by decreased demand, partially offset by higher realized prices. Revenue outside the U.S. increased 4 percent, driven by increased volume, partially offset by lower realized prices.

Gross Margin, Costs, and Expenses

Gross margin as a percent of revenue was 74.2 percent in 2021, a decrease of 3.5 percentage points compared with 2020, driven by higher sales of COVID-19 antibodies.

Research and development expenses increased 15 percent to $7.03 billion in 2021, primarily driven by higher development expenses for late-stage assets.

Marketing, selling, and administrative expenses increased 5 percent to $6.43 billion in 2021, primarily due to increased marketing costs to continue to drive growth for certain products, investment in preparation for new launches, and lower marketing activities in 2020 as a result of pandemic-related spending reductions.

We recognized acquired IPR&D charges of $874.9 million and $660.4 million in 2021 and 2020, respectively, related to business development transactions. See Note 3 to the consolidated financial statements for additional information.

We recognized asset impairment, restructuring, and other special charges of $316.1 million in 2021. The charges were primarily related to an impairment of a contract-based intangible asset from our acquisition of Loxo, an intangible asset impairment resulting from the sale of the rights to Qbrexza, as well as acquisition and integration costs associated with the acquisition of Prevail. In 2020, we recognized $131.2 million of asset impairment, restructuring, and other special charges primarily related to severance costs incurred as a result of actions taken worldwide to reduce our cost structure.

Other—net, (income) expense was expense of $201.6 million in 2021 compared to income of $1.17 billion in 2020, primarily driven by lower net investment gains on equity securities and a debt extinguishment loss of $405.2 million related to the repurchase of debt.

Our effective tax rate was 9.3 percent in 2021, compared with an effective tax rate of 14.3 percent in 2020, primarily driven by the tax impacts of acquired IPR&D charges, lower net investment gains on equity securities, as well as a net discrete tax benefit.

Operating Results—2020

For a discussion of our results of operations pertaining to 2020 and 2019 see Item 7, "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our Annual Report on Form 10-K for the year ended December 31, 2020.

FINANCIAL CONDITION AND LIQUIDITY

We believe our available cash and cash equivalents, together with our ability to generate operating cash flow and our access to short-term and long-term borrowings, are sufficient to fund our existing and planned capital requirements, which include:

- working capital requirements, including related to employee payroll, clinical trials, manufacturing materials, and taxes;
- capital expenditures;
- share repurchases and dividends;
- repayment of outstanding short-term and long-term borrowings;
- contributions to our defined benefit pension and retiree health benefit plans;
- milestone and royalty payments; and
- potential business development activities, including acquisitions, collaborations, investments, and licensing arrangements.

Our management continuously evaluates our liquidity and capital resources, including our access to external capital, to ensure we can adequately and efficiently finance our capital requirements. As of December 31, 2021, our material cash requirements primarily related to purchases of goods and services to produce our products and conduct our operations, capital equipment expenditures, dividends, repayment of outstanding borrowings, milestone and royalty payments, the remaining obligations for the one-time repatriation transition tax (also known as the 'Toll Tax') from the 2017 Tax Act, leases, unfunded commitments to invest in venture capital funds, and retirement benefits (see Notes 11, 4, 14, 10, 7, and 15 to the consolidated financial statements). We anticipate our cash requirements related to ordinary course purchases of goods and services and capital equipment expenditures will be consistent with our past levels relative to revenues.

Beginning in 2022, the 2017 Tax Act contains a provision that requires us to capitalize and amortize research and development expenses for tax purposes, whereas previously we could fully deduct these expenses in the year incurred. While this provision of the 2017 Tax Act is expected to have an immaterial impact on our consolidated results of operations, if it is not deferred or repealed by Congress, we expect that the implementation of this provision will increase our cash payments of income taxes by up to $1.50 billion in 2022 and subsequently decrease our cash payments of income taxes moderately over the five-year amortization period. See "Results of Operations - Executive Overview - Other Matters -Tax Matters" for additional information.

We plan to invest more than $1 billion over several years in a new facility in Concord, North Carolina to manufacture parenteral (injectable) products and devices. We plan to invest more than 400 million euros over several years in a new facility in Limerick, Ireland to expand our manufacturing network for biologic active ingredients.

Cash and cash equivalents increased to $3.82 billion as of December 31, 2021, compared with $3.66 billion at December 31, 2020. Net cash provided by operating activities was $7.26 billion in 2021, compared with $6.50 billion in 2020. Refer to the consolidated statements of cash flows for additional information on the significant sources and uses of cash for the years ended December 31, 2021 and 2020.

In addition to our cash and cash equivalents, we held total investments of $3.30 billion and $2.99 billion as of December 31, 2021 and 2020, respectively. See Note 7 to the consolidated financial statements for additional information.

In January 2021, we acquired all shares of Prevail for a purchase price that included $22.50 per share in cash (or an aggregate of $747.4 million, net of cash acquired) plus one non-tradable CVR per share. The CVR entitles Prevail stockholders up to an additional $4.00 per share in cash (or an aggregate of approximately $160 million) payable, subject to certain terms and conditions. This acquisition was funded primarily through cash on hand. See Note 3 to the consolidated financial statements for additional information.

As of December 31, 2021, total debt was $16.88 billion, an increase of $289.4 million compared with $16.60 billion at December 31, 2020. In September 2021, we issued euro-denominated notes consisting of €500.0 million of 1.125 percent fixed-rate notes due in September 2051 and €700.0 million of 1.375 percent fixed-rate notes due in September 2061, with interest to be paid annually, and British pound-denominated notes consisting of £250.0 million of 1.625 percent fixed-rate notes due in September 2043, with interest to be paid annually. We paid $1.91 billion of the net cash proceeds from the offering to purchase and redeem certain higher interest rate U.S. dollar-denominated notes with an aggregate principal amount of $1.50 billion. We used the remaining net proceeds from the offering to prefund certain 2022 debt maturities and for general corporate purposes. In addition, in September 2021, we issued euro-denominated notes consisting of €600.0 million of 0.50 percent fixed-rate notes due in September 2033, with interest to be paid annually. The net proceeds from the offering will be used to fund, in whole or in part, eligible projects designed to advance one or more of our environmental, social, and governance objectives. See Note 11 to the consolidated financial statements for additional information.

As of December 31, 2021, we had a total of $5.26 billion of unused committed bank credit facilities, $5.00 billion of which is available to support our commercial paper program. See Note 11 to the consolidated financial statements for additional information. We believe that amounts accessible through existing commercial paper markets should be adequate to fund any short-term borrowing needs.

For the 136th consecutive year, we distributed dividends to our shareholders. Dividends of $3.40 per share and $2.96 per share were paid in 2021 and 2020, respectively. In the fourth quarter of 2021, effective for the dividend to be paid in the first quarter of 2022, the quarterly dividend was increased to $0.98 per share, resulting in an indicated annual rate for 2022 of $3.92 per share.

Capital expenditures of $1.31 billion during 2021, compared to $1.39 billion in 2020.

In 2021, we repurchased $1.00 billion of shares, which completed our $8.00 billion share repurchase program authorized in June 2018. Additionally, our board authorized a $5.00 billion share repurchase program in May 2021. In 2021, we repurchased $250.0 million of shares under the $5.00 billion share repurchase program. As of December 31, 2021, we had $4.75 billion remaining under the $5.00 billion share repurchase program. See Note 13 to the consolidated financial statements for additional information.

See "Results of Operations - Executive Overview - Other Matters - Patent Matters" for information regarding recent and upcoming losses of patent protection.

Both domestically and abroad, we continue to monitor the potential impacts of the economic environment; the creditworthiness of our wholesalers and other customers, including foreign government-backed agencies and suppliers; the uncertain impact of health care legislation; and various international government funding levels.

In the normal course of business, our operations are exposed to fluctuations in interest rates, currency values, and fair values of equity securities. These fluctuations can vary the costs of financing, investing, and operating. We seek to address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of this risk management program is to limit the impact on earnings of fluctuations in interest and currency exchange rates. All derivative activities are for purposes other than trading.

Our primary interest rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and floating rate debt positions and may enter into interest rate derivatives to help maintain that balance. As of December 31, 2021, substantially all of our total long-term debt carries interest at a fixed rate. We have converted approximately 13 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps. Based on our overall interest rate exposure at December 31, 2021 and 2020, including derivatives and other interest rate risk-sensitive instruments, a hypothetical 10 percent change in interest rates applied to the fair value of the instruments as of December 31, 2021 and 2020, respectively, would not have a material impact on earnings, cash flows, or fair values of interest rate risk-sensitive instruments over a one-year period.

Our foreign currency risk exposure results from fluctuating currency exchange rates, primarily the U.S. dollar against the euro, Japanese yen, and Chinese yuan. We face foreign currency exchange exposures when we enter into transactions arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. We also face currency exposure that arises from translating the results of our global operations to the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. We may enter into foreign currency forward or option derivative contracts to reduce the effect of fluctuating currency exchange rates (primarily the euro, the Japanese yen, and Chinese yuan). Our corporate risk-management policy outlines the minimum and maximum hedge coverage of such exposures. Gains and losses on these derivative contracts offset, in part, the impact of currency fluctuations on the existing assets and liabilities. We periodically analyze the fair values of the outstanding foreign currency derivative contracts to determine their sensitivity to changes in foreign exchange rates. A hypothetical 10 percent change in exchange rates (primarily against the U.S. dollar) applied to the fair values of our outstanding foreign currency derivative contracts as of December 31, 2021 and 2020, would not have a material impact on earnings, cash flows, or financial position over a one-year period. This sensitivity analysis does not consider the impact that hypothetical changes in exchange rates would have on the underlying foreign currency denominated transactions.

Our fair value risk exposure relates primarily to our public equity investments and to equity investments that do not have readily determinable fair values. As of December 31, 2021 and 2020, our carrying values of these investments were $1.83 billion and $2.04 billion, respectively. A hypothetical 20 percent change in fair value of the equity instruments would have impacted other-net, (income) expense by $365.6 million and $407.6 million as of December 31, 2021 and 2020, respectively.

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources. We acquire and collaborate on potential products still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to the third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval for marketing by the appropriate regulatory agency or upon the achievement of certain sales levels). If required by the arrangement, we may make royalty payments based upon a percentage of the sales of the product in the event that regulatory approval for marketing is obtained.

Individually, these arrangements are generally not material in any one annual reporting period. However, if milestones for multiple products covered by these arrangements were reached in the same reporting period, the aggregate expense or aggregate milestone payments made could be material to our results of operations or cash flows, respectively, in that period. See Note 4 to the consolidated financial statements for additional information. These arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the compound successfully achieves milestone objectives. We also note that, from a business perspective, we view these payments as positive because they signify that the product is successfully moving through development and is now generating or is more likely to generate cash flows from sales of products.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

In preparing our financial statements in accordance with accounting principles generally accepted in the U.S., we must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. Some of those judgments can be subjective and complex, and consequently actual results could differ from those estimates. For any given individual estimate or assumption we make, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. We believe that, given current facts and circumstances, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on our consolidated results of operations, financial position, or liquidity for the periods presented in this report. Our most critical accounting estimates have been discussed with our audit committee and are described below.

Revenue Recognition and Sales Return, Rebate, and Discount Accruals

We recognize revenue primarily from two different types of contracts, product sales to customers (net product revenue) and collaborations and other arrangements. For product sales to customers, provisions for returns, rebates and discounts are established in the same period the related product sales are recognized. To determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates. The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, chargeback, and patient assistance programs in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing.

Refer to Note 2 to the consolidated financial statements for further information on revenue recognition and sales return, rebate, and discount accruals.

Revenue recognized from collaborations and other arrangements will include our share of profits from the collaboration, as well as royalties, upfront and milestone payments we receive under these types of contracts.

Financial Statement Impact

We believe that our accruals for sales returns, rebates, and discounts are reasonable and appropriate based on current facts and circumstances. Our rebate and discount liabilities are included in sales rebates and discounts on our consolidated balance sheet. Our sales return liability is included in other current liabilities and other noncurrent liabilities on our consolidated balance sheet. As of December 31, 2021, a 5 percent change in our consolidated sales return, rebate, and discount liability would have led to an approximate $366 million effect on our income before income taxes.

The portion of our consolidated sales return, rebate, and discount liability resulting from sales of our products in the U.S. was approximately 90 percent as of December 31, 2021 and 2020.

The following represents a roll-forward of our most significant U.S. sales return, rebate, and discount liability balances, including managed care, Medicare, Medicaid, chargeback, and patient assistance programs:

(Dollars in millions)	2021	2020
Sales return, rebate, and discount liabilities, beginning of year	**$ 5,400.0**	$ 4,635.5
Reduction of net sales[(1)]	**20,106.3**	18,668.4
Cash payments	**(19,344.7)**	(17,903.9)
Sales return, rebate, and discount liabilities, end of year	**$ 6,161.6**	$ 5,400.0

[(1)] Adjustments of the estimates for these returns, rebates, and discounts to actual results were less than 1 percent of consolidated revenue for each of the years presented.

Litigation Liabilities and Other Contingencies

Background and Uncertainties

Litigation liabilities and other contingencies are, by their nature, uncertain and based upon complex judgments and probabilities. The factors we consider in developing our litigation liability reserves and other contingent liability amounts include the merits and jurisdiction of the litigation, the nature and the number of other similar current and past matters, the nature of the product and the current assessment of the science subject to the litigation, as applicable, and the likelihood of settlement and current state of settlement discussions, if any. In addition, we accrue for certain liability claims incurred, but not filed, to the extent we can formulate a reasonable estimate of their costs based primarily on historical claims experience and data regarding product usage. We accrue legal defense costs expected to be incurred in connection with significant liability contingencies when both probable and reasonably estimable.

We also consider the insurance coverage we have to diminish the exposure for periods covered by insurance. In assessing our insurance coverage, we consider the policy coverage limits and exclusions, the potential for denial of coverage by the insurance company, the financial condition of the insurers, and the possibility of and length of time for collection. Due to a very restrictive market for litigation liability insurance, we are self-insured for litigation liability losses for all our currently marketed products. In addition to insurance coverage, we consider any third-party indemnification to which we are entitled or under which we are obligated. With respect to our third-party indemnification rights, these considerations include the nature of the indemnification, the financial condition of the indemnifying party, and the possibility of and length of time for collection.

The litigation accruals and environmental liabilities and the related estimated insurance recoverables have been reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets.

Acquisitions

Background and Uncertainties

To determine whether acquisitions or licensing transactions should be accounted for as a business combination or as an asset acquisition, we make certain judgments, which include assessing whether the acquired set of activities and assets would meet the definition of a business under the relevant accounting rules.

If the acquired set of activities and assets meets the definition of a business, assets acquired and liabilities assumed are required to be recorded at their respective fair values as of the acquisition date. The excess of the purchase price over the fair value of the acquired net assets, where applicable, is recorded as goodwill. If the acquired set of activities and assets does not meet the definition of a business, the transaction is recorded as an acquisition of assets and, therefore, any acquired IPR&D that does not have an alternative future use is charged to expense at the acquisition date, and goodwill is not recorded. See Note 3 to the consolidated financial statements for additional information.

The judgments made in determining estimated fair values assigned to assets acquired and liabilities assumed in a business combination, as well as estimated asset lives, can materially affect our consolidated results of operations. The fair values of intangible assets, including acquired IPR&D, are determined using information available near the acquisition date based on estimates and assumptions that are deemed reasonable by management. Significant estimates and assumptions include, but are not limited to, probability of technical success, revenue growth and discount rate. Depending on the facts and circumstances, we may deem it necessary to engage an independent valuation expert to assist in valuing significant assets and liabilities.

The fair values of identifiable intangible assets are primarily determined using an "income method," as described in Note 8 to the consolidated financial statements.

The fair value of any contingent consideration liability that results from a business combination is primarily determined using a discounted cash flow analysis, as described in Note 7 to the consolidated financial statements. Estimating the fair value of contingent consideration requires the use of significant estimates and judgments, including, but not limited to, probability of technical success and the discount rate.

Financial Statement Impact

As of December 31, 2021, a 5 percent change in the contingent consideration liability would result in a change in income before income taxes of $3.5 million.

Impairment of Indefinite-Lived and Long-Lived Assets

Background and Uncertainties

We review the carrying value of long-lived assets (both intangible and tangible) for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset (or asset group) may not be recoverable. We identify impairment by comparing the projected undiscounted cash flows to be generated by the asset (or asset group) to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Goodwill and indefinite-lived intangible assets are reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the intangible asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the intangible asset to its carrying value is performed to determine the amount of any impairment.

Several methods may be used to determine the estimated fair value of acquired IPR&D, all of which require multiple assumptions. We utilize the "income method," as described in Note 8 to the consolidated financial statements.

For acquired IPR&D assets, the risk of failure has been factored into the fair value measure and there can be no certainty that these assets ultimately will yield a successful product, as discussed previously in "Results of Operations - Executive Overview - Late-Stage Pipeline." The nature of the pharmaceutical business is high-risk and requires that we invest in a large number of projects to maintain a successful portfolio of approved products. As such, it is likely that some acquired IPR&D assets will become impaired in the future.

Estimates of future cash flows, based on what we believe to be reasonable and supportable assumptions and projections, require management's judgment. Actual results could vary materially from these estimates.

Retirement Benefits Assumptions

Background and Uncertainties

Defined benefit pension plan and retiree health benefit plan costs include assumptions for the discount rate, expected return on plan assets, and retirement age. These assumptions have a significant effect on the amounts reported. In addition to the analysis below, see Note 15 to the consolidated financial statements for additional information regarding our retirement benefits.

Annually, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. We use an actuarially determined, plan-specific yield curve of high quality, fixed income debt instruments to determine the discount rates. In evaluating the expected return on plan assets, we consider many factors, with a primary analysis of current and projected market conditions, asset returns and asset allocations (approximately 75 percent of which are growth investments), and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the discount rates and expected return on plan assets of other companies, where applicable. In evaluating our expected retirement age assumption, we consider the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages.

Annually, we determine the fair value of the plan assets in our defined benefit pension and retiree health benefit plans. Approximately 38 percent of our plan assets are in hedge funds and private equity-like investment funds (collectively, alternative assets). We value these alternative investments using significant unobservable inputs or using the net asset value reported by the counterparty, adjusted as necessary. Inputs include underlying net asset values, discounted cash flows valuations, comparable market valuations, and adjustments for currency, credit, liquidity and other risks.

Financial Statement Impact

If the 2021 discount rate for the U.S. defined benefit pension and retiree health benefit plans (U.S. plans) were to change by a quarter percentage point, income before income taxes would change by $21.6 million. If the 2021 expected return on plan assets for U.S. plans were to change by a quarter percentage point, income before income taxes would change by $31.5 million. If our assumption regarding the 2021 expected age of future retirees for U.S. plans were adjusted by one year, our income before income taxes would be affected by $51.1 million. The U.S. plans, including Puerto Rico, represent approximately 80 percent of each of the total projected benefit obligation and total plan assets at December 31, 2021.

Adjustments to the fair value of plan assets are not recognized in pension and retiree health benefit expense in the year that the adjustments occur. Such changes are deferred, along with other actuarial gains and losses, and are amortized into expense over the expected remaining service life of employees.

Income Taxes

Background and Uncertainties

We prepare and file tax returns based upon our interpretation of tax laws and regulations, and we record estimates based upon these interpretations. Our tax returns are routinely subject to examination by taxing authorities, which could result in future tax, interest, and penalty assessments. Inherent uncertainties exist in estimates of many tax positions due to changes in tax law resulting from legislation and regulation as concluded through the various jurisdictions' tax court systems. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution. The amount of unrecognized tax benefits is adjusted for changes in facts and circumstances. For example, adjustments could result from changes to existing tax law, the issuance of regulations by taxing authorities, new information obtained during a tax examination, or resolution of a tax examination. We believe our estimates for uncertain tax positions are appropriate and sufficient to pay assessments that may result from examinations of our tax returns. We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense.

We have recorded valuation allowances against certain of our deferred tax assets, primarily those that have been generated from net operating losses, tax credits, and other tax carryforwards and carrybacks in certain taxing jurisdictions. In evaluating whether we would more likely than not recover these deferred tax assets, we have not assumed future taxable income in the jurisdictions associated with these carryforwards where history does not support such an assumption. Implementation of tax planning strategies to recover these deferred tax assets or to generate future taxable income in these jurisdictions could lead to the reversal of all or a portion of these valuation allowances and a reduction of income tax expense.

Financial Statement Impact

As of December 31, 2021, a 5 percent change in the amount of uncertain tax positions and the valuation allowance would result in a change in net income of $84.9 million and $43.8 million, respectively.

LEGAL AND REGULATORY MATTERS

Information relating to certain legal proceedings can be found in Note 16 to the consolidated financial statements and is incorporated here by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

You can find quantitative and qualitative disclosures about market risk (e.g., interest rate risk) at Item 7, "Management's Discussion and Analysis - Financial Condition and Liquidity." That information is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

Consolidated Statements of Operations

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions and shares in thousands, except per-share data) Year Ended December 31	2021	2020	2019
Revenue (Note 2)	**$ 28,318.4**	$ 24,539.8	$ 22,319.5
Costs, expenses, and other:			
Cost of sales	**7,312.8**	5,483.3	4,721.2
Research and development	**7,025.9**	6,085.7	5,595.0
Marketing, selling, and administrative	**6,431.6**	6,121.2	6,213.8
Acquired in-process research and development (Note 3)	**874.9**	660.4	239.6
Asset impairment, restructuring, and other special charges (Note 5)	**316.1**	131.2	575.6
Other—net, (income) expense (Note 18)	**201.6**	(1,171.9)	(291.6)
	22,162.9	17,309.9	17,053.6
Income before income taxes	**6,155.5**	7,229.9	5,265.9
Income taxes (Note 14)	**573.8**	1,036.2	628.0
Net income from continuing operations	**5,581.7**	6,193.7	4,637.9
Net income from discontinued operations (Note 19)	**—**	—	3,680.5
Net income	**$ 5,581.7**	$ 6,193.7	$ 8,318.4
Earnings per share:			
Earnings from continuing operations - basic	**$ 6.15**	$ 6.82	$ 4.98
Earnings from discontinued operations - basic	**—**	—	3.95
Earnings per share - basic	**$ 6.15**	$ 6.82	$ 8.93
Earnings from continuing operations - diluted	**$ 6.12**	$ 6.79	$ 4.96
Earnings from discontinued operations - diluted	**—**	—	3.93
Earnings per share - diluted	**$ 6.12**	$ 6.79	$ 8.89
Shares used in calculation of earnings per share:			
Basic	**906,963**	907,634	931,059
Diluted	**911,681**	912,505	935,684

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2021	2020	2019
Net income	**$ 5,581.7**	$ 6,193.7	$ 8,318.4
Other comprehensive income (loss) from continuing operations:			
Change in foreign currency translation gains (losses)	**13.5**	122.1	(89.9)
Change in net unrealized gains (losses) on securities	**(15.9)**	14.2	34.4
Change in defined benefit pension and retiree health benefit plans (Note 15)	**2,699.4**	(157.1)	(970.0)
Change in effective portion of cash flow hedges	**151.6**	(152.9)	34.3
Other comprehensive income (loss) from continuing operations before income taxes	**2,848.6**	(173.7)	(991.2)
Benefit (provision) for income taxes related to other comprehensive income (loss) from continuing operations	**(695.3)**	200.9	151.0
Other comprehensive income (loss) from continuing operations, net of tax (Note 17)	**2,153.3**	27.2	(840.2)
Other comprehensive income from discontinued operations, net of tax (Note 17)	**—**	—	56.8
Other comprehensive income (loss), net of tax (Note 17)	**2,153.3**	27.2	(783.4)
Comprehensive income	**$ 7,735.0**	$ 6,220.9	$ 7,535.0

See notes to consolidated financial statements.

Consolidated Balance Sheets

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands) December 31	2021	2020
Assets		
Current Assets		
Cash and cash equivalents (Note 7)	**$ 3,818.5**	$ 3,657.1
Short-term investments (Note 7)	**90.1**	24.2
Accounts receivable, net of allowances of **$22.5 (2021)** and $25.9 (2020)	**6,672.8**	5,875.3
Other receivables	**1,454.4**	1,053.7
Inventories (Note 6)	**3,886.0**	3,980.3
Prepaid expenses and other	**2,530.6**	2,871.5
Total current assets	**18,452.4**	17,462.1
Investments (Note 7)	**3,212.6**	2,966.8
Goodwill (Note 8)	**3,892.0**	3,766.5
Other intangibles, net (Note 8)	**7,691.9**	7,450.0
Deferred tax assets (Note 14)	**2,489.3**	2,830.4
Property and equipment, net (Note 9)	**8,985.1**	8,681.9
Other noncurrent assets	**4,082.7**	3,475.4
Total assets	**$ 48,806.0**	$ 46,633.1
Liabilities and Equity		
Current Liabilities		
Short-term borrowings and current maturities of long-term debt (Note 11)	**$ 1,538.3**	$ 8.7
Accounts payable	**1,670.6**	1,606.7
Employee compensation	**958.1**	997.2
Sales rebates and discounts	**6,845.8**	5,853.0
Dividends payable	**885.5**	770.6
Income taxes payable (Note 14)	**126.9**	495.1
Other current liabilities	**3,027.5**	2,750.3
Total current liabilities	**15,052.7**	12,481.6
Other Liabilities		
Long-term debt (Note 11)	**15,346.4**	16,586.6
Accrued retirement benefits (Note 15)	**1,954.1**	4,094.5
Long-term income taxes payable (Note 14)	**3,920.0**	3,837.8
Deferred tax liabilities (Note 14)	**1,733.7**	2,099.9
Other noncurrent liabilities	**1,644.3**	1,707.5
Total other liabilities	**24,598.5**	28,326.3
Commitments and Contingencies (Note 16)		
Eli Lilly and Company Shareholders' Equity (Notes 12 and 13)		
Common stock—no par value Authorized shares: 3,200,000 Issued shares: **954,116 (2021)** and 957,077 (2020)	**596.3**	598.2
Additional paid-in capital	**6,833.4**	6,778.5
Retained earnings	**8,958.5**	7,830.2
Employee benefit trust	**(3,013.2)**	(3,013.2)
Accumulated other comprehensive loss (Note 17)	**(4,343.1)**	(6,496.4)
Cost of common stock in treasury	**(52.7)**	(55.7)
Total Eli Lilly and Company shareholders' equity	**8,979.2**	5,641.6
Noncontrolling interests	**175.6**	183.6
Total equity	**9,154.8**	5,825.2
Total liabilities and equity	**$ 48,806.0**	$ 46,633.1

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions, shares in thousands)	Equity of Eli Lilly and Company Shareholders								
	Common Stock		Additional Paid-in Capital	Retained Earnings	Employee Benefit Trust	Accumulated Other Comprehensive Loss	Common Stock in Treasury		Noncontrolling Interest
	Shares	Amount					Shares	Amount	
Balance at January 1, 2019	1,057,639	$ 661.0	$ 6,583.6	$ 11,395.9	$ (3,013.2)	$ (5,729.2)	604	$ (69.4)	$ 1,080.4
Net income				8,318.4					37.7
Other comprehensive income (loss), net of tax						(794.4)			11.0
Cash dividends declared per share: $2.68				(2,430.5)					
Retirement of treasury shares	(102,640)	(64.1)		(12,363.4)			(102,640)	12,427.5	
Purchase of treasury shares							37,639	(4,400.0)	
Issuance of stock under employee stock plans, net	3,057	1.9	(210.7)				(74)	8.6	
Stock-based compensation			312.4						
Acquisition of common stock in exchange offer							65,001	(8,027.5)	
Deconsolidation of Elanco									(1,028.9)
Other									(8.0)
Balance at December 31, 2019	958,056	598.8	6,685.3	4,920.4	(3,013.2)	(6,523.6)	530	(60.8)	92.2
Net income				6,193.7					126.6
Other comprehensive income, net of tax						27.2			
Cash dividends declared per share: $3.07				(2,786.2)					
Retirement of treasury shares	(3,627)	(2.3)		(497.7)			(3,627)	500.0	
Purchase of treasury shares							3,627	(500.0)	
Issuance of stock under employee stock plans, net	2,648	1.7	(212.7)				(43)	5.1	
Stock-based compensation			308.1						
Other			(2.2)						(35.2)
Balance at December 31, 2020	957,077	598.2	6,778.5	7,830.2	(3,013.2)	(6,496.4)	487	(55.7)	183.6
Net income				**5,581.7**					**3.4**
Other comprehensive income, net of tax						**2,153.3**			
Cash dividends declared per share: $3.53				**(3,201.7)**					
Retirement of treasury shares	**(5,412)**	**(3.4)**		**(1,246.6)**			**(5,412)**	**1,250.0**	
Purchase of treasury shares							**5,412**	**(1,250.0)**	
Issuance of stock under employee stock plans, net	**2,451**	**1.5**	**(287.9)**				**(24)**	**3.0**	
Stock-based compensation			**342.8**						
Other				**(5.1)**					**(11.4)**
Balance at December 31, 2021	**954,116**	**$ 596.3**	**$ 6,833.4**	**$ 8,958.5**	**$ (3,013.2)**	**$ (4,343.1)**	**463**	**$ (52.7)**	**$ 175.6**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ELI LILLY AND COMPANY AND SUBSIDIARIES (Dollars in millions) Year Ended December 31	2021	2020	2019
Cash Flows from Operating Activities			
Net income	**$ 5,581.7**	$ 6,193.7	$ 8,318.4
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:			
Gain related to disposition of Elanco (Note 19)	**—**	—	(3,680.5)
Gain on sale of antibiotic business in China (Note 3)	**—**	—	(309.8)
Depreciation and amortization	**1,547.6**	1,323.9	1,232.6
Debt extinguishment loss (Note 11)	**405.2**	—	252.5
Change in deferred income taxes	**(802.3)**	(134.5)	62.4
Stock-based compensation expense	**342.8**	308.1	312.4
Net investment gains	**(178.0)**	(1,438.5)	(403.1)
Acquired in-process research and development (Note 3)	**874.9**	660.4	239.6
Other non-cash operating activities, net	**511.4**	333.9	499.3
Other changes in operating assets and liabilities, net of acquisitions and divestitures:			
Receivables—(increase) decrease	**(1,278.3)**	(1,350.2)	(127.2)
Inventories—(increase) decrease	**(235.9)**	(533.4)	(258.7)
Other assets—(increase) decrease	**1,515.4**	(457.1)	(602.3)
Income taxes payable—increase (decrease)	**(359.7)**	322.0	(221.3)
Accounts payable and other liabilities—increase (decrease)	**(664.1)**	1,271.3	(477.7)
Net Cash Provided by Operating Activities	**7,260.7**	6,499.6	4,836.6
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,309.8)**	(1,387.9)	(1,033.9)
Proceeds from sales and maturities of short-term investments	**47.4**	129.7	136.6
Purchases of short-term investments	**(83.5)**	(11.4)	(42.7)
Proceeds from sales of noncurrent investments	**800.0**	757.1	609.8
Purchases of noncurrent investments	**(929.9)**	(358.7)	(247.5)
Purchases of in-process research and development	**(563.4)**	(641.2)	(319.6)
Cash paid for acquisitions, net of cash acquired (Note 3)	**(747.4)**	(849.3)	(6,917.7)
Cash distributed to Elanco upon disposition	**—**	—	(374.0)
Cash received for sale of antibiotic business in China	**—**	—	354.8
Other investing activities, net	**24.3**	102.8	(248.7)
Net Cash Used for Investing Activities	**(2,762.3)**	(2,258.9)	(8,082.9)
Cash Flows from Financing Activities			
Dividends paid	**(3,086.8)**	(2,687.1)	(2,409.8)
Net change in short-term borrowings	**(4.0)**	(1,494.2)	995.4
Proceeds from issuance of long-term debt	**2,410.8**	2,062.3	6,556.4
Repayments of long-term debt	**(1,905.4)**	(276.5)	(2,866.4)
Purchases of common stock	**(1,250.0)**	(500.0)	(4,400.0)
Other financing activities, net	**(295.9)**	(241.6)	(200.1)
Net Cash Used for Financing Activities	**(4,131.3)**	(3,137.1)	(2,324.5)
Effect of exchange rate changes on cash and cash equivalents	**(205.7)**	216.0	(89.9)
Net increase (decrease) in cash and cash equivalents	**161.4**	1,319.6	(5,660.7)
Cash and cash equivalents at beginning of year (2019 includes $677.5 of discontinued operations)	**3,657.1**	2,337.5	7,998.2
Cash and Cash Equivalents at End of Year	**$ 3,818.5**	$ 3,657.1	$ 2,337.5

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ELI LILLY AND COMPANY AND SUBSIDIARIES
(Tables present dollars in millions, except per-share data)

Note 1: Summary of Significant Accounting Policies and Implementation of New Financial Accounting Standard

Basis of Presentation

The accompanying consolidated financial statements include Eli Lilly and Company and all subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). We consider majority voting interests, as well as effective economic or other control over an entity when deciding whether or not to consolidate an entity. We generally do not have control by means other than voting interests. Where our ownership of consolidated subsidiaries is less than 100 percent, the noncontrolling shareholders' interests are reflected as a separate component of equity. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates. We issued our financial statements by filing with the Securities and Exchange Commission (SEC) and have evaluated subsequent events up to the time of the filing of this Annual Report on Form 10-K.

Certain reclassifications have been made to prior periods in the consolidated financial statements and accompanying notes to conform with the current presentation.

All per-share amounts, unless otherwise noted in the footnotes, are presented on a diluted basis.

On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco Animal Health Incorporated (Elanco) common stock through a tax-free exchange offer. As a result, Elanco has been presented as discontinued operations in our consolidated financial statements for all periods presented.

We operate as a single operating segment engaged in the discovery, development, manufacturing, marketing, and sales of pharmaceutical products worldwide. A global research and development organization and a supply chain organization are responsible for the discovery, development, manufacturing, and supply of our products. Regional commercial organizations market, distribute, and sell the products. The business is also supported by global corporate staff functions. Our determination that we operate as a single segment is consistent with the financial information regularly reviewed by the chief operating decision maker for purposes of evaluating performance, allocating resources, setting incentive compensation targets, and planning and forecasting for future periods.

Research and Development Expenses and Acquired In-Process Research and Development (IPR&D)

Research and development expenses include the following:

- Research and development costs, which are expensed as incurred.
- Milestone payment obligations incurred prior to regulatory approval of the product, which are accrued when the event requiring payment of the milestone occurs.

Acquired IPR&D expense includes the initial costs of externally developed IPR&D projects, acquired directly in a transaction other than a business combination, that do not have an alternative future use.

Earnings Per Share (EPS)

We calculate basic EPS based on the weighted-average number of common shares outstanding plus the effect of incremental shares from potential participating securities. We calculate diluted EPS based on the weighted-average number of common shares outstanding plus the effect of incremental shares from our stock-based compensation programs.

Foreign Currency Translation

Operations in our subsidiaries outside the United States (U.S.) are recorded in the functional currency of each subsidiary which is determined by a review of the environment where each subsidiary primarily generates and expends cash. The results of operations for our subsidiaries outside the U.S. are translated from functional currencies into U.S. dollars using the weighted average currency rate for the period. Assets and liabilities are translated using the period end exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries are recorded in other comprehensive income (loss).

Advertising Expenses

Costs associated with advertising are expensed as incurred and are included in marketing, selling, and administrative expenses. Advertising expenses, comprised primarily of television, radio, print media, and Internet advertising, totaled approximately $1.2 billion, $1.1 billion, and $1.1 billion in 2021, 2020, and 2019, respectively, which was less than 5 percent of revenue each year.

Other Significant Accounting Policies

Our other significant accounting policies are described in the remaining appropriate notes to the consolidated financial statements.

Implementation of New Financial Accounting Standard

Accounting Standards Update 2021-01, *Reference Rate Reform,* provides for temporary optional expedients and exceptions in applying current GAAP to contracts, hedging relationships, and other transactions affected by the transition from the use of the London Interbank Offered Rate (LIBOR) to an alternative reference rate. The standard can be adopted immediately and is applicable to contracts entered into before January 1, 2023. We do not expect the transition from the use of LIBOR to an alternative reference rate to have a material impact to our consolidated statements of operations or balance sheets at the initial transition.

Note 2: Revenue

The following table summarizes our revenue recognized in our consolidated statements of operations:

	2021	2020	2019
Net product revenue	**$ 25,957.9**	$ 22,694.8	$ 20,377.3
Collaboration and other revenue[(1)]	**2,360.5**	1,845.0	1,942.2
Revenue	**$ 28,318.4**	$ 24,539.8	$ 22,319.5

[(1)] Collaboration and other revenue associated with prior period transfers of intellectual property was $175.0 million, $135.6 million, and $301.5 million during the years ended December 31, 2021, 2020, and 2019, respectively.

We recognize revenue primarily from two different types of contracts, product sales to customers (net product revenue) and collaborations and other arrangements. Revenue recognized from collaborations and other arrangements will include our share of profits from the collaboration, as well as royalties, upfront and milestone payments we receive under these types of contracts. See Note 4 for additional information related to our collaborations and other arrangements. Collaboration and other revenue disclosed above includes the revenue from the Jardiance® and Trajenta® families of products resulting from our collaboration with Boehringer Ingelheim discussed in Note 4. Substantially all of the remainder of collaboration and other revenue is related to contracts accounted for as contracts with customers.

Net Product Revenue

Revenue from sales of products is recognized at the point where the customer obtains control of the goods and we satisfy our performance obligation, which generally is at the time we ship the product to the customer. Payment terms differ by jurisdiction and customer, but payment terms in most of our major jurisdictions typically range from 30 to 70 days from date of shipment. Revenue for our product sales has not been adjusted for the effects of a financing component as we expect, at contract inception, that the period between when we transfer control of the product and when we receive payment will be one year or less. Any exceptions are either not material or we collect interest for payments made after the due date. Provisions for rebates, discounts, and returns are established in the same period the related sales are recognized. We generally ship product shortly after orders are received; therefore, we generally only have a few days of orders received but not yet shipped at the end of any reporting period. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are imposed on our sales of product and collected from a customer.

Most of our products are sold to wholesalers that serve pharmacies, physicians and other health care professionals, and hospitals. For the years ended December 31, 2021, 2020, and 2019, our three largest wholesalers each accounted for between 15 percent and 20 percent of consolidated revenue. Further, they each accounted for between 18 percent and 28 percent of accounts receivable as of December 31, 2021 and 2020.

Significant judgments must be made in determining the transaction price for our sales of products related to anticipated rebates, discounts and returns. The following describe the most significant of these judgments:

Sales Rebates and Discounts - Background and Uncertainties

- We initially invoice our customers at contractual list prices. Contracts with direct and indirect customers may provide for various rebates and discounts that may differ in each contract. As a consequence, to determine the appropriate transaction price for our product sales at the time we recognize a sale to a direct customer, we must estimate any rebates or discounts that ultimately will be due to the direct customer and other customers in the distribution chain under the terms of our contracts. Significant judgments are required in making these estimates.
- The rebate and discount amounts are recorded as a deduction to arrive at our net product revenue. Sales rebates and discounts that require the use of judgment in the establishment of the accrual include managed care, Medicare, Medicaid, chargebacks, long-term care, hospital, patient assistance programs, and various other programs. We estimate these accruals using an expected value approach.
- The largest of our sales rebate and discount amounts are rebates associated with sales covered by managed care, Medicare, Medicaid, chargeback, and patient assistance programs in the U.S. In determining the appropriate accrual amount, we consider our historical rebate payments for these programs by product as a percentage of our historical sales as well as any significant changes in sales trends (e.g., patent expiries and product launches), an evaluation of the current contracts for these programs, the percentage of our products that are sold via these programs, and our product pricing. Although we accrue a liability for rebates related to these programs at the time we record the sale, the rebate related to that sale is typically paid up to six months later. Because of this time lag, in any particular period our rebate adjustments may incorporate revisions of accruals for several periods.
- Most of our rebates outside the U.S. are contractual or legislatively mandated and are estimated and recognized in the same period as the related sales. In some large European countries, government rebates are based on the anticipated budget for pharmaceutical payments in the country. An estimate of these rebates, updated as governmental authorities revise budgeted deficits, is recognized in the same period as the related sale.

Sales Returns - Background and Uncertainties

- When product sales occur, to determine the appropriate transaction price for our sales, we estimate a reserve for future product returns related to those sales using an expected value approach. This estimate is based on several factors, including: historical return rates, expiration date by product (on average, approximately 24 months after the initial sale of a product to our customer), and estimated levels of inventory in the wholesale and retail channels, as well as any other specifically-identified anticipated returns due to known factors such as the loss of patent exclusivity, product recalls and discontinuances, or a changing competitive environment. We maintain a returns policy that allows most U.S. customers to return product for dating issues within a specified period prior to and subsequent to the product's expiration date. Following the loss of exclusivity for a patent-dependent product, we expect to experience an elevated level of product returns as product inventory remaining in the wholesale and retail channels expires. Adjustments to the returns reserve have been and may in the future be required based on revised estimates to our assumptions. We record the return amounts as a deduction to arrive at our net product revenue. Once the product is returned, it is destroyed; we do not record a right of return asset. Our returns policies outside the U.S. are generally more restrictive than in the U.S. as returns are not allowed for reasons other than failure to meet product specifications in many countries. Our reserve for future product returns for product sales outside the U.S. is not material.
- As a part of our process to estimate a reserve for product returns, we regularly review the supply levels of our significant products at the major wholesalers in the U.S. and in major markets outside the U.S., primarily by reviewing periodic inventory reports supplied by our major wholesalers and available prescription volume information for our products, or alternative approaches. We attempt to maintain U.S. wholesaler inventory levels at an average of approximately one month or less on a consistent basis across our product portfolio. Causes of unusual wholesaler buying patterns include actual or anticipated product-supply issues, weather patterns, anticipated changes in the transportation network, redundant holiday stocking, and changes in wholesaler business operations. In the U.S., the current structure of our arrangements provides us with data on inventory levels at our wholesalers; however, our data on inventory levels in the retail channel is more limited. Wholesaler stocking and destocking activity historically has not caused any material changes in the rate of actual product returns.
- Actual U.S. product returns have been less than 2 percent of our U.S. revenue during each of the past three years and have not fluctuated significantly as a percentage of revenue, although fluctuations are more likely in periods following loss of patent exclusivity for major products in the U.S. market.

Adjustments to Revenue

We record adjustments to revenue as a result of changes in estimates, for the judgments described above, for our most significant U.S. sales returns, rebates and discounts liability balances. Such adjustments for products shipped in previous periods resulted in approximately 2 percent or less increase to U.S revenue during each of the years ended December 31, 2021, 2020, and 2019.

Collaboration and Other Arrangements

We recognize several types of revenue from our collaborations and other arrangements, which we discuss in general terms immediately below and more specifically in Note 4 for each of our material collaborations and other arrangements. Our collaborations and other arrangements are not contracts with customers but are evaluated to determine whether any aspects of the arrangements are contracts with customers.

- Revenue related to products we sell pursuant to these arrangements is included in net product revenue, while other sources of revenue (e.g., royalties and profit sharing from our partner) are included in collaboration and other revenue.
- Initial fees and developmental milestones we receive in collaborative and other similar arrangements from the partnering of our compounds under development are generally deferred and amortized into income through the expected product approval date.
- Profit-sharing due from our collaboration partners, which is based upon gross margins reported to us by our partners, is recognized as collaboration and other revenue as earned.

- Royalty revenue from licensees and certain of our collaboration partners, which is based on sales to third-parties of licensed products and technology, is recorded when the third-party sale occurs and the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). This royalty revenue is included in collaboration and other revenue.
- For arrangements involving multiple goods or services (e.g., research and development, marketing and selling, manufacturing, and distribution), each required good or service is evaluated to determine whether it is distinct. If a good or service does not qualify as distinct, it is combined with the other non-distinct goods or services within the arrangement and these combined goods or services are treated as a single performance obligation for accounting purposes. The arrangement's transaction price is then allocated to each performance obligation based on the relative standalone selling price of each performance obligation. For arrangements that involve variable consideration where we have sold intellectual property, we recognize revenue based on estimates of the amount of consideration we believe we will be entitled to receive from the other party, subject to a constraint. These estimates are adjusted to reflect the actual amounts to be collected when those facts and circumstances become known.
- Significant judgments must be made in determining the transaction price for our sales of intellectual property. Because of the risk that products in development will not receive regulatory approval, we generally do not recognize any contingent payments that would be due to us upon or after regulatory approval.

Contract Liabilities

Our contract liabilities result from arrangements where we have received payment in advance of performance under the contract and do not include sales returns, rebates, and discounts. Changes in contract liabilities are generally due to either receipt of additional advance payments or our performance under the contract.

The following table summarizes contract liability balances:

	2021	2020
Contract liabilities	**$ 262.6**	$ 276.8

The contract liabilities balances disclosed above as of December 31, 2021 and 2020 were primarily related to the remaining license period of symbolic intellectual property and obligations to perform research and development activities or supply product for a defined period of time.

During the years ended December 31, 2021, 2020, and 2019, revenue recognized from contract liabilities as of the beginning of the respective year was not material. Revenue expected to be recognized in the future from contract liabilities as the related performance obligations are satisfied is not expected to be material in any one year.

Disaggregation of Revenue

The following table summarizes revenue by product:

	U.S.			Outside U.S.		
	2021	2020	2019	2021	2020	2019
Revenue—to unaffiliated customers:						
Diabetes:						
Trulicity®	**$ 4,914.4**	$ 3,835.9	$ 3,155.2	**$ 1,557.6**	$ 1,232.2	$ 972.7
Humalog® (1)	**1,320.7**	1,485.6	1,669.7	**1,132.3**	1,140.3	1,151.0
Jardiance (2)	**807.3**	620.8	565.9	**683.5**	533.0	378.3
Humulin®	**832.9**	866.4	879.7	**389.6**	393.2	410.4
Basaglar®	**588.3**	842.3	876.2	**304.2**	282.1	236.3
Trajenta (3)	**82.1**	95.6	224.8	**290.4**	263.0	365.8
Other Diabetes	**173.6**	162.5	158.0	**111.2**	81.5	88.1
Total Diabetes	**8,719.3**	7,909.1	7,529.5	**4,468.8**	3,925.3	3,602.6
Oncology:						
Alimta®	**1,233.9**	1,265.3	1,219.5	**827.5**	1,064.7	896.4
Verzenio®	**834.9**	618.2	454.8	**515.0**	294.4	124.9
Cyramza®	**358.1**	381.9	335.3	**674.8**	650.8	589.9
Erbitux®	**481.8**	480.1	487.9	**66.4**	56.3	55.4
Tyvyt®	**—**	—	—	**418.1**	308.7	134.0
Other Oncology	**120.1**	46.6	111.0	**210.7**	152.3	205.3
Total Oncology	**3,028.8**	2,792.1	2,608.5	**2,712.5**	2,527.2	2,005.9
Immunology:						
Taltz®	**1,542.4**	1,288.5	1,016.8	**670.4**	500.0	349.6
Olumiant® (4)	**324.1**	63.8	42.2	**791.0**	575.0	384.7
Other Immunology	**15.3**	20.0	—	**17.6**	14.6	—
Total Immunology	**1,881.8**	1,372.3	1,059.0	**1,479.0**	1,089.6	734.3
Neuroscience:						
Cymbalta®	**38.7**	42.1	49.6	**542.8**	725.6	675.8
Emgality®	**434.5**	325.9	154.9	**142.7**	37.0	7.7
Zyprexa®	**39.6**	46.1	41.0	**390.7**	360.5	377.6
Other Neuroscience	**102.0**	73.2	111.0	**207.5**	220.9	305.3
Total Neuroscience	**614.8**	487.3	356.5	**1,283.7**	1,344.0	1,366.4
Other:						
COVID-19 Antibodies (5)	**1,978.0**	850.0	—	**261.4**	21.2	—
Forteo®	**441.6**	510.3	645.5	**360.3**	536.0	759.1
Cialis®	**10.6**	61.8	231.7	**707.9**	545.4	658.8
Other	**136.1**	246.4	291.9	**233.9**	321.8	469.7
Total Other	**2,566.4**	1,668.4	1,169.1	**1,563.5**	1,424.4	1,887.7
Revenue	**$16,811.0**	$14,229.3	$12,722.6	**$11,507.4**	$10,310.5	$ 9,596.8

Numbers may not add due to rounding.

(1) Humalog revenue includes insulin lispro.

(2) Jardiance revenue includes Glyxambi®, Synjardy®, and Trijardy® XR.

(3) Trajenta revenue includes Jentadueto®.

(4) Olumiant revenue includes sales for baricitinib, for treatment in hospitalized COVID-19 patients, that were made pursuant to Emergency Use Authorization (EUA) or similar regulatory authorizations.

(5) COVID-19 antibodies include sales for bamlanivimab administered alone as well as sales for bamlanivimab and etesevimab administered together and were made pursuant to EUAs or similar regulatory authorizations.

The following table summarizes revenue by geographical area:

	2021	2020	2019
Revenue—to unaffiliated customers[1]:			
U.S.	**$ 16,811.0**	$ 14,229.3	$ 12,722.6
Europe	**4,776.8**	4,187.7	3,765.0
Japan	**2,367.0**	2,583.1	2,547.6
China	**1,661.4**	1,116.9	939.4
Other foreign countries	**2,702.2**	2,422.7	2,344.9
Revenue	**$ 28,318.4**	$ 24,539.8	$ 22,319.5

Numbers may not add due to rounding.
[1] Revenue is attributed to the countries based on the location of the customer.

Note 3: Acquisitions and Divestiture

In January 2021, February 2020 and 2019, we completed the acquisitions of Prevail Therapeutics Inc. (Prevail), Dermira, Inc. (Dermira) and Loxo Oncology, Inc. (Loxo), respectively. These transactions, as further discussed in this note below in Acquisitions of Businesses, were accounted for as business combinations under the acquisition method of accounting. Under this method, the assets acquired and liabilities assumed were recorded at their respective fair values as of the acquisition date in our consolidated financial statements. The determination of estimated fair value required management to make significant estimates and assumptions. The excess of the purchase price over the fair value of the acquired net assets, where applicable, has been recorded as goodwill. The results of operations of these acquisitions have been included in our consolidated financial statements from the date of acquisition.

We also acquired assets in development in 2021, 2020, and 2019, which are further discussed in this note below in Asset Acquisitions. Upon each acquisition, the cost allocated to acquired IPR&D was immediately expensed because the compound acquired had no alternative future use. For the years ended December 31, 2021, 2020, and 2019, we recorded acquired IPR&D charges of $874.9 million, $660.4 million, and $239.6 million, respectively.

Acquisitions of Businesses

Prevail Acquisition

Overview of Transaction

In January 2021, we acquired all shares of Prevail for a purchase price that included $22.50 per share in cash (or an aggregate of $747.4 million, net of cash acquired) plus one non-tradable contingent value right (CVR) per share. The CVR entitles Prevail stockholders up to an additional $4.00 per share in cash (or an aggregate of approximately $160 million) payable, subject to certain terms and conditions, upon the first regulatory approval of a Prevail product in one of the following countries: U.S., Japan, United Kingdom, Germany, France, Italy or Spain. To achieve the full value of the CVR, such regulatory approval must occur by December 31, 2024. If such regulatory approval occurs after December 31, 2024, the value of the CVR will be reduced by approximately 8.3 cents per month until December 1, 2028, at which point the CVR will expire without payment.

Under the terms of the agreement, we acquired potentially disease-modifying AAV9-based gene therapies for patients with neurodegenerative diseases. The acquisition establishes a new modality for drug discovery and development, extending our research efforts through the creation of a gene therapy program that is being anchored by Prevail's portfolio of assets. The lead gene therapies in clinical development that we acquired were PR001 for patients with Parkinson's disease with GBA1 mutations and neuronopathic Gaucher disease and PR006 for patients with frontotemporal dementia with GRN mutations. Both PR001 and PR006 were granted Fast Track designation from the U.S. Food and Drug Administration (FDA).

Assets Acquired and Liabilities Assumed

The following table summarizes the amounts recognized for assets acquired and liabilities assumed in the acquisition of Prevail as of the acquisition date:

Estimated Fair Value at January 22, 2021		
Cash	$	90.5
Acquired IPR&D[(1)]		824.0
Goodwill[(2)]		126.8
Deferred tax liabilities		(106.0)
Other assets and liabilities, net		(31.5)
Acquisition date fair value of consideration transferred		903.8
Less:		
Cash acquired		(90.5)
Fair value of CVR liability[(3)]		(65.9)
Cash paid, net of cash acquired	$	747.4

[(1)] Acquired IPR&D intangibles primarily relate to PR001.
[(2)] The goodwill recognized from this acquisition is not deductible for tax purposes.
[(3)] See Note 7 for a discussion on the estimation of the CVR liability.

We are unable to provide the results of operations for the year ended December 31, 2021 attributable to Prevail as those operations were substantially integrated into our legacy business.

Pro forma information has not been included as this acquisition did not have a material impact on our consolidated statements of operations for the years ended December 31, 2021 and 2020.

Dermira Acquisition

Overview of Transaction

In February 2020, we acquired all shares of Dermira for a purchase price of approximately $849.3 million, net of cash acquired. Under terms of the agreement, we acquired lebrikizumab, a novel, investigational, monoclonal antibody being evaluated for the treatment of moderate-to-severe atopic dermatitis. Lebrikizumab was granted Fast Track designation from the FDA. We also acquired Qbrexza® (glycopyrronium) cloth, a medicated cloth approved by the FDA for the topical treatment of primary axillary hyperhidrosis (uncontrolled excessive underarm sweating). During the year ended December 31, 2021, we sold the rights to Qbrexza. See Note 5 for additional information.

Assets Acquired and Liabilities Assumed

The fair values recognized related to the assets acquired and liabilities assumed in this acquisition included goodwill of $86.8 million, other intangibles of $1.20 billion primarily related to lebrikizumab, deferred income tax liabilities of $49.5 million, and long-term debt of $375.5 million. After the acquisition, we repaid $276.2 million of long-term debt assumed as part of our acquisition of Dermira.

Revenue attributable to assets acquired in the Dermira acquisition did not have a material impact on our consolidated statement of operations for the year ended December 31, 2020. We are unable to provide the results of operations for the year ended December 31, 2020 attributable to Dermira as those operations were substantially integrated into our legacy business.

Pro forma information has not been included because this acquisition did not have a material impact on our consolidated statements of operations for the years ended December 31, 2020 and 2019.

Loxo Acquisition

Overview of Transaction

In February 2019, we acquired all shares of Loxo for a purchase price of $6.92 billion, net of cash acquired. The accelerated vesting of Loxo employee equity awards was recognized as transaction expense included in asset impairment, restructuring, and other special charges during the year ended December 31, 2019 (see Note 5).

Under the terms of the agreement, we acquired a pipeline of investigational medicines, including selpercatinib (LOXO-292), an oral RET inhibitor, and LOXO-305, an oral BTK inhibitor. In the second quarter of 2020, the FDA approved selpercatinib (Retevmo®) under its Accelerated Approval regulations and continued approval may be contingent upon verification and description of clinical benefit in confirmatory trials. At the time of approval, we reclassified our $4.60 billion intangible asset for selpercatinib (Retevmo) from indefinite-lived intangible assets to finite-lived intangible assets and began amortizing straight line over its estimated useful life.

Assets Acquired and Liabilities Assumed

The following table summarizes the amounts recognized for assets acquired and liabilities assumed in the acquisition of Loxo as of the acquisition date:

Estimated Fair Value at February 15, 2019	
Acquired IPR&D[(1)]	$ 4,670.0
Finite-lived intangibles[(2)]	980.0
Deferred income taxes	(1,032.8)
Other assets and liabilities - net	(26.4)
Total identifiable net assets	4,590.8
Goodwill[(3)]	2,326.9
Total consideration transferred - net of cash acquired	$ 6,917.7

(1) $4.60 billion of the acquired IPR&D relates to selpercatinib (LOXO-292).

(2) Contract-based intangibles for Vitrakvi and a Phase I molecule which were amortized to cost of sales on a straight-line basis over their estimated useful lives and were expected to have a weighted average useful life of approximately 12 years from the acquisition date. In the fourth quarter of 2021 we impaired the intangible for the Phase I molecule. See Note 5 for additional information.

(3) The goodwill recognized from this acquisition is attributable primarily to future unidentified projects and products and the assembled workforce for Loxo and is not deductible for tax purposes.

Asset Acquisitions

The following table and narrative summarize our asset acquisitions during 2021, 2020, and 2019.

Counterparty	Compound(s),Therapy, or Asset	Acquisition Month	Phase of Development[(1)]	Acquired IPR&D Expense
Precision Biosciences, Inc.	Potential in vivo therapies for genetic disorders	January 2021	Pre-clinical	**$ 107.8**
Merus N.V.	CD3-engaging T-cell re-directing bispecific antibodies for the potential treatment of cancer	January 2021	Pre-clinical	**46.5**
Asahi Kasei Pharma Corporation	AK1780, an orally bioavailable P2X7 receptor antagonist for the potential treatment of chronic pain conditions	January 2021	Phase I	**20.0**
Rigel Pharmaceuticals, Inc.	R552, a receptor-interacting serine/threonine-protein kinase 1 (RIPK1) inhibitor, for the potential treatment of autoimmune and inflammatory diseases	March 2021	Phase I	**125.0**
MiNA Therapeutics Limited	Pre-clinical targets that could lead to potential new medicines	May 2021	Pre-clinical	**25.0**
Protomer Technologies Inc.	Glucose-sensing insulin program	July 2021	Pre-clinical	**57.3**

Counterparty	Compound(s),Therapy, or Asset	Acquisition Month	Phase of Development[1]	Acquired IPR&D Expense
Kumquat Biosciences Inc.	Pre-clinical small molecules that stimulate tumor-specific immune responses	July 2021	Pre-clinical	**55.0**
Lycia Therapeutics, Inc.	Several potential modalities across a spectrum of therapeutic areas and diseases	August 2021	Pre-clinical	**35.0**
ProQR Therapeutics N.V.	Pre-clinical targets that could lead to potential new medicines for genetic disorders in the liver and nervous system	September 2021	Pre-clinical	**26.7**
QILU Regor Therapeutics Inc.	Pre-clinical targets that could lead to potential new medicines for metabolic disorders	December 2021	Pre-clinical	**30.0**
Foghorn Therapeutics Inc.	Pre-clinical targets that could lead to potential new oncology medicines	December 2021	Pre-clinical	**316.6**
Entos Pharmaceuticals Inc.	Pre-clinical targets that could lead to potential new nucleic acid-based therapies targeting the central and peripheral nervous system	December 2021	Pre-clinical	**30.0**
Sitryx Therapeutics Limited	Pre-clinical targets that could lead to potential new medicines for autoimmune diseases	March 2020	Pre-clinical	52.3
AbCellera Biologics Inc. (AbCellera)	Neutralizing antibodies for the treatment and prevention of COVID-19	March 2020[2]	Pre-clinical	25.0
Shanghai Junshi Biosciences Co., Ltd. (Junshi Biosciences)	Neutralizing antibodies for the treatment and prevention of COVID-19	May 2020	Pre-clinical	20.0
Petra Pharma Corporation (Petra)	Mutant-selective PI3Kα inhibitor that could lead to potential new medicine	May 2020	Pre-clinical	174.8
Evox Therapeutics Limited	Pre-clinical targets for the potential treatment of neurological disorders	June 2020	Pre-clinical	22.0
Innovent Biologics, Inc. (Innovent)	Sintilimab injection, an anti-PD-1 monoclonal antibody immuno-oncology medicine, for geographies outside of China	October 2020	Phase III	200.0
Disarm Therapeutics, Inc.	Disease-modifying therapeutics program for patients with axonal degeneration	October 2020	Pre-clinical	126.3
Fochon Pharmaceuticals, Ltd.	Pre-clinical molecule targeting hematological malignancies	November 2020	Pre-clinical	40.0

Counterparty	Compound(s),Therapy, or Asset	Acquisition Month	Phase of Development[1]	Acquired IPR&D Expense
AC Immune SA	Tau aggregation inhibitor small molecules for the potential treatment of Alzheimer's disease and other neurodegenerative diseases	January 2019 & September 2019[3]	Pre-clinical	127.1
ImmuNext, Inc.	Novel immunometabolism target	March 2019	Pre-clinical	40.0
Avidity Biosciences, Inc.	Potential new medicines in immunology and other select indications	April 2019	Pre-clinical	25.0
Centrexion Therapeutics Corporation	CNTX-0290, a novel, small molecule somatostatin receptor type 4 agonist	July 2019	Phase I	47.5

[1] The phase of development presented is as of the date of the arrangement and represents the phase of development of the most advanced asset acquired, where applicable.

[2] We recognized acquired IPR&D expense of $25.0 million in May 2020 upon closing of the transaction.

[3] We recognized acquired IPR&D expenses of $96.9 million in January 2019 upon entering into a license agreement and $30.2 million in September 2019 upon entering into an amendment to the license agreement.

In connection with these arrangements, our partners may be entitled to future royalties and/or commercial milestones based on sales should products be approved for commercialization and/or milestones based on the successful progress of compounds through the development process.

Divestiture

In October 2019, we completed a transaction in which we sold the rights in China for two legacy antibiotic medicines, as well as a manufacturing facility in Suzhou, China to Eddingpharm, a China-based specialty pharmaceutical company. In connection with the sale, we received net cash proceeds of $354.8 million and $40.3 million from Eddingpharm in 2019 and 2020, respectively. We accounted for the transaction as the sale of a business. We recognized a gain of $309.8 million in other—net, (income) expense in our consolidated statement of operations during the year ended December 31, 2019.

Note 4: Collaborations and Other Arrangements

We often enter into collaborative and other similar arrangements to develop and commercialize drug candidates. Collaborative activities may include research and development, marketing and selling (including promotional activities and physician detailing), manufacturing, and distribution. These arrangements often require milestone as well as royalty or profit-share payments, contingent upon the occurrence of certain future events linked to the success of the asset in development, as well as expense reimbursements from or payments to the collaboration partner. See Note 2 for amounts of collaboration and other revenue recognized from these types of arrangements.

Operating expenses for costs incurred pursuant to these arrangements are reported in their respective expense line item, net of any payments due to or reimbursements due from our collaboration partners, with such reimbursements being recognized at the time the party becomes obligated to pay. Each collaboration is unique in nature, and our more significant arrangements are discussed below.

Boehringer Ingelheim Diabetes Collaboration

We and Boehringer Ingelheim have a global agreement to jointly develop and commercialize a portfolio of diabetes compounds. Currently included in the collaboration are Boehringer Ingelheim's oral diabetes products: Jardiance, Glyxambi, Synjardy, Trijardy XR, Trajenta, and Jentadueto, as well as our basal insulin, Basaglar. Glyxambi, Synjardy, and Trijardy XR are included in the Jardiance product family. Jentadueto is included in the Trajenta product family.

In connection with the regulatory approvals of Jardiance, Trajenta and Basaglar in the U.S, Europe and Japan, milestone payments made for Jardiance and Trajenta were capitalized as intangible assets and are being amortized to cost of sales, and milestone payments received for Basaglar were recorded as contract liabilities and are being amortized to collaboration and other revenue. These milestones are being amortized through their respective term under the collaboration which, depending on country or region, is determined based on the latest to occur of (a) a defined number of years following launch date, (b) the expiration of the compound patent, or (c) any supplementary protection certificates or extensions thereto. The table below summarizes the net milestones capitalized (deferred) at December 31 for the compounds included in this collaboration:

	Net Milestones Capitalized (Deferred)[1]	
	2021	2020
Jardiance	**$ 136.1**	$ 156.2
Trajenta	**88.5**	114.6
Basaglar	**(149.3)**	(168.0)

[1] This represents the amounts that have been capitalized (deferred) from the start of this collaboration through the end of the reporting period, net of amount amortized.

Through December 31, 2019, in the most significant markets, we and Boehringer Ingelheim shared equally the ongoing development costs, commercialization costs, and agreed upon gross margin for any product resulting from the collaboration. We recorded our portion of the gross margin associated with Boehringer Ingelheim's products as collaboration and other revenue. We recorded our sales of Basaglar to third parties as net product revenue with the payments made to Boehringer Ingelheim for their portion of the gross margin recorded as cost of sales. For all compounds under this collaboration, we recorded our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. Each company was entitled to potential performance payments depending on the sales of the molecules it contributes to the collaboration. These performance payments may have resulted in the owner of the molecule retaining a greater share of the agreed upon gross margin of that product. Subject to achieving these thresholds, in a given period, our reported revenue for Trajenta and Jardiance may have been reduced by any performance payments we made related to these products. Similarly, performance payments we may have received related to Basaglar effectively reduced Boehringer Ingelheim's share of the gross margin, which reduced our cost of sales.

Effective January 1, 2020, we and Boehringer Ingelheim modernized the alliance. For the Jardiance product family, we and Boehringer Ingelheim share equally the ongoing development and commercialization costs in the most significant markets, and we record our portion of the development and commercialization costs as research and development expense and marketing, selling, and administrative expense, respectively. We receive a royalty on net sales of Boehringer Ingelheim's products in the most significant markets and recognize the royalty as collaboration and other revenue. Boehringer Ingelheim is entitled to potential performance payments depending on the net sales of the Jardiance product family; therefore, our reported revenue for Jardiance may be reduced by any potential performance payments we make related to this product family. Beginning January 1, 2021, the royalty received by us related to the Jardiance product family may also be increased or decreased depending on whether net sales for this product family exceed or fall below certain thresholds. We pay to Boehringer Ingelheim a royalty on net sales for Basaglar in the U.S. We record our sales of Basaglar to third parties as net product revenue with the royalty payments made to Boehringer Ingelheim recorded as cost of sales.

The following table summarizes our collaboration and other revenue recognized with respect to the Jardiance and Trajenta families of products and net product revenue recognized with respect to Basaglar:

	2021	2020	2019
Jardiance	**$ 1,490.8**	$ 1,153.8	$ 944.2
Basaglar	**892.5**	1,124.4	1,112.6
Trajenta	**372.5**	358.5	590.6

Olumiant

We have a worldwide license and collaboration agreement with Incyte Corporation (Incyte), which provides us the development and commercialization rights to its Janus tyrosine kinase (JAK) inhibitor compound, now known as Olumiant (baricitinib), and certain follow-on compounds, for the treatment of inflammatory and autoimmune diseases. Incyte has the right to receive tiered, double digit royalty payments on worldwide net sales with rates ranging up to 20 percent. The agreement calls for payments by us to Incyte associated with certain development, success-based regulatory, and sales-based milestones. In 2020, the agreement was amended to include the treatment of COVID-19, with Incyte obtaining the right to receive an additional royalty ranging up to the low teens on worldwide net sales for the treatment of COVID-19 that exceed a specified aggregate worldwide net sales threshold.

In connection with the regulatory approvals of Olumiant in the U.S., Europe, and Japan, as well as achievement of a sales-based milestone, milestone payments of $260.0 million and $210.0 million were capitalized as intangible assets as of December 31, 2021 and 2020, respectively, and are being amortized to cost of sales through the term of the collaboration. This represents the cumulative amounts that have been capitalized from the start of this collaboration through the end of each reporting period.

As of December 31, 2021, Incyte is eligible to receive up to $100.0 million of additional payments from us contingent upon certain success-based regulatory milestones. Incyte is also eligible to receive up to $100.0 million of potential sales-based milestones.

We record our sales of Olumiant, including sales of baricitinib that were made pursuant to an EUA or similar regulatory authorizations, to third parties as net product revenue with the royalty payments made to Incyte recorded as cost of sales. The following table summarizes our net product revenue recognized with respect to Olumiant:

	2021	2020	2019
Olumiant	**$ 1,115.1**	$ 638.9	$ 426.9

COVID-19 antibodies

In 2020, we entered into a worldwide license and collaboration agreement with AbCellera to co-develop therapeutic antibodies for the potential prevention and treatment of COVID-19, including bamlanivimab and bebtelovimab, for which we hold development and commercialization rights. AbCellera has the right to receive tiered royalty payments on worldwide net sales of bamlanivimab and bebtelovimab with percentages ranging in the mid-teens to mid-twenties. Royalty payments made to AbCellera are recorded as cost of sales.

In 2020, we entered into a license and collaboration agreement with Junshi Biosciences to co-develop therapeutic antibodies for the potential prevention and treatment of COVID-19, including etesevimab, for which we hold development and commercialization rights outside of mainland China and the Special Administrative Regions of Hong Kong and Macau, and for which Junshi Biosciences currently maintains all rights in mainland China and the Special Administrative Regions of Hong Kong and Macau. Junshi Biosciences has the right to receive royalty payments in the mid-teens on our net sales of etesevimab. Junshi Biosciences also had the right to receive certain development, success-based regulatory and sales-based milestones. In connection with the regulatory authorizations of etesevimab (for administration with bamlanivimab) as well as achievement of sales-based milestones in 2021, milestone payments of $195.0 million were capitalized as intangible assets and are being amortized to cost of sales over the estimated useful life of etesevimab. During the year ended December 31, 2020, we recognized $50.0 million of research and development expenses related to development milestones.

Pursuant to EUAs or similar regulatory authorizations, we recognized $2.24 billion and $871.2 million of net product revenue associated with our sales of our COVID-19 antibodies during the years ended December 31, 2021 and 2020, respectively.

Sintilimab Injection

We have a collaboration agreement with Innovent to jointly develop and commercialize sintilimab injection in China, where it is branded and trademarked as Tyvyt. In 2019, we and Innovent began co-commercializing Tyvyt in China. In 2020, we obtained an exclusive license for sintilimab injection from Innovent for geographies outside of China. Innovent, with collaboration from us, has filed the initial registration of sintilimab injection in the U.S., and we plan to pursue initial registration of sintilimab injection in other markets and all other subsequent registrations of sintilimab injection. We have exclusive commercialization rights outside of China.

In connection with a regulatory approval for Tyvyt in China in 2021, we capitalized a milestone payment of $40.0 million as an intangible asset which is being amortized to cost of sales through the term of the collaboration.

As of December 31, 2021, Innovent is eligible to receive up to $825.0 million for geographies outside of China and up to $195.0 million in China in success-based regulatory and sales-based milestones. Innovent is also eligible to receive tiered double digit royalties on net sales for geographies outside of China.

We record our sales of Tyvyt to third parties as net product revenue, with payments made to Innovent for its portion of the gross margin reported as cost of sales. We report as collaboration and other revenue our portion of the gross margin for Tyvyt sales made by Innovent to third parties. The following table summarizes our revenue recognized in China with respect to Tyvyt:

	2021	2020	2019
Tyvyt	**$ 418.1**	$ 308.7	$ 134.0

Lebrikizumab

As a result of our acquisition of Dermira, we have a worldwide license agreement with F. Hoffmann-La Roche Ltd and Genentech, Inc. (collectively Roche), which provides us the worldwide development and commercialization rights to lebrikizumab. Roche has the right to receive tiered royalty payments on future worldwide net sales ranging in percentages from high single digits to high teens if the product is successfully commercialized. As of December 31, 2021, Roche is eligible to receive up to $180.0 million of payments from us contingent upon the achievement of success-based regulatory milestones, and up to $1.03 billion in a series of sales-based milestones, contingent upon the commercial success of lebrikizumab.

As a result of our acquisition of Dermira, we have a license agreement with Almirall, S.A. (Almirall), under which Almirall licensed the rights to develop and commercialize lebrikizumab for the treatment or prevention of dermatology indications, including, but not limited to, atopic dermatitis in Europe. We have the right to receive tiered royalty payments on future net sales in Europe ranging in percentages from low double digits to low twenties if the product is successfully commercialized. As of December 31, 2021, we are eligible to receive additional payments of $85.0 million from Almirall contingent upon the achievement of success-based regulatory milestones and up to $1.25 billion in a series of sales-based milestones, contingent upon the commercial success of lebrikizumab. As of December 31, 2021 and 2020, contract liabilities were not material. During the twelve months ended December 31, 2021 and 2020, milestones received and collaboration and other revenue recognized were not material.

Petra

As a result of our acquisition of Petra, we are required to make milestone payments to Petra shareholders contingent upon the occurrence of certain future events linked to the success of the mutant-selective PI3Kα inhibitor. Our more significant, near term milestones include a development milestone of approximately $205 million in 2022 contingent upon initiation of its Phase I trial and a further development milestone of approximately $164 million in 2023 contingent upon achieving clinical proof of concept.

Note 5: Asset Impairment, Restructuring, and Other Special Charges

The components of the charges included in asset impairment, restructuring, and other special charges in our consolidated statements of operations are described below:

	2021	2020	2019
Severance	**$ 13.0**	$ 151.2	$ 77.8
Asset impairment (gain) and other special charges	**303.1**	(20.0)	497.8
Total asset impairment, restructuring, and other special charges	**$ 316.1**	$ 131.2	$ 575.6

Severance costs recognized during the years ended December 31, 2020 and 2019 were incurred as a result of actions taken worldwide to reduce our cost structure.

During the year ended December 31, 2021, we recognized $128.0 million of intangible asset impairment as a result of the decision by Bayer AG to discontinue the development of a Phase I molecule related to a contract-based intangible asset from our acquisition of Loxo. Additionally, we recognized $108.1 million of intangible asset impairment from the sale of the rights to Qbrexza, as well as acquisition and integration costs associated with the acquisition of Prevail.

Asset impairment and other special charges recognized during the year ended December 31, 2019 resulted primarily from $400.7 million of other special charges related to the acquisition of Loxo, substantially all of which is associated with the accelerated vesting of Loxo employee equity awards.

Note 6: Inventories

We use the last-in, first-out (LIFO) method for the majority of our inventories located in the continental U.S. Other inventories are valued by the first-in, first-out (FIFO) method. FIFO cost approximates current replacement cost. Inventories measured using LIFO must be valued at the lower of cost or market. Inventories measured using FIFO must be valued at the lower of cost or net realizable value.

Inventories at December 31 consisted of the following:

	2021	2020
Finished products	**$ 761.9**	$ 758.9
Work in process	**2,372.7**	2,535.4
Raw materials and supplies	**717.2**	651.2
Total (approximates replacement cost)	**3,851.8**	3,945.5
Increase to LIFO cost	**34.2**	34.8
Inventories	**$ 3,886.0**	$ 3,980.3

Inventories valued under the LIFO method comprised $1.36 billion and $1.21 billion of total inventories at December 31, 2021 and 2020, respectively.

We recognized a net inventory impairment charge related to our COVID-19 antibodies of $339.7 million during the year ended December 31, 2021 in cost of sales in our consolidated statements of operations. As part of our response to the COVID-19 pandemic, and at the request of the U.S. and international governments, we invested in large-scale manufacturing of COVID-19 antibodies at risk, in order to ensure rapid access to patients around the world. As the COVID-19 pandemic evolved during 2021, we incurred a net inventory impairment charge primarily due to the combination of changes to current and forecasted demand from U.S. and international governments, including changes to our agreement with the U.S. government, and near-term expiry dates of COVID-19 antibodies.

Note 7: Financial Instruments

Financial instruments that potentially subject us to credit risk consist principally of trade receivables and interest-bearing investments. Wholesale distributors of life-science products account for a substantial portion of our trade receivables; collateral is generally not required. We seek to mitigate the risk associated with this concentration through our ongoing credit-review procedures and insurance. A large portion of our cash is held by a few major financial institutions. We monitor our exposures with these institutions and do not expect any of these institutions to fail to meet their obligations. In accordance with documented corporate risk-management policies, we monitor the amount of credit exposure to any one financial institution or corporate issuer. We are exposed to credit-related losses in the event of nonperformance by counterparties to risk-management instruments but do not expect any counterparties to fail to meet their obligations given their high credit ratings.

We consider all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. The cost of these investments approximates fair value.

Our equity investments are accounted for using three different methods depending on the type of equity investment:

- Investments in companies over which we have significant influence but not a controlling interest are accounted for using the equity method, with our share of earnings or losses reported in other-net, (income) expense.
- For equity investments that do not have readily determinable fair values, we measure these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Any change in recorded value is recorded in other-net, (income) expense.
- Our public equity investments are measured and carried at fair value. Any change in fair value is recognized in other-net, (income) expense.

We review equity investments other than public equity investments for indications of impairment and observable price changes on a regular basis.

Our derivative activities are initiated within the guidelines of documented corporate risk-management policies and are intended to offset losses and gains on the assets, liabilities, and transactions being hedged. Management reviews the correlation and effectiveness of our derivatives on a quarterly basis.

For derivative instruments that are designated and qualify as fair value hedges, the derivative instrument is marked to market with gains and losses recognized currently in income to offset the respective losses and gains recognized on the underlying exposure. For derivative instruments that are designated and qualify as cash flow hedges, gains and losses are reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period the hedged transaction affects earnings. For derivative and non-derivative instruments that are designated and qualify as net investment hedges, the foreign currency translation gains or losses due to spot rate fluctuations are reported as a component of accumulated other comprehensive loss. Derivative contracts that are not designated as hedging instruments are recorded at fair value with the gain or loss recognized in earnings during the period of change.

We may enter into foreign currency forward or option contracts to reduce the effect of fluctuating currency exchange rates (principally the euro, British pound, and Japanese yen). Foreign currency derivatives used for hedging are put in place using the same or like currencies and duration as the underlying exposures. Forward and option contracts are principally used to manage exposures arising from subsidiary trade and loan payables and receivables denominated in foreign currencies. These contracts are recorded at fair value with the gain or loss recognized in other–net, (income) expense. We may enter into foreign currency forward and option contracts and currency swaps as fair value hedges of firm commitments. Forward contracts generally have maturities not exceeding 12 months. At December 31, 2021, we had outstanding foreign currency forward commitments to purchase 4.43 billion U.S. dollars and sell 3.92 billion euro; commitments to purchase 3.84 billion euro and sell 4.37 billion U.S. dollars; commitments to purchase 159.2 million U.S. dollars and sell 18.26 billion Japanese yen, and commitments to purchase 223.0 million British pounds and sell 296.0 million U.S. dollars, which all have settlement dates within 180 days.

Foreign currency exchange risk is also managed through the use of foreign currency debt and cross-currency interest rate swaps. Our foreign currency-denominated notes had carrying amounts of $7.90 billion and $6.02 billion as of December 31, 2021 and 2020, respectively, of which $5.79 billion and $4.50 billion have been designated as, and are effective as, economic hedges of net investments in certain of our foreign operations as of December 31, 2021 and 2020, respectively. At December 31, 2021, we had outstanding cross currency swaps with notional amounts of $1.02 billion swapping U.S. dollars to euro and $1.00 billion swapping Swiss francs to U.S. dollars which have settlement dates ranging through 2028. Our cross-currency interest rate swaps, for which a majority convert a portion of our U.S. dollar-denominated fixed rate debt to foreign-denominated fixed rate debt, have also been designated as, and are effective as, economic hedges of net investments.

In the normal course of business, our operations are exposed to fluctuations in interest rates which can vary the costs of financing, investing, and operating. We seek to address a portion of these risks through a controlled program of risk management that includes the use of derivative financial instruments. The objective of controlling these risks is to limit the impact of fluctuations in interest rates on earnings. Our primary interest-rate risk exposure results from changes in short-term U.S. dollar interest rates. In an effort to manage interest-rate exposures, we strive to achieve an acceptable balance between fixed- and floating-rate debt and investment positions and may enter into interest rate swaps or collars to help maintain that balance.

Interest rate swaps or collars that convert our fixed-rate debt to a floating rate are designated as fair value hedges of the underlying instruments. Interest rate swaps or collars that convert floating-rate debt to a fixed rate are designated as cash flow hedges. Interest expense on the debt is adjusted to include the payments made or received under the swap agreements. Cash proceeds from or payments to counterparties resulting from the termination of interest rate swaps are classified as operating activities in our consolidated statements of cash flows. At December 31, 2021, substantially all of our total long-term debt is at a fixed rate. We have converted approximately 13 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps.

We also may enter into forward-starting interest rate swaps, which we designate as cash flow hedges, as part of any anticipated future debt issuances in order to reduce the risk of cash flow volatility from future changes in interest rates. The change in fair value of these instruments is recorded as part of other comprehensive income (loss) and, upon completion of a debt issuance and termination of the swap, is amortized to interest expense over the life of the underlying debt. As of December 31, 2021, the total notional amounts of forward-starting interest rate contracts in designated cash flow hedging instruments were $1.75 billion, which have settlement dates ranging between 2023 and 2025.

The Effect of Risk Management Instruments on the Consolidated Statements of Operations

The following effects of risk-management instruments were recognized in other–net, (income) expense:

	2021	2020	2019
Fair value hedges:			
Effect from hedged fixed-rate debt	**$ (78.5)**	$ 86.9	$ 112.1
Effect from interest rate contracts	**78.5**	(86.9)	(112.1)
Cash flow hedges:			
Effective portion of losses on interest rate contracts reclassified from accumulated other comprehensive loss	**16.6**	16.4	15.9
Cross-currency interest rate swaps	**41.8**	(102.4)	(17.1)
Net (gains) losses on foreign currency exchange contracts not designated as hedging instruments	**204.6**	(123.7)	61.9
Total	**$ 263.0**	$ (209.7)	$ 60.7

During the years ended December 31, 2021, 2020, and 2019, the amortization of losses related to the portion of our risk management hedging instruments, fair value hedges, and cash flow hedges that was excluded from the assessment of effectiveness was not material.

The Effect of Risk-Management Instruments on Other Comprehensive Income (Loss)

The effective portion of risk-management instruments that was recognized in other comprehensive income (loss) is as follows:

	2021	2020	2019
Net investment hedges:			
Foreign currency-denominated notes	**$ 435.0**	$ (404.0)	$ 40.1
Cross-currency interest rate swaps	**213.7**	(207.9)	47.4
Cash flow hedges:			
Forward-starting interest rate swaps	**97.6**	(110.9)	31.6
Cross-currency interest rate swaps	**42.3**	(53.7)	(8.3)

During the next 12 months, we expect to reclassify $16.5 million of pretax net losses on cash flow hedges from accumulated other comprehensive loss to other–net, (income) expense. During the years ended December 31, 2021, 2020, and 2019, the amounts excluded from the assessment of hedge effectiveness recognized in other comprehensive income (loss) were not material.

Fair Value of Financial Instruments

The following tables summarize certain fair value information at December 31 for assets and liabilities measured at fair value on a recurring basis, as well as the carrying amount and amortized cost of certain other investments:

Description	Carrying Amount	Cost [1]	Fair Value Measurements Using			Fair Value
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2021						
Cash equivalents	**$ 2,379.5**	**$ 2,379.5**	**$ 2,361.0**	**$ 18.5**	**$ —**	**$ 2,379.5**
Short-term investments:						
U.S. government and agency securities	**$ 25.7**	**$ 25.6**	**$ 25.7**	**$ —**	**$ —**	**$ 25.7**
Corporate debt securities	**43.7**	**43.7**	**—**	**43.7**	**—**	**43.7**
Mortgage-backed securities	**0.2**	**0.2**	**—**	**0.2**	**—**	**0.2**
Asset-backed securities	**6.2**	**6.2**	**—**	**6.2**	**—**	**6.2**
Other securities	**14.3**	**14.3**	**—**	**—**	**14.3**	**14.3**
Short-term investments	**$ 90.1**					
Noncurrent investments:						
U.S. government and agency securities	**$ 137.0**	**$ 136.8**	**$ 137.0**	**$ —**	**$ —**	**$ 137.0**
Corporate debt securities	**235.3**	**232.7**	**—**	**235.3**	**—**	**235.3**
Mortgage-backed securities	**109.8**	**108.1**	**—**	**109.8**	**—**	**109.8**
Asset-backed securities	**23.1**	**23.1**	**—**	**23.1**	**—**	**23.1**
Other securities	**108.1**	**22.2**	**—**	**—**	**108.1**	**108.1**
Marketable equity securities	**1,279.7**	**487.0**	**1,279.7**	**—**	**—**	**1,279.7**
Equity investments without readily determinable fair values[2]	**548.1**					
Equity method investments[2]	**771.5**					
Noncurrent investments	**$ 3,212.6**					
December 31, 2020						
Cash equivalents	$ 2,097.9	$ 2,097.9	$ 2,097.9	$ —	$ —	$ 2,097.9
Short-term investments:						
U.S. government and agency securities	$ 9.9	$ 9.9	$ 9.9	$ —	$ —	$ 9.9
Corporate debt securities	2.8	2.8	—	2.8	—	2.8
Asset-backed securities	1.2	1.2	—	1.2	—	1.2
Other securities	10.3	10.3	—	—	10.3	10.3
Short-term investments	$ 24.2					
Noncurrent investments:						
U.S. government and agency securities	$ 78.7	$ 74.3	$ 78.7	$ —	$ —	$ 78.7
Corporate debt securities	137.0	126.8	—	137.0	—	137.0
Mortgage-backed securities	106.4	101.4	—	106.4	—	106.4
Asset-backed securities	24.3	23.7	—	24.3	—	24.3
Other securities	110.5	31.8	—	—	110.5	110.5
Marketable equity securities	1,664.2	311.6	1,664.2	—	—	1,664.2
Equity investments without readily determinable fair values[2]	373.9					
Equity method investments[2]	471.8					
Noncurrent investments	$ 2,966.8					

[1] For available-for-sale debt securities, amounts disclosed represent the securities' amortized cost.

[2] Fair value disclosures are not applicable for equity method investments and investments accounted for under the measurement alternative for equity investments.

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Long-term debt, including current portion					
December 31, 2021	**$ (16,884.7)**	**$ —**	**$ (18,157.7)**	**$ —**	**$ (18,157.7)**
December 31, 2020	(16,595.3)	—	(19,038.9)	—	(19,038.9)

Description	Carrying Amount	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
December 31, 2021					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other receivables	**$ 4.8**	**$ —**	**$ 4.8**	**$ —**	**$ 4.8**
Other noncurrent assets	**78.3**	**—**	**78.3**	**—**	**78.3**
Other noncurrent liabilities	**(7.6)**	**—**	**(7.6)**	**—**	**(7.6)**
Interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**49.2**	**—**	**49.2**	**—**	**49.2**
Other noncurrent liabilities	**(31.7)**	**—**	**(31.7)**	**—**	**(31.7)**
Cross-currency interest rate contracts designated as net investment hedges:					
Other noncurrent assets	**31.3**	**—**	**31.3**	**—**	**31.3**
Other current liabilities	**(1.2)**	**—**	**(1.2)**	**—**	**(1.2)**
Cross-currency interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	**33.2**	**—**	**33.2**	**—**	**33.2**
Other noncurrent liabilities	**(1.3)**	**—**	**(1.3)**	**—**	**(1.3)**
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	**9.9**	**—**	**9.9**	**—**	**9.9**
Other current liabilities	**(35.3)**	**—**	**(35.3)**	**—**	**(35.3)**
Contingent consideration liabilities:					
Other noncurrent liabilities	**(70.5)**	**—**	**—**	**(70.5)**	**(70.5)**
December 31, 2020					
Risk-management instruments					
Interest rate contracts designated as fair value hedges:					
Other noncurrent assets	158.9	—	158.9	—	158.9
Interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	38.1	—	38.1	—	38.1
Other noncurrent liabilities	(97.8)	—	(97.8)	—	(97.8)
Cross-currency interest rate contracts designated as net investment hedges:					
Other current liabilities	(92.6)	—	(92.6)	—	(92.6)
Other noncurrent liabilities	(97.2)	—	(97.2)	—	(97.2)
Cross-currency interest rate contracts designated as cash flow hedges:					
Other noncurrent assets	34.4	—	34.4	—	34.4
Other noncurrent liabilities	(2.9)	—	(2.9)	—	(2.9)
Foreign exchange contracts not designated as hedging instruments:					
Other receivables	41.1	—	41.1	—	41.1
Other current liabilities	(15.2)	—	(15.2)	—	(15.2)

Risk-management instruments above are disclosed on a gross basis. There are various rights of setoff associated with certain of the risk-management instruments above that are subject to enforceable master netting arrangements or similar agreements. Although various rights of setoff and master netting arrangements or similar agreements may exist with the individual counterparties to the risk-management instruments above, individually, these financial rights are not material.

We determine our Level 1 and Level 2 fair value measurements based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses. Level 3 fair value measurements for other investment securities are determined using unobservable inputs, including the investments' cost adjusted for impairments and price changes from orderly transactions. Fair values are not readily available for certain equity investments measured under the measurement alternative. As of December 31, 2021, we had approximately $828 million of unfunded commitments to invest in venture capital funds, which we anticipate will be invested over a period of up to 10 years.

Contingent consideration liability relates to our liability arising in connection with the CVR issued as a result of the Prevail acquisition. The fair value of the CVR liability was estimated using a discounted cash flow analysis and Level 3 inputs, including projections representative of a market participant's view of the expected cash payment associated with the first potential regulatory approval of a Prevail compound in the applicable countries based on probabilities of technical success, timing of the potential approval events for the compounds, and an estimated discount rate. See Note 3 for additional information related to the CVR arrangement.

The table below summarizes the contractual maturities of our investments in debt securities measured at fair value as of December 31, 2021:

	Maturities by Period				
	Total	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Fair value of debt securities	$ 581.0	$ 75.9	$ 216.5	$ 126.4	$ 162.2

The net gains recognized in our consolidated statements of operations for equity securities were $176.9 million, $1.44 billion, and $401.2 million for the years ended December 31, 2021, 2020, and 2019, respectively. The net gains/losses recognized for the years ended December 31, 2021, 2020, and 2019 on equity securities sold during the respective periods were not material.

We adjust our equity investments without readily determinable fair values based upon changes in the equity instruments' values resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Downward adjustments resulting from an impairment are recorded based upon impairment considerations, including the financial condition and near term prospects of the issuer, general market conditions, and industry specific factors. Adjustments recorded for the years ended December 31, 2021, 2020, and 2019 were not material.

A summary of the amount of unrealized gains and losses in accumulated other comprehensive loss and the fair value of available-for-sale securities in an unrealized gain or loss position follows:

	2021	2020
Unrealized gross gains	**$ 9.7**	$ 20.9
Unrealized gross losses	**5.2**	0.5
Fair value of securities in an unrealized gain position	**250.7**	348.9
Fair value of securities in an unrealized loss position	**290.2**	11.4

We periodically assess our investment in available-for-sale securities for impairment losses and credit losses. The amount of credit losses are determined by comparing the difference between the present value of future cash flows expected to be collected on these securities and the amortized cost. Factors considered in assessing credit losses include the position in the capital structure, vintage and amount of collateral, delinquency rates, current credit support, and geographic concentration. Impairment and credit losses related to available-for-sale securities were not material for the years ended December 31, 2021, 2020, and 2019.

As of December 31, 2021, the available-for-sale securities in an unrealized loss position include primarily fixed-rate debt securities of varying maturities, which are sensitive to changes in the yield curve and other market conditions. Approximately 97 percent of the fixed-rate debt securities in a loss position are investment-grade debt securities. As of December 31, 2021, we do not intend to sell, and it is not more likely than not that we will be required to sell, the securities in a loss position before the market values recover or the underlying cash flows have been received, and there is no indication of default on interest or principal payments for any of our debt securities.

Activity related to our available-for-sale securities was as follows:

	2021	2020	2019
Proceeds from sales	**$ 174.7**	$ 264.8	$ 431.6
Realized gross gains on sales	**2.8**	4.5	4.9
Realized gross losses on sales	**1.7**	8.2	3.0

Realized gains and losses on sales of available-for-sale investments are computed based upon specific identification of the initial cost adjusted for any other-than-temporary declines in fair value that were recorded in earnings.

Accounts Receivable Factoring Arrangements

We have entered into accounts receivable factoring agreements with financial institutions to sell certain of our non-U.S. accounts receivable. These transactions are accounted for as sales and result in a reduction in accounts receivable because the agreements transfer effective control over and risk related to the receivables to the buyers. Our factoring agreements do not allow for recourse in the event of uncollectibility, and we do not retain any interest in the underlying accounts receivable once sold. We derecognized $550.5 million and $754.9 million of accounts receivable as of December 31, 2021 and 2020, respectively, under these factoring arrangements. The costs of factoring such accounts receivable on our consolidated results of operations for the years ended December 31, 2021, 2020, and 2019 were not material.

Note 8: Goodwill and Other Intangibles

Goodwill

Goodwill results from excess consideration in a business combination over the fair value of identifiable net assets acquired. Goodwill is not amortized but is reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value to its carrying value is performed to determine the amount of any impairment. The changes in goodwill during 2021 and 2020 were primarily related to our acquisitions of Prevail and Dermira, respectively. See Note 3 for additional information.

No impairments occurred with respect to the carrying value of goodwill for the years ended December 31, 2021, 2020, and 2019.

Other Intangibles

The components of intangible assets other than goodwill at December 31 were as follows:

Description	2021 Carrying Amount, Gross	2021 Accumulated Amortization	2021 Carrying Amount, Net	2020 Carrying Amount, Gross	2020 Accumulated Amortization	2020 Carrying Amount, Net
Finite-lived intangible assets:						
Marketed products	**$ 7,987.2**	**$ (2,229.2)**	**$ 5,758.0**	$ 7,984.0	$ (1,659.5)	$ 6,324.5
Other	**69.4**	**(60.5)**	**8.9**	92.8	(68.3)	24.5
Total finite-lived intangible assets	**8,056.6**	**(2,289.7)**	**5,766.9**	8,076.8	(1,727.8)	6,349.0
Indefinite-lived intangible assets:						
Acquired IPR&D	**1,925.0**	**—**	**1,925.0**	1,101.0	—	1,101.0
Other intangibles	**$ 9,981.6**	**$ (2,289.7)**	**$ 7,691.9**	$ 9,177.8	$ (1,727.8)	$ 7,450.0

Marketed products consist of the amortized cost of the rights to assets acquired in business combinations and approved for marketing in a significant global jurisdiction (U.S., Europe, and Japan) and capitalized milestone payments. For transactions other than a business combination, we capitalize milestone payments incurred at or after the product has obtained regulatory approval for marketing.

Other finite-lived intangible assets consist primarily of the amortized cost of licensed platform technologies that have alternative future uses in research and development, manufacturing technologies, and customer relationships from business combinations.

Acquired IPR&D consists of the fair values of acquired IPR&D projects acquired in business combination, adjusted for subsequent impairments, if any. The costs of acquired IPR&D projects acquired directly in a transaction other than a business combination are capitalized as other intangible assets if the projects have an alternative future use; otherwise, they are expensed immediately. See Note 3 for acquired IPR&D projects that had no alternative future use.

Several methods may be used to determine the estimated fair value of other intangibles acquired in a business combination. We utilize the "income method," which is a Level 3 fair value measurement and applies a probability weighting that considers the risk of development and commercialization to the estimated future net cash flows that are derived from projected revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing of similar products, analyst expectations, and expected industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. This analysis is performed for each asset independently. The acquired IPR&D assets are treated as indefinite-lived intangible assets until completion or abandonment of the projects, at which time the assets are tested for impairment and amortized over the remaining useful life or written off, as appropriate.

The change in marketed products in 2021 primarily related to the sale of rights to Qbrexza in 2021 as well as the impairment of a Phase I molecule related to a contract-based intangible. See Note 5 for additional information. These decreases were more than offset by the recognition of several milestones related to the COVID-19 therapies that occurred in 2021. The increase in the acquired IPR&D in 2021 is due to the acquisition of Prevail. See Note 3 for additional information regarding intangible assets acquired in a recent business combination and Note 4 for additional information regarding capitalized milestone payments.

Indefinite-lived intangible assets are reviewed for impairment at least annually, or more frequently if impairment indicators are present, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the intangible asset to its carrying value is performed to determine the amount of any impairment. Finite-lived intangible assets are reviewed for impairment when an indicator of impairment is present. When required, a comparison of fair value to the carrying amount of assets is performed to determine the amount of any impairment. When determining the fair value of indefinite-lived acquired IPR&D as well as the fair value of finite-lived intangible assets for impairment testing purposes, we utilize the "income method" discussed above.

Intangible assets with finite lives are capitalized and are amortized primarily to cost of sales over their estimated useful lives, ranging from one to 20 years. As of December 31, 2021, the remaining weighted-average amortization period for finite-lived intangible assets was approximately 14 years.

Amortization expense related to finite-lived intangible assets was as follows:

	2021	2020	2019
Amortization expense	**$ 628.8**	$ 428.2	$ 225.8

The estimated amortization expense for each of the next five years associated with our finite-lived intangible assets as of December 31, 2021 is as follows:

	2022	2023	2024	2025	2026
Estimated amortization expense	$ 570.9	$ 483.5	$ 433.7	$ 417.1	$ 408.8

Note 9: Property and Equipment

Property and equipment is stated on the basis of cost. Provisions for depreciation of buildings and equipment are computed generally by the straight-line method at rates based on their estimated useful lives (12 to 50 years for buildings and three to 25 years for equipment). We review the carrying value of long-lived assets for potential impairment on a periodic basis and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. Impairment is determined by comparing projected undiscounted cash flows to be generated by the asset to its carrying value. If an impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

At December 31, property and equipment consisted of the following:

	2021	2020
Land	**$ 258.7**	$ 226.8
Buildings	**7,588.1**	7,326.1
Equipment	**8,937.2**	8,560.9
Construction in progress	**2,177.8**	2,138.8
	18,961.8	18,252.6
Less accumulated depreciation	**(9,976.7)**	(9,570.7)
Property and equipment, net	**$ 8,985.1**	$ 8,681.9

Depreciation expense related to property and equipment was as follows:

	2021	2020	2019
Depreciation expense	**$ 787.0**	$ 765.2	$ 814.7

Capitalized interest costs were not material for the years ended December 31, 2021, 2020, and 2019.

The following table summarizes long-lived assets by geographical area:

	2021	2020
Long-lived assets[(1)]:		
U.S. and Puerto Rico	**$ 6,620.0**	$ 6,113.6
Ireland	**1,702.3**	1,786.9
Other foreign countries	**1,691.0**	1,747.7
Long-lived assets	**$ 10,013.3**	$ 9,648.2

[(1)] Long-lived assets consist of property and equipment, net, operating lease assets, and certain other noncurrent assets.

Note 10: Leases

We determine if an arrangement is a lease at inception. We have leases with terms up to 14 years primarily for corporate offices, research and development facilities, vehicles, and equipment, including some of which have options to extend and/or early-terminate the leases. We determine the lease term by assuming the exercise of any renewal and/or early-termination options that are reasonably assured.

Operating lease right-of-use assets are presented as other noncurrent assets in our consolidated balance sheets, and the current and long-term portions of operating lease liabilities are included in other current liabilities and other noncurrent liabilities, respectively, in our consolidated balance sheets. Short-term leases, which are deemed at inception to have a lease term of 12 months or less, are not recorded on the consolidated balance sheets.

Operating lease assets represent our right to use an underlying asset for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Lease expense for operating lease assets, which is recognized on a straight-line basis over the lease term, was $159.4 million, $154.6 million, and $172.8 million during the years ended December 31, 2021, 2020, and 2019, respectively. Variable lease payments, which represent non-lease components such as maintenance, insurance and taxes, and which vary due to changes in facts or circumstances occurring after the commencement date other than the passage of time, are expensed in the period in which the payment obligation is incurred and were not material during the years ended December 31, 2021, 2020, and 2019. Short-term lease expense was not material during the years ended December 31, 2021, 2020, and 2019.

Supplemental balance sheet information related to operating leases as of December 31, 2021 and 2020 was as follows:

	2021	2020
Weighted-average remaining lease term	**7 years**	7 years
Weighted-average discount rate	**3.0 %**	3.3 %

Supplemental cash flow information related to operating leases during the years ended December 31, 2021, 2020, and 2019 was as follows:

	2021	2020	2019
Operating cash flows from operating leases	**$ 156.7**	$ 160.9	$ 153.6
Right-of-use assets obtained in exchange for new operating lease liabilities	**163.5**	136.7	81.2

The annual minimum lease payments of our operating lease liabilities as of December 31, 2021 were as follows:

2022	$ 148.4
2023	117.6
2024	95.4
2025	79.7
2026	64.5
After 2026	270.2
Total lease payments	775.8
Less imputed interest	90.1
Total	$ 685.7

Finance leases are included in property and equipment, short-term borrowings and current maturities of long-term debt, and long-term debt in our consolidated balance sheets. Finance leases are not material to our consolidated financial statements.

Note 11: Borrowings

Debt at December 31 consisted of the following:

	2021	2020
Long-term notes	**$ 16,741.2**	$ 16,348.7
Other long-term debt	**10.8**	14.8
Unamortized debt issuance costs	**(84.2)**	(89.1)
Fair value adjustment on hedged long-term notes	**216.9**	320.9
Total debt	**16,884.7**	16,595.3
Less current portion	**(1,538.3)**	(8.7)
Long-term debt	**$ 15,346.4**	$ 16,586.6

The following table summarizes long-term notes at December 31:

	2021	2020
2.35% notes due 2022	**$ 750.0**	$ 750.0
3.00% notes due 2022	**99.2**	99.2
1.00% euro denominated notes due 2022	**678.2**	737.9
0.15% Swiss franc denominated notes due 2024	**654.7**	679.7
7.125% notes due 2025	**217.5**	229.7
2.75% notes due 2025	**560.6**	560.6
1.625% euro denominated notes due 2026	**847.7**	922.4
5.5% notes due 2027	**364.3**	377.5
3.1% notes due 2027	**401.5**	401.5
0.45% Swiss franc denominated notes due 2028	**436.4**	453.2
3.375% notes due 2029	**930.6**	1,150.0
0.42% Japanese yen denominated notes due 2029	**199.0**	222.4
2.125% euro denominated notes due 2030	**847.7**	922.4
0.625% euro denominated notes due 2031	**678.2**	737.9
0.50% euro denominated notes due 2033	**678.2**	—
0.56% Japanese yen denominated notes due 2034	**80.5**	90.0
6.77% notes due 2036	**158.6**	174.4
5.55% notes due 2037	**444.7**	476.2
5.95% notes due 2037	**266.8**	284.1
3.875% notes due 2039	**240.3**	360.7
1.625% British pound denominated notes due 2043	**337.1**	—
4.65% notes due 2044	**38.3**	43.0
3.7% notes due 2045	**386.8**	412.5
3.95% notes due 2047	**347.0**	436.1
3.95% notes due 2049	**958.2**	1,500.0
1.70% euro denominated notes due 2049	**1,130.3**	1,229.9
0.97% Japanese yen denominated notes due 2049	**66.3**	74.1
2.25% notes due 2050	**1,250.0**	1,250.0
1.125% euro denominated notes due 2051	**565.2**	—
4.15% notes due 2059	**591.3**	1,000.0
2.50% notes due 2060	**850.0**	850.0
1.375% euro denominated notes due 2061	**791.2**	—
Unamortized note discounts	**(105.2)**	(76.7)
Total long-term notes	**$ 16,741.2**	$ 16,348.7

The weighted-average effective borrowing rate for each issuance of the long term-notes approximates the stated interest rate.

At December 31, 2021, we had a total of $5.26 billion of unused committed bank credit facilities, which consisted primarily of a $3.00 billion credit facility that expires in December 2026 and a $2.00 billion 364-day facility that expires in November 2022, both of which are available to support our commercial paper program. We have not drawn against the $3.00 billion and $2.00 billion facilities as of December 31, 2021. Of the remaining committed bank credit facilities, the outstanding balances as of December 31, 2021 and 2020 were not material. Compensating balances and commitment fees are not material, and there are no conditions that are probable of occurring under which the lines may be withdrawn.

In September 2021, we issued euro-denominated notes consisting of €600.0 million of 0.50 percent fixed-rate notes due in September 2033, with interest to be paid annually. The net proceeds from the offering have been, and will continue to be, used to fund, in whole or in part, eligible projects designed to advance one or more of our environmental, social, and governance objectives.

In September 2021, we issued euro-denominated notes consisting of €500.0 million of 1.125 percent fixed-rate notes due in September 2051 and €700.0 million of 1.375 percent fixed-rate notes due in September 2061, with interest to be paid annually, and British pound-denominated notes consisting of £250.0 million of 1.625 percent fixed-rate notes due in September 2043, with interest to be paid annually. We paid $1.91 billion of the net cash proceeds from the offering to purchase and redeem certain higher interest rate U.S. dollar-denominated notes with an aggregate principal amount of $1.50 billion, resulting in a debt extinguishment loss of $405.2 million. This loss was included in other-net, (income) expense in our consolidated statement of operations for the year ended December 31, 2021. The $1.50 billion principal amount of higher interest rate U.S. dollar-denominated notes that were redeemed primarily included $541.8 million of 3.95 percent notes due 2049, $408.7 million of 4.15 percent notes due 2059, and $219.4 million of 3.375 percent notes due 2029. We used the remaining net proceeds from the offering to prefund certain 2022 debt maturities and for general corporate purposes.

In May 2020, we issued $1.00 billion of 2.25 percent fixed-rate notes due in May 2050, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $988.6 million for general corporate purposes, including the repayment of outstanding commercial paper.

In August 2020, we issued $850.0 million of 2.50 percent fixed-rate notes due in September 2060 and an additional $250.0 million of our 2.25 percent fixed-rate notes due in May 2050, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $1.07 billion for general corporate purposes, including the repayment of outstanding commercial paper.

In February 2019, we issued $1.15 billion of 3.375 percent fixed-rate notes due in March 2029, $850.0 million of 3.875 percent fixed-rate notes due in March 2039, $1.50 billion of 3.95 percent fixed-rate notes due in March 2049, and $1.00 billion of 4.15 percent fixed-rate notes due in March 2059, with interest to be paid semi-annually. We used the net cash proceeds of $4.45 billion from the offering to repay commercial paper that was issued in connection with the acquisition of Loxo and for general corporate purposes.

In November 2019, we issued euro-denominated notes consisting of €600.0 million of 0.625 percent fixed-notes due November 2031 and €1.00 billion of 1.70 percent fixed-rate notes due in November 2049 with interest to be paid annually. We paid $2.27 billion, comprised of $1.75 billion of net cash proceeds from the offering and proceeds from commercial paper, to purchase and redeem certain higher interest rate U.S. dollar denominated notes with an aggregate principal amount of $2.00 billion and a net carrying value of $2.01 billion, resulting in a debt extinguishment loss of $252.5 million. This loss was included in other-net, (income) expense in our consolidated statement of operations during the year ended December 31, 2019.

In November 2019, we issued Japanese Yen-denominated notes consisting of ¥22.92 billion of 0.42 percent fixed-rate notes due in November 2029, ¥9.28 billion of 0.56 percent fixed-rate notes due in November 2034, and ¥7.64 billion of 0.97 percent fixed-rate notes due in November 2049, with interest to be paid semi-annually. We used the net cash proceeds from the offering of $356.6 million for general corporate purposes, including the repayment of outstanding commercial paper.

The aggregate amounts of maturities on long-term debt for the next five years are as follows:

	2022	2023	2024	2025	2026
Maturities on long-term debt	$1,531.5	$ 3.3	$ 657.1	$ 778.9	$ 847.9

We have converted approximately 13 percent of our long-term fixed-rate notes to floating rates through the use of interest rate swaps. The weighted-average effective borrowing rates based on long-term debt obligations and interest rates at December 31, 2021 and 2020, including the effects of interest rate swaps for hedged debt obligations, were 2.27 percent and 2.61 percent, respectively.

The aggregate amount of cash payments for interest on borrowings, net of capitalized interest, are as follows:

	2021	2020	2019
Cash payments for interest on borrowings	**$ 338.0**	$ 345.8	$ 305.5

In accordance with the requirements of derivatives and hedging guidance, the portion of our fixed-rate debt obligations that is hedged as a fair value hedge is reflected in the consolidated balance sheets as an amount equal to the sum of the debt's carrying value plus the fair value adjustment representing changes in fair value of the hedged debt attributable to movements in market interest rates subsequent to the inception of the hedge.

Note 12: Stock-Based Compensation

Our stock-based compensation expense consists of performance awards (PAs), shareholder value awards (SVAs), relative value awards (RVAs), and restricted stock units (RSUs). We recognize the fair value of stock-based compensation as expense over the requisite service period of the individual grantees, which generally equals the vesting period. We provide newly issued shares of our common stock and treasury stock to satisfy the issuance of PA, SVA, RVA, and RSU shares.

Stock-based compensation expense and the related tax benefits were as follows:

	2021	2020	2019
Stock-based compensation expense	**$ 342.8**	$ 308.1	$ 306.8
Tax benefit	**72.0**	64.7	64.4

At December 31, 2021, stock-based compensation awards may be granted under the 2002 Lilly Stock Plan for not more than 50.6 million additional shares.

Performance Award Program

PAs are granted to officers and management and are payable in shares of our common stock. The number of PA shares actually issued, if any, varies depending on the achievement of certain pre-established earnings-per-share targets over a two-year period. PA shares are accounted for at fair value based upon the closing stock price on the date of grant and fully vest at the end of the measurement period. The fair values of PAs granted for the years ended December 31, 2021, 2020, and 2019 were $198.57, $137.33, and $112.09, respectively. The number of shares ultimately issued for the PA program is dependent upon the EPS achieved during the vesting period. Pursuant to this program, approximately 0.7 million shares, 1.1 million shares, and 1.2 million shares were issued during the years ended December 31, 2021, 2020, and 2019, respectively. Approximately 0.7 million shares are expected to be issued in 2022. As of December 31, 2021, the total remaining unrecognized compensation cost related to nonvested PAs was $66.1 million, which will be amortized over the weighted-average remaining requisite service period of 12 months.

Shareholder Value Award Program

SVAs are granted to officers and management and are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on our stock price at the end of the three-year vesting period compared to pre-established target stock prices. We measure the fair value of the SVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair values of the SVA units granted during the years ended December 31, 2021, 2020, and 2019 were $230.19, $139.14, and $95.01, respectively, determined using the following assumptions:

(Percents)	2021	2020	2019
Expected dividend yield	**2.50 %**	2.50 %	2.50 %
Risk-free interest rate	**0.19**	1.38	2.46
Volatility	**31.42**	20.90	21.00

Pursuant to this program, approximately 1.0 million shares, 0.8 million shares, and 1.0 million shares were issued during the years ended December 31, 2021, 2020, and 2019, respectively. Approximately 0.5 million shares are expected to be issued in 2022. As of December 31, 2021, the total remaining unrecognized compensation cost related to nonvested SVAs was $47.0 million, which will be amortized over the weighted-average remaining requisite service period of 21 months.

Relative Value Award Program

Beginning in 2020, we granted RVAs to officers and management that are payable in shares of our common stock. The number of shares actually issued, if any, varies depending on the growth of our stock price at the end of the three-year vesting period compared to our peers. We measure the fair value of the RVA unit on the grant date using a Monte Carlo simulation model. The model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award grant and calculates the fair value of the award. Expected volatilities utilized in the model are based on implied volatilities from traded options on our stock, historical volatility of our stock price and our peers' stock price, and other factors. Similarly, the dividend yield is based on historical experience and our estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair value of the RVA units granted during the years ended December 31, 2021 and 2020 were $286.71 and $179.90, respectively, determined using the following assumptions:

(Percents)	2021	2020
Expected dividend yield	**2.50 %**	2.50 %
Risk-free interest rate	**0.19**	1.38
Volatility	**30.95**	19.89

As of December 31, 2021, the total remaining unrecognized compensation cost related to nonvested RVAs was $18.6 million, which will be amortized over the weighted-average remaining requisite service period of 21 months.

Restricted Stock Units

RSUs are granted to certain employees and are payable in shares of our common stock. RSU shares are accounted for at fair value based upon the closing stock price on the date of grant. The corresponding expense is amortized over the vesting period, typically three years. The fair values of RSU awards granted during the years ended December 31, 2021, 2020, and 2019 were $196.30, $135.42, and $108.43, respectively. The number of shares ultimately issued for the RSU program remains constant with the exception of forfeitures. Pursuant to this program, 0.7 million, 1.1 million, and 1.5 million shares were granted and approximately 0.6 million, 0.6 million, and 0.8 million shares were issued during the years ended December 31, 2021, 2020, and 2019, respectively. Approximately 0.9 million shares are expected to be issued in 2022. As of December 31, 2021, the total remaining unrecognized compensation cost related to nonvested RSUs was $161.4 million, which will be amortized over the weighted-average remaining requisite service period of 25 months.

Note 13: Shareholders' Equity

In 2021, 2020, and 2019, we repurchased $1.25 billion, $500.0 million, and $4.40 billion, respectively, of shares associated with our share repurchase programs.

In 2021, we repurchased $1.00 billion of shares, which completed our $8.00 billion share repurchase program authorized in June 2018. Additionally, our board authorized a $5.00 billion share repurchase program in May 2021. In 2021, we repurchased $250.0 million of shares under the $5.00 billion share repurchase program. As of December 31, 2021, we had $4.75 billion remaining under the $5.00 billion share repurchase program.

We have 5.0 million authorized shares of preferred stock. As of December 31, 2021 and 2020, no preferred stock was issued.

We have an employee benefit trust that held 50.0 million shares of our common stock at both December 31, 2021 and 2020, to provide a source of funds to assist us in meeting our obligations under various employee benefit plans. The cost basis of the shares held in the trust was $3.01 billion at both December 31, 2021 and 2020, and is shown as a reduction of shareholders' equity. Any dividend transactions between us and the trust are eliminated. Stock held by the trust is not considered outstanding in the computation of EPS. The assets of the trust were not used to fund any of our obligations under these employee benefit plans during the years ended December 31, 2021, 2020, and 2019.

Note 14: Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. Deferred taxes related to global intangible low-taxed income (GILTI) are also recognized for the future tax effects of temporary differences.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position, based on its technical merits, will be sustained upon examination by the taxing authority. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

Following is the composition of income tax expense:

	2021	2020	2019
Current:			
Federal[1]	**$ 938.5**	$ 567.6	$ 280.2
Foreign	**466.0**	650.4	299.8
State	**(28.4)**	(47.3)	(14.4)
Total current tax expense	**1,376.1**	1,170.7	565.6
Deferred:			
Federal	**(977.5)**	(97.4)	141.3
Foreign	**174.6**	(16.6)	(24.1)
State	**0.6**	(20.5)	(54.8)
Total deferred tax (benefit) expense	**(802.3)**	(134.5)	62.4
Income taxes	**$ 573.8**	$ 1,036.2	$ 628.0

[1] The 2021, 2020, and 2019 current tax expense includes $64.7 million, $144.4 million, and $153.1 million of tax benefit, respectively, from utilization of net operating loss and tax credit carryforwards.

Significant components of our deferred tax assets and liabilities as of December 31 were as follows:

	2021	2020
Deferred tax assets:		
Purchases of intangible assets	**$ 2,347.4**	$ 2,560.6
Compensation and benefits	**634.7**	1,045.6
Tax credit carryforwards and carrybacks	**463.7**	523.5
Tax loss and other tax carryforwards and carrybacks	**645.4**	488.3
Sales rebates and discounts	**832.3**	461.3
Correlative tax adjustments	**560.8**	404.2
Foreign tax redeterminations	**274.9**	242.8
Operating lease liabilities	**150.0**	150.7
Capitalized research and development	**275.1**	135.2
Other	**477.9**	605.8
Total gross deferred tax assets	**6,662.2**	6,618.0
Valuation allowances	**(875.6)**	(816.3)
Total deferred tax assets	**5,786.6**	5,801.7
Deferred tax liabilities:		
Earnings of foreign subsidiaries	**(1,583.3)**	(1,905.3)
Intangibles	**(1,516.1)**	(1,465.7)
Inventories	**(596.4)**	(623.7)
Prepaid employee benefits	**(560.6)**	(410.1)
Property and equipment	**(338.7)**	(315.2)
Financial instruments	**(303.0)**	(216.9)
Operating lease assets	**(132.6)**	(134.3)
Total deferred tax liabilities	**(5,030.7)**	(5,071.2)
Deferred tax assets - net	**$ 755.9**	$ 730.5

The deferred tax asset and related valuation allowance amounts for U.S. federal, international, and state net operating losses and tax credits shown above have been reduced for differences between financial reporting and tax return filings.

At December 31, 2021, based on filed tax returns we have tax credit carryforwards and carrybacks of $859.9 million available to reduce future income taxes; $148.8 million, if unused, will expire by 2026, and $21.5 million, if unused, will expire between 2030 and 2040. The remaining portion of the tax credit carryforwards is related to federal tax credits of $76.2 million, international tax credits of $115.3 million, and state tax credits of $498.1 million, all of which are fully reserved.

At December 31, 2021, based on filed tax returns we had net operating losses and other carryforwards for international and U.S. federal income tax purposes of $2.21 billion: $832.6 million will expire by 2026; $818.2 million will expire between 2027 and 2041; and $561.5 million of the carryforwards will never expire. Net operating losses and other carryforwards for international and U.S. federal income tax purposes are partially reserved. Deferred tax assets related to state net operating losses and other carryforwards of $230.0 million are fully reserved as of December 31, 2021.

Domestic and Puerto Rican companies contributed approximately 28 percent, 39 percent, and 44 percent for the years ended December 31, 2021, 2020, and 2019, respectively, to consolidated income before income taxes. We have a subsidiary operating in Puerto Rico under a tax incentive grant effective through the end of 2031.

Substantially all of the unremitted earnings of our foreign subsidiaries are considered not to be indefinitely reinvested for continued use in our foreign operations. At December 31, 2021 and December 31, 2020, we accrued an immaterial amount of foreign withholding taxes and state income taxes that would be owed upon future distributions of unremitted earnings of our foreign subsidiaries that are not indefinitely reinvested. For the amount considered to be indefinitely reinvested, it is not practicable to determine the amount of the related deferred income tax liability due to the complexities in the tax laws and assumptions we would have to make.

Cash payments of U.S. federal, state, and foreign income taxes, net of refunds, were as follows:

	2021	2020	2019
Cash payments of income taxes	**$ 1,598.8**	$ 954.6	$ 1,180.5

In December 2017, the Tax Cuts and Job Act (2017 Tax Act) was signed into law. The 2017 Tax Act included significant changes to the U.S. corporate income tax system, including a one-time repatriation transition tax (also known as the 'Toll Tax') on unremitted foreign earnings. The 2017 Tax Act provided an election to taxpayers subject to the Toll Tax to make payments over an eight-year period beginning in 2018 through 2025. Having made this election, our future cash payments relating to the Toll Tax as of December 31, 2021 are as follows:

	Total	Less than 1 Year	1-3 Years	3-5 Years
2017 Tax Act Toll Tax	$ 2,149.5	$ 253.7	$ 1,109.9	$ 785.9

We have additional noncurrent income tax payables of $2.02 billion unrelated to the Toll Tax; we cannot reasonably estimate the timing of future cash outflows associated with these liabilities.

Following is a reconciliation of the consolidated income tax expense applying the U.S. federal statutory rate to income before income taxes to reported consolidated income tax expense:

	2021	2020	2019
Income tax at the U.S. federal statutory tax rate	**$ 1,292.6**	$ 1,518.3	$ 1,105.8
Add (deduct):			
International operations, including Puerto Rico[(1)]	**(458.2)**	(297.2)	(242.0)
General business credits	**(100.5)**	(97.9)	(108.8)
Foreign-derived intangible income deduction	**(86.7)**	(71.5)	(15.5)
Other	**(73.4)**	(15.5)	(111.5)
Income taxes	**$ 573.8**	$ 1,036.2	$ 628.0

[(1)] Includes the impact of Puerto Rico Excise Tax, GILTI tax, and other U.S. taxation of foreign income.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	2021	2020	2019
Beginning balance at January 1	**$ 2,551.9**	$ 2,108.6	$ 2,034.6
Additions based on tax positions related to the current year	**310.3**	225.6	187.2
Additions for tax positions of prior years	**98.6**	310.8	425.3
Reductions for tax positions of prior years	**(8.1)**	(52.4)	(100.3)
Settlements	**(38.5)**	(72.0)	(260.5)
Lapses of statutes of limitation	**(49.7)**	(41.7)	(161.5)
Changes related to the impact of foreign currency translation	**(66.2)**	73.0	(16.2)
Ending balance at December 31	**$ 2,798.3**	$ 2,551.9	$ 2,108.6

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $1.70 billion and $1.67 billion at December 31, 2021 and 2020, respectively.

We file U.S. federal, foreign, and various state and local income tax returns. We are no longer subject to U.S. federal income tax examination for years before 2016. In most major foreign and state jurisdictions, we are no longer subject to income tax examination for years before 2012.

The U.S. examination of tax years 2016-2018 began in 2019 and remains ongoing; therefore, the resolution of this audit period will likely extend beyond the next 12 months. For tax years 2013-2015, all matters were effectively settled in 2019. As a result, our gross uncertain tax positions were reduced by approximately $200 million, we made a cash payment of approximately $125 million, and our consolidated results were benefited by an immaterial reduction in tax expense.

We recognize both accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized income tax (benefit) expense related to interest and penalties as follows:

	2021	2020	2019
Income tax (benefit) expense	**$ 20.5**	$ 34.0	$ (26.4)

At December 31, 2021 and 2020, our accruals for the payment of interest and penalties totaled $220.1 million and $196.7 million, respectively.

Note 15: Retirement Benefits

We use a measurement date of December 31 to develop the change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets at December 31 for our defined benefit pension and retiree health benefit plans, which were as follows:

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2021	2020	2021	2020
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 18,225.5**	$ 16,251.0	**$ 1,753.7**	$ 1,601.4
Service cost	**369.2**	325.5	**49.2**	40.8
Interest cost	**337.8**	425.8	**32.5**	43.7
Actuarial (gain) loss	**(564.3)**	1,563.1	**(86.1)**	142.1
Benefits paid	**(630.1)**	(587.2)	**(79.3)**	(75.1)
Curtailment loss	**—**	2.2	**—**	—
Foreign currency exchange rate changes and other adjustments	**(173.1)**	245.1	**(6.2)**	0.8
Benefit obligation at end of year	**17,565.0**	18,225.5	**1,663.8**	1,753.7
Change in plan assets:				
Fair value of plan assets at beginning of year	**14,579.0**	12,858.0	**3,227.0**	2,768.2
Actual return on plan assets	**2,458.1**	1,802.4	**202.6**	539.0
Employer contribution	**131.2**	318.8	**11.1**	(5.1)
Benefits paid	**(630.1)**	(587.2)	**(79.3)**	(75.1)
Foreign currency exchange rate changes and other adjustments	**(122.2)**	187.0	**—**	—
Fair value of plan assets at end of year	**16,416.0**	14,579.0	**3,361.4**	3,227.0
Funded status	**(1,149.0)**	(3,646.5)	**1,697.6**	1,473.3
Unrecognized net actuarial (gain) loss	**3,908.2**	6,515.5	**(497.2)**	(349.1)
Unrecognized prior service (benefit) cost	**11.2**	15.4	**(117.6)**	(177.6)
Net amount recognized	**$ 2,770.4**	$ 2,884.4	**$ 1,082.8**	$ 946.6
Amounts recognized in the consolidated balance sheet consisted of:				
Other noncurrent assets	**$ 668.5**	$ 299.6	**$ 1,910.2**	$ 1,697.0
Other current liabilities	**(68.3)**	(67.9)	**(7.9)**	(7.4)
Accrued retirement benefits	**(1,749.3)**	(3,878.2)	**(204.8)**	(216.3)
Accumulated other comprehensive (income) loss before income taxes	**3,919.5**	6,530.9	**(614.7)**	(526.7)
Net amount recognized	**$ 2,770.4**	$ 2,884.4	**$ 1,082.8**	$ 946.6

The unrecognized net actuarial (gain) loss and unrecognized prior service (benefit) cost have not yet been recognized in net periodic pension costs and were included in accumulated other comprehensive loss at December 31, 2021 and 2020.

The $750.4 million decrease in benefit obligation in 2021 was driven primarily by an increase in the discount rate. The $2.13 billion increase in the benefit obligation in 2020 was driven by a decrease in the discount rate.

The following represents our weighted-average assumptions as of December 31:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
(Percents)	2021	2020	2019	2021	2020	2019
Discount rate for benefit obligation	**2.8 %**	2.4 %	3.0 %	**3.0 %**	2.6 %	3.3 %
Discount rate for net benefit costs	**2.4**	3.0	4.0	**2.6**	3.3	4.4
Rate of compensation increase for benefit obligation	**3.5**	3.3	3.3			
Rate of compensation increase for net benefit costs	**3.3**	3.3	3.4			
Expected return on plan assets for net benefit costs	**6.8**	7.3	7.4	**5.0**	6.0	6.0

We annually evaluate the expected return on plan assets in our defined benefit pension and retiree health benefit plans. In evaluating the expected rate of return, we consider many factors, with a primary analysis of current and projected market conditions; asset returns and asset allocations; and the views of leading financial advisers and economists. We may also review our historical assumptions compared with actual results, as well as the assumptions and trend rates utilized by similar plans, where applicable.

Given the design of our retiree health benefit plans, healthcare-cost trend rates do not have a material impact on our financial condition or results of operations.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	2022	2023	2024	2025	2026	2027-2031
Defined benefit pension plans	$ 631.9	$ 641.8	$ 669.4	$ 686.6	$ 707.5	$ 3,919.7
Retiree health benefit plans	89.4	89.5	93.1	93.9	94.5	477.7

Amounts relating to defined benefit pension plans with projected benefit obligations in excess of plan assets were as follows at December 31:

	2021	2020
Projected benefit obligation	**$ 3,360.3**	$ 15,770.7
Fair value of plan assets	**1,542.8**	11,824.4

Amounts relating to defined benefit pension plans and retiree health benefit plans with accumulated benefit obligations in excess of plan assets were as follows at December 31:

	Defined Benefit Pension Plans		Retiree Health Benefit Plans	
	2021	2020	2021	2020
Accumulated benefit obligation	**$ 2,532.0**	$ 14,682.3	**$ 212.6**	$ 223.8
Fair value of plan assets	**973.4**	11,824.4	**—**	—

The total accumulated benefit obligation for our defined benefit pension plans was $16.44 billion and $17.03 billion at December 31, 2021 and 2020, respectively.

Net pension and retiree health benefit expense included the following components:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2021	2020	2019	2021	2020	2019
Components of net periodic (benefit) cost:						
Service cost	**$ 369.2**	$ 325.5	$ 250.4	**$ 49.2**	$ 40.8	$ 36.3
Interest cost	**337.8**	425.8	486.0	**32.5**	43.7	58.0
Expected return on plan assets	**(949.3)**	(901.5)	(839.6)	**(146.2)**	(158.1)	(144.3)
Amortization of prior service (benefit) cost	**4.2**	4.5	6.1	**(59.6)**	(59.5)	(62.9)
Recognized actuarial (gain) loss	**487.7**	396.3	284.9	**3.2**	(3.0)	1.9
Curtailment loss	**—**	—	2.2	**—**	—	—
Net periodic (benefit) cost	**$ 249.6**	$ 250.6	$ 190.0	**$ (120.9)**	$ (136.1)	$ (111.0)

The following represents the amounts recognized in other comprehensive income (loss) for the years ended December 31, 2021, 2020, and 2019:

	Defined Benefit Pension Plans			Retiree Health Benefit Plans		
	2021	2020	2019	2021	2020	2019
Actuarial gain (loss) arising during period	**$ 2,072.4**	$ (663.0)	$ (1,461.0)	**$ 142.5**	$ 238.8	$ 246.1
Plan amendments during period	**—**	(2.2)	—	**—**	—	—
Curtailment gain	**—**	—	19.0	**—**	—	—
Amortization of prior service (benefit) cost included in net income	**4.2**	4.5	6.1	**(59.6)**	(59.5)	(62.9)
Amortization of net actuarial (gain) loss included in net income	**487.7**	396.3	284.9	**3.2**	(3.0)	1.9
Foreign currency exchange rate changes and other	**47.2**	(71.5)	(7.7)	**1.9**	2.4	3.6
Total other comprehensive income (loss) during period	**$ 2,611.5**	$ (335.9)	$ (1,158.7)	**$ 88.0**	$ 178.7	$ 188.7

We have defined contribution savings plans that cover our eligible employees worldwide. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save. Our contributions to the plans are based on employee contributions and the level of our match. Expenses under the plans totaled $167.3 million, $164.3 million, and $145.2 million for the years ended December 31, 2021, 2020, and 2019, respectively.

We provide certain other postemployment benefits primarily related to disability benefits and accrue for the related cost over the service lives of employees. Expenses associated with these benefit plans for the years ended December 31, 2021, 2020, and 2019 were not material.

Benefit Plan Investments

Our benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. U.S. and Puerto Rico plans represent approximately 80 percent of our global investments. Given the long-term nature of our liabilities, these plans have the flexibility to manage an above-average degree of risk in the asset portfolios. At the investment-policy level, there are no specifically prohibited investments. However, within individual investment manager mandates, restrictions and limitations are contractually set to align with our investment objectives, ensure risk control, and limit concentrations.

We manage our portfolio to minimize concentration of risk by allocating funds within asset categories. In addition, within a category we use different managers with various management objectives to eliminate any significant concentration of risk.

Our global benefit plans may enter into contractual arrangements (derivatives) to implement the local investment policy or manage particular portfolio risks. Derivatives are principally used to increase or decrease exposure to a particular public equity, fixed income, commodity, or currency market more rapidly or less expensively than could be accomplished through the use of the cash markets. The plans utilize both exchange-traded and over-the-counter instruments. The maximum exposure to either a market or counterparty credit loss is limited to the carrying value of the receivable, and is managed within contractual limits. We expect all of our counterparties to meet their obligations. The gross values of these derivative receivables and payables are not material to the global asset portfolio, and their values are reflected within the tables below.

The defined benefit pension and retiree health benefit plan allocation for the U.S. and Puerto Rico currently comprises approximately 75 percent growth investments and 25 percent fixed-income investments. The growth investment allocation encompasses U.S. and international public equity securities, hedge funds, private equity-like investments, and real estate. These portfolio allocations are intended to reduce overall risk by providing diversification, while seeking moderate to high returns over the long term.

Public equity securities are well diversified and invested in U.S. and international small-to-large companies across various asset managers and styles. The remaining portion of the growth portfolio is invested in private alternative investments.

Fixed-income investments primarily consist of fixed-income securities in U.S. treasuries and agencies, emerging market debt obligations, corporate bonds, bank loans, mortgage-backed securities, commercial mortgage-backed obligations, and any related repurchase agreements.

Hedge funds are privately owned institutional investment funds that generally have moderate liquidity. Hedge funds seek specified levels of absolute return regardless of overall market conditions, and generally have low correlations to public equity and debt markets. Hedge funds often invest substantially in financial market instruments (stocks, bonds, commodities, currencies, derivatives, etc.) using a very broad range of trading activities to manage portfolio risks. Hedge fund strategies focus primarily on security selection and seek to be neutral with respect to market moves. Common groupings of hedge fund strategies include relative value, tactical, and event driven. Relative value strategies include arbitrage, when the same asset can simultaneously be bought and sold at different prices, achieving an immediate profit. Tactical strategies often take long and short positions to reduce or eliminate overall market risks while seeking a particular investment opportunity. Event strategy opportunities can evolve from specific company announcements such as mergers and acquisitions, and typically have little correlation to overall market directional movements. Our hedge fund investments are made through limited partnership interests in fund-of-funds structures and directly into hedge funds. Plan holdings in hedge funds are valued based on net asset values (NAVs) calculated by each fund or general partner, as applicable, and we have the ability to redeem these investments at NAV.

Private equity-like investment funds typically have low liquidity and are made through long-term partnerships or joint ventures that invest in pools of capital invested in primarily non-publicly traded entities. Underlying investments include venture capital (early stage investing), buyout, special situations, private debt, and private real estate investments. Private equity management firms typically acquire and then reorganize private companies to create increased long term value. Private equity-like funds usually have a limited life of approximately 10-15 years, and require a minimum investment commitment from their limited partners. Our private equity-like investments are made both directly into funds and through fund-of-funds structures to ensure broad diversification of management styles and assets across the portfolio. Plan holdings in private equity-like investments are valued using the value reported by the partnership, adjusted for known cash flows and significant events through our reporting date. Values provided by the partnerships are primarily based on analysis of and judgments about the underlying investments. Inputs to these valuations include underlying NAVs, discounted cash flow valuations, comparable market valuations, and may also include adjustments for currency, credit, liquidity and other risks as applicable. The vast majority of these private partnerships provide us with annual audited financial statements including their compliance with fair valuation procedures consistent with applicable accounting standards.

Real estate is composed of public holdings. Real estate investments in registered investment companies that trade on an exchange are classified as Level 1 on the fair value hierarchy. Real estate investments in funds measured at fair value on the basis of NAV provided by the fund manager are classified as such. These NAVs are developed with inputs including discounted cash flow, independent appraisal, and market comparable analyses.

Other assets include cash and cash equivalents and mark-to-market value of derivatives.

The cash value of the trust-owned insurance contract is primarily invested in investment-grade publicly traded equity and fixed-income securities.

Other than hedge funds, private equity-like investments, and a portion of the real estate holdings, which are discussed above, we determine fair values based on a market approach using quoted market values, significant other observable inputs for identical or comparable assets or liabilities, or discounted cash flow analyses.

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2021 by asset category were as follows:

		Fair Value Measurements Using			
Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 1,325.4	$ 430.4	$ 0.1	$ 1.2	$ 893.7
International	2,722.7	815.0	—	—	1,907.7
Fixed income:					
Developed markets	4,496.0	2.6	3,356.6	—	1,136.8
Developed markets - repurchase agreements	(1,376.2)	—	(1,376.2)	—	—
Emerging markets	611.0	11.3	250.5	0.1	349.1
Private alternative investments:					
Hedge funds	3,046.8	—	—	—	3,046.8
Equity-like funds	3,816.4	2.1	—	5.5	3,808.8
Real estate	630.3	363.8	7.5	10.7	248.3
Other	1,143.6	103.2	263.2	(2.1)	779.3
Total	$ 16,416.0	$ 1,728.4	$ 2,501.7	$ 15.4	$ 12,170.5
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 124.7	$ 40.9	$ —	$ 0.1	$ 83.7
International	180.6	47.7	—	—	132.9
Fixed income:					
Developed markets	102.2	—	80.5	—	21.7
Emerging markets	51.6	—	23.7	—	27.9
Private alternative investments:					
Hedge funds	275.4	—	—	—	275.4
Equity-like funds	317.8	—	—	0.5	317.3
Cash value of trust owned insurance contract	2,166.8	—	2,166.8	—	—
Real estate	36.2	34.5	0.7	1.0	—
Other	106.1	24.4	18.3	(0.1)	63.5
Total	$ 3,361.4	$ 147.5	$ 2,290.0	$ 1.5	$ 922.4

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2021. The activity in the Level 3 investments during the year ended December 31, 2021 was not material.

The fair values of our defined benefit pension plan and retiree health plan assets as of December 31, 2020 by asset category were as follows:

Asset Class	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value[1]
Defined Benefit Pension Plans					
Public equity securities:					
U.S.	$ 737.6	$ 476.1	$ —	$ 1.0	$ 260.5
International	2,635.8	1,102.3	—	—	1,533.5
Fixed income:					
Developed markets	4,301.3	2.9	3,179.2	—	1,119.2
Developed markets - repurchase agreements	(1,670.8)	—	(1,670.8)	—	—
Emerging markets	631.0	14.2	262.7	0.1	354.0
Private alternative investments:					
Hedge funds	2,661.3	—	—	—	2,661.3
Equity-like funds	2,844.7	—	—	16.9	2,827.8
Real estate	558.9	259.6	6.9	5.8	286.6
Other	1,879.2	60.4	301.2	18.0	1,499.6
Total	$ 14,579.0	$ 1,915.5	$ 2,079.2	$ 41.8	$ 10,542.5
Retiree Health Benefit Plans					
Public equity securities:					
U.S.	$ 68.3	$ 45.0	$ —	$ 0.1	$ 23.2
International	162.3	58.1	—	—	104.2
Fixed income:					
Developed markets	101.5	—	80.3	—	21.2
Emerging markets	53.5	—	24.7	—	28.8
Private alternative investments:					
Hedge funds	229.7	—	—	—	229.7
Equity-like funds	223.4	—	—	1.6	221.8
Cash value of trust owned insurance contract	2,204.6	—	2,204.6	—	—
Real estate	25.8	24.5	0.7	0.6	—
Other	157.9	14.1	21.1	1.7	121.0
Total	$ 3,227.0	$ 141.7	$ 2,331.4	$ 4.0	$ 749.9

[1] Certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy.

No material transfers between Level 1, Level 2, or Level 3 occurred during the year ended December 31, 2020. The activity in the Level 3 investments during the year ended December 31, 2020 was not material.

In 2022, we expect to contribute approximately $40 million to our defined benefit pension plans to satisfy minimum funding requirements for the year. We do not currently expect to make material discretionary contributions in 2022.

Note 16: Contingencies

We are involved in various lawsuits, claims, government investigations and other legal proceedings that arise in the ordinary course of business. These claims or proceedings can involve various types of parties, including governments, competitors, customers, suppliers, service providers, licensees, employees, or shareholders, among others. These matters may involve patent infringement, antitrust, securities, pricing, sales and marketing practices, environmental, commercial, contractual rights, licensing obligations, health and safety matters, consumer fraud, employment matters, product liability and insurance coverage, among others. The resolution of these matters often develops over a long period of time and expectations can change as a result of new findings, rulings, appeals or settlement arrangements. Legal proceedings that are significant or that we believe could become significant or material are described below.

We believe the legal proceedings in which we are named as defendants are without merit and we are defending against them vigorously. It is not possible to determine the final outcome of these matters, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for any of these matters; however, we believe that the resolution of all such matters will not have a material adverse effect on our consolidated financial position or liquidity, but could possibly be material to our consolidated results of operations in any one accounting period.

Litigation accruals, environmental liabilities, and the related estimated insurance recoverables are reflected on a gross basis as liabilities and assets, respectively, on our consolidated balance sheets. With respect to the product liability claims currently asserted against us, we have accrued for our estimated exposures to the extent they are both probable and reasonably estimable based on the information available to us. We accrue for certain product liability claims incurred but not filed to the extent we can formulate a reasonable estimate of their costs. We estimate these expenses based primarily on historical claims experience and data regarding product usage. Legal defense costs expected to be incurred in connection with significant product liability loss contingencies are accrued when both probable and reasonably estimable.

Because of the nature of pharmaceutical products, it is possible that we could become subject to large numbers of additional product liability and related claims in the future. Due to a very restrictive market for litigation liability insurance, we are self-insured for litigation liability losses for all our currently and previously marketed products.

Patent Litigation

Alimta Patent Litigation

U.S. Patent Litigation

Alimta (pemetrexed) was protected by a vitamin regimen patent until November 2021, and since then has been protected by pediatric exclusivity through May 2022.

In December 2019, we settled a lawsuit we filed against Eagle Pharmaceuticals, Inc. (Eagle) in response to its application to market a product using an alternative form of pemetrexed. Per the settlement agreement, Eagle has a limited initial entry into the market with its product starting February 2022 (up to an approximate three-week supply) and subsequent unlimited entry starting April 2022.

European Patent Litigation

In Europe, Alimta was protected by the vitamin regimen patent through June 2021. Despite the recent patent expiration, a number of legal proceedings that were initiated prior to expiration are ongoing.

Emgality Patent Litigation

In September 2018, we were named as a defendant in litigation filed by Teva Pharmaceuticals International GMBH and Teva Pharmaceuticals USA, Inc. (collectively, Teva) in the U.S. District Court for the District of Massachusetts seeking a ruling that various claims in nine different Teva patents would be infringed by our launch and continued sales of Emgality for the prevention of migraine in adults. Trial is currently scheduled to begin in October 2022. In June 2021, we were named as a defendant in a second litigation filed by Teva in the U.S. District Court for the District of Massachusetts seeking a ruling that two of Teva's patents, which are directed toward use of the active ingredient in Emgality to treat migraine, would be infringed by our continued sales of Emgality.

Jardiance Patent Litigation

In November 2018, Boehringer Ingelheim (BI), our partner in marketing and development of Jardiance, initiated U.S. patent litigation in the U.S. District Court of Delaware alleging infringement arising from submissions of Abbreviated New Drug Applications (ANDA) by a number of generic companies seeking approval to market generic versions of Jardiance, Glyxambi, and Synjardy in accordance with the procedures set out in the Drug Price Competition and Patent Term Restoration Act of 1984 (the Hatch-Waxman Act). Particularly with respect to Jardiance, the generic companies' ANDAs seek approval to market generic versions of Jardiance prior to the expiration of the relevant patents, and allege that certain patents, including in some allegations the compound patent, are invalid or would not be infringed. We are not a party to this litigation. This litigation has been stayed.

Taltz Patent Litigation

In April 2021, we petitioned the High Court of Ireland to declare invalid the patent that Novartis Pharma AG (Novartis) purchased from Genentech, Inc. in 2020. Novartis responded by filing a claim against us alleging patent infringement related to our commercialization of Taltz and seeking damages for past infringement and an injunction against future infringement. This matter is ongoing.

In April 2021 and November 2021, Novartis petitioned the Court of Rome Intellectual Property Division and the Swiss Federal Patent Court, respectively, in preliminary injunction (PI) and main infringement proceedings against us related to our commercialization of Taltz. In June 2021, the Court of Rome Intellectual Property Division dismissed Novartis' PI action. Novartis appealed the ruling and in October 2021, the panel hearing Novartis' appeal appointed a technical expert to assess the merits of the case. Both matters are ongoing. Hearings on the Italian and Swiss PI requests are scheduled for May 2022.

In June 2021, Novartis petitioned the Commercial Court of Vienna in PI proceedings and in November 2021, the Austrian court denied Novartis' request. Novartis did not appeal the ruling, and this matter is now closed.

Zyprexa Canada Patent Litigation

Beginning in the mid-2000s, several generic companies in Canada challenged the validity of our Zyprexa compound patent. In 2012, the Canadian Federal Court of Appeals denied our appeal of a lower court's decision that certain patent claims were invalid for lack of utility. In 2013, Apotex Inc. and Apotex Pharmachem Inc. (collectively, Apotex) brought claims against us in the Ontario Superior Court of Justice at Toronto for damages related to our enforcement of the Zyprexa compound patent under Canadian regulations governing patented drugs. Apotex seeks compensation based on novel legal theories under the Statute of Monopolies, Trade-Mark Act, and common law. In March 2021, the Ontario Superior Court granted our motion for summary judgement, thereby dismissing Apotex's case. Apotex appealed that ruling to the Court of Appeal for Ontario in April 2021 and a hearing occurred February 2022. We await a decision.

Product Liability Litigation

Actos® Product Liability

We are named along with Takeda Chemical Industries, Ltd. and Takeda affiliates (collectively, Takeda) as a defendant in four purported product liability class actions in Canada related to Actos, which we commercialized with Takeda in Canada until 2009, including one in Ontario filed December 2011 (*Casseres et al. v. Takeda Pharmaceutical North America, Inc., et al.*), one in Quebec filed July 2012 (*Whyte et al. v. Eli Lilly et al.*), one in Saskatchewan filed November 2017 (*Weiler v. Takeda Canada Inc. et al.*), and one in Alberta filed January 2013 (*Epp v. Takeda Canada Inc. et al.*). In general, plaintiffs in these actions alleged that Actos caused or contributed to their bladder cancer. An agreement to settle these actions became effective in May 2021. The relevant courts approved the settlement and the deadline for class members to seek settlement funds has now expired. The lawsuits have been dismissed or discontinued.

Byetta® Product Liability

We are named as a defendant in approximately 570 Byetta product liability lawsuits in the U.S. which were first initiated in March 2009 and involve approximately 805 plaintiffs. Approximately 55 of these lawsuits, covering about 285 plaintiffs, are filed in California state court and coordinated in a Los Angeles Superior Court. Approximately 515 of the lawsuits, covering about 515 plaintiffs, are filed in federal court, the majority of which are coordinated in a multi-district litigation (MDL) in the U.S. District Court for the Southern District of California. Two lawsuits, representing approximately two plaintiffs, have also been filed in various state courts. Approximately 565 of the lawsuits, involving approximately 800 plaintiffs, contain allegations that Byetta caused or contributed to the plaintiffs' cancer (primarily pancreatic cancer or thyroid cancer); while six plaintiffs allege Byetta caused or contributed to pancreatitis. In addition, one case alleges that Byetta caused or contributed to ampullary cancer. The federal and state trial courts granted summary judgment in favor of us and our co-defendants on the claims alleging pancreatic cancer. The plaintiffs appealed those rulings.

In November 2017, the U.S. Court of Appeals for the Ninth Circuit reversed the U.S. District Court for the Southern District of California's grant of summary judgment in the MDL based on that court's discovery rulings and remanded the cases back to the U.S. District Court for further proceedings. In March 2021, the U.S. District Court granted summary judgment for the defendants. In April 2021, the plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit, but we have now been dismissed from that appeal. Certain plaintiffs have agreed to dismiss their lawsuits in exchange for a waiver of costs, and individual plaintiffs have begun dismissing their claims based upon this agreement. Approximately 311 of the MDL lawsuits have been dismissed as of February 2022. In the state court actions, in November 2018, the California Court of Appeal reversed the Los Angeles County Superior Court of California's grant of summary judgment based on that court's discovery rulings and remanded for further proceedings. In April 2021, the Los Angeles County Superior Court of California granted summary judgment for the defendants and the parties await entry of the order of judgment. Approximately 17 of the state court lawsuits have been dismissed as of February 2022.

We are aware of approximately 20 additional potential claimants who have not yet filed suit. These additional possible claims allege damages for pancreatic cancer or thyroid cancer.

Cialis Product Liability

We are named as a defendant in approximately 350 Cialis product liability lawsuits in the U.S. which were first initiated in August 2015. These cases, many of which were originally filed in various federal courts, contain allegations that Cialis caused or contributed to the plaintiffs' cancer (melanoma). In December 2016, the Judicial Panel on Multidistrict Litigation (JPML) granted the plaintiffs' petition to have filed cases and an unspecified number of future cases coordinated into a federal MDL in the U.S. District Court for the Northern District of California, alongside an existing coordinated proceeding involving Viagra®. The JPML ordered the transfer of the existing cases to the now-renamed MDL *In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation*. In April 2020, the MDL court granted summary judgment to the defendants on all of the claims brought against them by the plaintiffs. In May 2020, plaintiffs filed an appeal in the U.S. Court of Appeals for the Ninth Circuit. The parties have reached agreement to resolve the majority of claims pending in the appeal and expect those claims to soon be dismissed.

Jardiance Product Liability

First initiated in January 2019, we and Boehringer Ingelheim Pharmaceuticals, Inc., a subsidiary of BI, have been named as a defendant in 5 currently pending product liability lawsuits in Stamford Superior Court in Connecticut, alleging that Jardiance caused or contributed to plaintiffs' Fournier's gangrene. Our agreement with BI calls for BI to defend and indemnify us against any damages, costs, expenses, and certain other losses with respect to product liability claims in accordance with the terms of the agreement. All pending cases have been paused to allow for settlement negotiations and dismissals.

Environmental Proceedings

Under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as "Superfund," we have been designated as one of several potentially responsible parties with respect to the cleanup of fewer than 10 sites. Under Superfund, each responsible party may be jointly and severally liable for the entire amount of the cleanup.

Other Matters

340B Litigation and Investigations

We are the plaintiff in a lawsuit filed in January 2021 in the U.S. District Court for the Southern District of Indiana against the U.S. Department of Health and Human Services (HHS), the Secretary of HHS, the Health Resources and Services Administration (HRSA), and the Administrator of HRSA. The lawsuit challenges the HHS's December 30, 2020 advisory opinion stating that drug manufacturers are required to deliver discounts under the 340B program to all contract pharmacies. We seek a declaratory judgment that the defendants violated the Administrative Procedures Act and the U.S. Constitution, a preliminary injunction enjoining implementation of the administrative dispute resolution process created by defendants and, with it, their application of the advisory opinion, and other related relief. In March 2021, the court entered an order preliminarily enjoining the government's enforcement of the administrative dispute resolution process against us. In May 2021, HRSA notified us that it determined that our policy was contrary to the 340B statute. In response, in May 2021, we filed a motion for preliminary injunction and temporary restraining order requesting that the U.S. District Court for the Southern District of Indiana enjoin defendants from taking any action against us relating to the 340B drug pricing program until after the court issues a final judgment on the aforementioned litigation. In May 2021, the court denied our motion for a temporary restraining order but deferred resolution of our motion for preliminary injunction. In June 2021, the defendants withdrew the HHS December 30, 2020 advisory opinion. In July 2021, the court held oral argument on the parties' cross motions for summary judgment, the defendants' motion to dismiss, and our motion for preliminary injunction related to HRSA's May 2021 enforcement letter. In October 2021, the court denied the defendants' motion to dismiss, and granted in part and denied in part the parties' cross motions for summary judgment. We have filed a notice of appeal. This matter is ongoing.

In January 2021, we, along with other pharmaceutical manufacturers, were named as a defendant in a petition currently pending before the HHS Administrative Dispute Resolution Panel. Petitioner seeks declaratory and other injunctive relief related to the 340B program. As described above, the U.S. District Court for the Southern District of Indiana has entered a preliminary injunction enjoining the government's enforcement of this administrative dispute resolution process against us.

In July 2021, we, along with Sanofi-Aventis U.S., LLC (Sanofi), Novo Nordisk Inc. (Novo Nordisk), and AstraZeneca Pharmaceuticals LP, were named as a defendant in a purported class action lawsuit filed in the U.S. District Court for the Western District of New York by Mosaic Health, Inc. alleging antitrust and unjust enrichment claims related to the defendants' 340B distribution programs. We, with Sanofi and Novo Nordisk, filed a motion to dismiss the lawsuit. This matter is ongoing.

We received a civil investigative subpoena in February 2021 from the Office of the Attorney General for the State of Vermont relating to the sale of pharmaceutical products to Vermont covered entities under the 340B program. We are cooperating with this subpoena.

Branchburg Manufacturing Facility

In May 2021, we received a subpoena from the United States Department of Justice requesting the production of certain documents relating to our manufacturing site in Branchburg, New Jersey. We are cooperating with the subpoena.

Brazil Litigation – Cosmopolis Facility

Labor Attorney Litigation

First initiated in 2008, our subsidiary in Brazil, Eli Lilly do Brasil Limitada (Lilly Brasil), is named in a Public Civil Action brought by the Labor Attorney for the 15th Region in the Labor Court of Paulinia, State of Sao Paulo, Brazil, (the Labor Court) alleging possible harm to employees and former employees caused by alleged exposure to soil and groundwater contaminants at a former Lilly Brasil manufacturing facility in Cosmopolis, Brazil, operated by the company between 1977 and 2003. In May 2014, the Labor Court judge ruled against Lilly Brasil, ordering it to undertake several actions, including some with unspecified financial impact, consisting primarily of paying lifetime health coverage for the employees and contractors who worked at the Cosmopolis facility for more than six months during the affected years and their children who were born during and after this period. We appealed this decision. In July 2018, the appeals court (TRT) generally affirmed the Labor Court's ruling, which included a liquidated award of 300 million Brazilian real. This 300 million Brazilian real liquidated award, when adjusted for inflation and the addition of pre and post judgment interest using the current Central Bank of Brazil's special system of clearance and custody rate, is approximately 950 million Brazilian real (approximately $170 million as of December 31, 2021). The TRT also restricted the broad health coverage awarded by the Labor Court to health problems that claimants could prove in a separate evidentiary proceeding arose from exposure to the alleged contamination. In August 2019, Lilly Brasil filed an appeal to the superior labor court (TST) and in June 2021, the TRT published its decision on the admissibility of Lilly Brasil's appeal, allowing the majority of the elements of the appeal to proceed; elements not proceeding are subject to an interlocutory appeal to the TST that was filed in June 2021. In September 2019, the TRT stayed a number of elements of its trial court decision pending the determination of Lilly Brasil's appeal to the TST.

In June 2019, the Labor Public Attorney (LPA) filed an application in the Labor Court for enforcement of the healthcare coverage granted by the TRT in its July 2018 ruling, requested restrictions on Lilly Brasil’s assets in Brazil, and required Lilly Brasil and Antibióticos do Brasil Ltda. (ABL) to submit a list of potential beneficiaries of the Public Civil Action for the LPA to identify and contact those individuals. In July 2019, the Labor Court issued a ruling requiring a freeze of Lilly Brasil’s immovable property or, alternatively, a security deposit or lien of 500 million Brazilian real. Lilly Brasil filed a writ of mandamus challenging this ruling. In June 2021, the court reduced the security deposit or lien to 100 million Brazilian real and limited the scope of the initial order. ABL and LPA appealed to the TST, which appeal is currently still under review. In addition, in September 2020, the LPA initiated a second preliminary enforcement of the portion of the July 2018 TRT decision in the Labor Court that prohibits the exposure of workers to the contaminated areas. The Labor Court is currently assessing the status of Lilly Brasil’s compliance with such portion of the July 2018 TRT decision. These matters are ongoing.

Individual Former Employee Litigation

Lilly Brasil is also named in approximately 25 pending lawsuits filed in the Labor Court by individual former employees making similar claims. These lawsuits are each at various stages in the litigation process, with judgments being handed down in more than half of the lawsuits by the trial courts, of which, approximately half of those judgements are on appeal in the labor courts.

China NDRC Antitrust Matter

The competition authority in China has investigated our distributor pricing practices in China in connection with a broader inquiry into pharmaceutical industry pricing. We cooperated with this investigation. In July 2021 Lilly divested Cialis in China. We consider this matter closed.

Puerto Rico Tax Matter

In May 2013, the Municipality of Carolina in Puerto Rico (Municipality) filed a lawsuit against us alleging noncompliance with respect to a contract with the Municipality and seeking a declaratory judgment. In December 2020, the Puerto Rico Appellate Court (AP) reversed the summary judgment previously granted by the Court of First Instance (CFI) in our favor, dismissing the Municipality's complaint in its entirety. The AP remanded the case to the CFI for trial on the merits.

In October 2021, the Municipality filed a motion to execute a purported judgment, and the CFI scheduled a hearing in March 2022 to consider the Municipality's motion. We have opposed the Municipality's motion. This matter is ongoing.

Eastern District of Pennsylvania Pricing (Average Manufacturer Price) Inquiry

In November 2014, we, along with another pharmaceutical manufacturer, were named as co-defendants in *United States et al. ex rel. Streck v. Takeda Pharm. Am., Inc., et al.*, which was filed in November 2014 and unsealed in the U.S. District Court for the Northern District of Illinois. The complaint alleges that the defendants should have treated certain credits from distributors as retroactive price increases and included such increases in calculating average manufacturer prices. In October 2021 the parties filed cross motions for summary judgment. Trial is scheduled for April 2022.

Health Choice Alliance

We are named as a defendant in a lawsuit filed in June 2017 in the U.S. District Court for the Eastern District of Texas seeking damages under the federal anti-kickback statute and state and federal false claims acts for certain patient support programs related to our products Humalog, Humulin, and Forteo. In September 2019, the U.S. District Court granted the U.S. Department of Justice's motion to dismiss the relator's second amended complaint. In January 2020, the relator appealed the District Court's dismissal to the U.S. Court of Appeals for the Fifth Circuit. In July 2021, the U.S. Court of Appeals for the Fifth Circuit affirmed the dismissal of the lawsuit, and the relator did not petition the U.S. Supreme Court for certiorari. We are also named as a defendant in two similar lawsuits filed in Texas and New Jersey state courts in October 2019 seeking damages under the Texas Medicaid Fraud Prevention Act and New Jersey Medicaid False Claims Act, respectively. In November 2020, the Texas state court action was stayed pending a final determination with respect to the aforementioned federal lawsuit. In April 2021, the New Jersey state court action was dismissed with prejudice and in June 2021, the relator appealed the state court's decision to the Appellate Division of the New Jersey Superior Court. In January 2022, the relator filed its appellate brief.

Pricing Litigation, Investigations, and Inquiries

Litigation

In December 2017, we, along with Sanofi and Novo Nordisk were named as defendants in a consolidated purported class action lawsuit, *In re. Insulin Pricing Litigation*, in the U.S. District Court for the District of New Jersey relating to insulin pricing seeking damages under various state consumer protection laws and the Federal Racketeer Influenced and Corrupt Organization Act (federal RICO Act). Separately, in February 2018, we, along with Sanofi and Novo Nordisk, were named as defendants in *MSP Recovery Claims, Series, LLC et al. v. Sanofi Aventis U.S. LLC et al.*, in the same court, seeking damages under various state consumer protection laws, common law fraud, unjust enrichment, and the federal RICO Act. In both *In re. Insulin Pricing Litigation* and the *MSP Recovery Claims* litigation, the court dismissed claims under the federal RICO Act and certain state laws. In April 2021, the plaintiffs in *In re. Insulin Pricing Litigation* amended their complaint to allege additional state law claims for civil conspiracy and violations of state RICO statutes. The court has allowed the Arizona RICO statute and certain state civil conspiracy law claims to proceed. Also, we, along with Sanofi, Novo Nordisk, CVS, Express Scripts, and Optum, have been sued in a purported class action, *FWK Holdings, LLC v. Novo Nordisk Inc., et al.,* filed in the same court in November 2020, for alleged violations of the federal RICO Act as well as the New Jersey RICO Act and antitrust law. That same group of defendants, along with Medco Health and United Health Group, also have been sued in other purported class actions in the same court, *Rochester Drug Co-Operative Inc. v. Eli Lilly & Co. et al.* and *Value Drug Co. v. Eli Lilly & Co. et al.* both initiated in March 2020, for alleged violations of the federal RICO Act. In September 2020, the U.S. District Court for the District of New Jersey granted plaintiffs' motion to consolidate *FWK Holdings, LLC v. Novo Nordisk Inc., et al.*, *Rochester Drug Co-Operative Inc. v. Eli Lilly & Co. et al.*, and *Value Drug Co. v. Eli Lilly & Co. et al.* In July 2021, the U.S. District Court for the District of New Jersey dismissed the three antitrust claims alleged by plaintiffs in the consolidated litigation and denied dismissal of the RICO claims.

In October 2018, the Minnesota Attorney General's Office initiated litigation against us, Sanofi, and Novo Nordisk, *State of Minnesota v. Sanofi-Aventis U.S. LLC et al.,* in the U.S. District Court for the District of New Jersey, alleging unjust enrichment, violations of various Minnesota state consumer protection laws, and the federal RICO Act. In March 2021, the U.S. District Court for the District of New Jersey dismissed with prejudice the Minnesota Attorney General's federal RICO claims and false advertising claims under state law; the consumer fraud and other related state law claims remain ongoing. Additionally, in May 2019, the Kentucky Attorney General's Office filed a complaint against us, Sanofi, and Novo Nordisk, *Commonwealth of Kentucky v. Novo Nordisk, Inc. et al.*, in Kentucky state court, alleging violations of the Kentucky consumer protection law, false advertising, and unjust enrichment. In November 2019, Harris County in Texas initiated litigation against us, Sanofi, Novo Nordisk, Express Scripts, CVS, Optum, and Aetna, *County of Harris Texas v. Eli Lilly & Co., et al.*, in federal court in the Southern District of Texas alleging violations of the federal RICO Act, the state deceptive trade practices-consumer protection act, and common law claims such as fraud, unjust enrichment, and civil conspiracy. Harris County also alleged violations of federal and state antitrust law, but voluntarily dismissed them. This lawsuit relates to our insulin products as well as Trulicity.

In June 2021, the City of Miami, Florida initiated litigation against us, Sanofi, Novo Nordisk, ESI, CVS/Caremark/Aetna, and Optum, asserting state law antitrust, common law fraud, money had and received, unjust enrichment, and civil conspiracy claims. After removing the case to federal court, we, along with the other defendants, filed a motion to dismiss the lawsuit. In January 2022, the court granted the motion in part but has allowed the antitrust and conspiracy claims to proceed against us, Sanofi and Novo Nordisk. We, along with Sanofi and Novo Nordisk, have moved the court to reconsider its denial of our motion to dismiss the antitrust and conspiracy claims.

In June 2021, the Mississippi Attorney General's Office (Mississippi AG) initiated litigation against us, Sanofi, Novo Nordisk, Evernorth/ESI, CVS/Caremark, and United/Optum in the Hinds County, Mississippi Chancery Court, alleging state law consumer protection, unjust enrichment, and civil conspiracy claims. After the case was removed to federal court, we, along with the other defendants, filed a motion to dismiss the lawsuit. In response, the Mississippi AG filed a motion to amend its complaint, which the court granted. This matter is ongoing.

Investigations, Subpoenas, and Inquiries

We received subpoenas from the New York and Vermont Attorney General Offices and civil investigative demands from the Washington, New Mexico, and Colorado Attorney General Offices relating to the pricing and sale of our insulin products. The Offices of the Attorney General in Mississippi, Washington D.C., California, Florida, Hawaii, and Nevada have requested information relating to the pricing and sale of our insulin products. We also received interrogatories and a subpoena from the California Attorney General's Office regarding our competition in the long-acting insulin market, which was subsequently withdrawn in June 2021. In January 2022, the Michigan Attorney General filed against us in state court a petition seeking authorization to investigate Lilly for potential violations of the Michigan Consumer Protection Act (MCPA), and a complaint seeking a declaratory judgment that the MCPA applies to the conduct it seeks to investigate and allows it to conduct the investigation. The state court granted the State's petition to investigate, authorizing the State to issue civil investigative subpoenas. The State's complaint for declaratory judgment remains pending.

We received a request in January 2019 from the House of Representatives' Committee on Oversight and Reform seeking commercial information and business records related to the pricing of insulin products, among other issues. We also received requests from the Senate Finance Committee and the Senate Committee on Health, Education, Labor, and Pensions, and separate requests from the House Committee on Energy and Commerce majority and minority members. Those requests sought pricing and other commercial information regarding Lilly's insulin products. In January 2021, the Senate Finance Committee released a report summarizing the findings of its investigation. In December 2021 the House of Representatives' Committee on Oversight and Reform majority and minority staffs released separate reports with findings from their investigations into drug pricing, including of insulin products.

We are cooperating with all of these aforementioned investigations, subpoenas, and inquiries.

Research Corporation Technologies, Inc.

In April 2016, we were named as a defendant in litigation filed by Research Corporation Technologies, Inc. (RCT) in the U.S. District Court for the District of Arizona. RCT is seeking damages for breach of contract, unjust enrichment, and conversion related to processes used to manufacture certain products, including Humalog and Humulin. Both parties moved for summary judgment and hearing on the motions took place in August 2021. In October 2021, the Court issued a summary judgment decision finding in favor of RCT on certain issues, including with respect to a disputed royalty. Both parties filed motions for reconsideration, which are underway. Potential damages payable under the litigation, if finally awarded after an appeal, could be material but are not currently reasonably estimable. A trial date has not been set.

Note 17: Other Comprehensive Income (Loss)

The following table summarizes the activity related to each component of other comprehensive income (loss):

	Continuing Operations					
(Amounts presented net of taxes)	Foreign Currency Translation Gains (Losses)	Unrealized Net Gains (Losses) on Securities	Defined Benefit Pension and Retiree Health Benefit Plans	Effective Portion of Cash Flow Hedges	Discontinued Operations	Accumulated Other Comprehensive Loss
Beginning balance at January 1, 2019[1]	$ (1,569.7)	$ (22.1)	$ (3,852.7)	$ (238.9)	$ (56.8)	$ (5,740.2)
Other comprehensive income (loss) before reclassifications	(46.2)	28.9	(967.6)	14.5	(27.2)	(997.6)
Net amount reclassified from accumulated other comprehensive loss	(62.1)	(1.9)	181.7	12.5	84.0	214.2
Net other comprehensive income (loss)	(108.3)	27.0	(785.9)	27.0	56.8	(783.4)
Balance at December 31, 2019	(1,678.0)	4.9	(4,638.6)	(211.9)	—	(6,523.6)
Other comprehensive income (loss) before reclassifications	250.5	6.8	(379.7)	(133.8)	—	(256.2)
Net amount reclassified from accumulated other comprehensive loss	—	3.1	267.3	13.0	—	283.4
Net other comprehensive income (loss)	250.5	9.9	(112.4)	(120.8)	—	27.2
Balance at December 31, 2020	(1,427.5)	14.8	(4,751.0)	(332.7)	—	(6,496.4)
Other comprehensive income (loss) before reclassifications	**(122.7)**	**(11.9)**	**1,823.4**	**106.6**	**—**	**1,795.4**
Net amount reclassified from accumulated other comprehensive loss	**—**	**0.8**	**344.0**	**13.1**	**—**	**357.9**
Net other comprehensive income (loss)	**(122.7)**	**(11.1)**	**2,167.4**	**119.7**	**—**	**2,153.3**
Ending balance at December 31, 2021	**$ (1,550.2)**	**$ 3.7**	**$ (2,583.6)**	**$ (213.0)**	**$ —**	**$ (4,343.1)**

[1] Accumulated other comprehensive loss as of January 1, 2019 consists of $5.73 billion of accumulated other comprehensive loss attributable to controlling interest and $11.0 million of accumulated other comprehensive loss attributable to noncontrolling interest.

The tax effects on the net activity related to each component of other comprehensive income (loss) for the years ended December 31, were as follows:

Tax benefit (expense)	2021	2020	2019
Foreign currency translation gains/losses	**$ (136.2)**	$ 128.3	$ (18.4)
Unrealized net gains/losses on securities	**4.7**	(4.3)	(7.4)
Defined benefit pension and retiree health benefit plans	**(532.0)**	44.8	184.1
Effective portion of cash flow hedges	**(31.8)**	32.1	(7.3)
Benefit/(provision) for income taxes allocated to other comprehensive income (loss) items	**$ (695.3)**	$ 200.9	$ 151.0

Except for the tax effects of foreign currency translation gains and losses related to our foreign currency-denominated notes, cross-currency interest rate swaps, and other foreign currency exchange contracts designated as net investment hedges (see Note 7), income taxes were not provided for foreign currency translation. Generally, the assets and liabilities of foreign operations are translated into U.S. dollars using the current exchange rate. For those operations, changes in exchange rates generally do not affect cash flows; therefore, resulting translation adjustments are made in shareholders' equity rather than in the consolidated statements of operations.

Reclassifications out of accumulated other comprehensive loss were as follows:

	Year Ended December 31,			
Details about Accumulated Other Comprehensive Loss Components	2021	2020	2019	Affected Line Item in the Consolidated Statements of Operations
Amortization of retirement benefit items:				
Prior service benefits, net	**$ (55.4)**	$ (55.0)	$ (56.8)	Other—net, (income) expense
Actuarial losses	**490.9**	393.3	286.8	Other—net, (income) expense
Total before tax	**435.5**	338.3	230.0	
Tax benefit	**(91.5)**	(71.0)	(48.3)	Income taxes
Net of tax	**344.0**	267.3	181.7	
Other, net of tax	**13.9**	16.1	(51.5)	Other—net, (income) expense
Reclassifications from continuing operations (net of tax)	**357.9**	283.4	130.2	
Reclassifications from discontinued operations (net of tax)	**—**	—	84.0	Net income from discontinued operations
Total reclassifications for the period, net of tax	**$ 357.9**	$ 283.4	$ 214.2	

Note 18: Other–Net, (Income) Expense

Other–net, (income) expense consisted of the following:

	2021	2020	2019
Interest expense	**$ 339.8**	$ 359.6	$ 400.6
Interest income	**(25.4)**	(33.0)	(80.4)
Net investment gains on equity securities (Note 7)	**(176.9)**	(1,442.2)	(401.2)
Debt extinguishment loss (Note 11)	**405.2**	—	252.5
Gain on sale of antibiotic business in China (Note 3)	**—**	—	(309.8)
Retirement benefit plans	**(289.7)**	(251.8)	(209.9)
Other (income) expense	**(51.4)**	195.5	56.6
Other–net, (income) expense	**$ 201.6**	$ (1,171.9)	$ (291.6)

Note 19: Discontinued Operations

On March 11, 2019, we completed the disposition of our remaining 80.2 percent ownership of Elanco common stock through a tax-free exchange offer. The earnings attributable to the divested, noncontrolling interest for the period from the initial public offering until disposition were not material.

As a result of the disposition, in the first quarter of 2019, we recognized a gain related to the disposition of approximately $3.7 billion, and we presented Elanco, including the gain related to the disposition, as discontinued operations in our consolidated financial statements for all periods presented.

Revenue and net income from discontinued operations in 2019 was $580.0 million and $3.68 billion, respectively. There were no discontinued operations in 2020 and 2021.

The gain related to the disposition of Elanco in the consolidated statement of cash flows includes the operating results of Elanco through the disposition date, which were not material. Net cash flows of our discontinued operations for operating and investing activities were not material for the year ended December 31, 2019.

We entered into a transitional services agreement (TSA) with Elanco to facilitate the orderly transfer of various services to Elanco. The TSA related primarily to administrative services, which were generally provided over 24 months from the date of disposition, and is now complete. This agreement was not material and did not confer upon us the ability to influence the operating and/or financial policies of Elanco subsequent to the disposition date.

Management's Reports

Management's Report for Financial Statements—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for the accuracy, integrity, and fair presentation of the financial statements. The statements have been prepared in accordance with generally accepted accounting principles in the United States and include amounts based on judgments and estimates by management. In management's opinion, the consolidated financial statements present fairly our financial position, results of operations, and cash flows.

In addition to the system of internal accounting controls, we maintain a code of conduct (known as "*The Red Book"*) that applies to all employees worldwide, requiring proper overall business conduct, avoidance of conflicts of interest, compliance with laws, and confidentiality of proprietary information. All employees must take training annually on *The Red Book* and are required to report suspected violations. A hotline number is available on our lilly.com website and on the internal LillyNow website to enable reporting of suspected violations anonymously. Employees who report suspected violations are protected from discrimination or retaliation by the company. In addition to *The Red Book*, the chief executive officer and all financial management must sign a financial code of ethics, which further reinforces their ethical and fiduciary responsibilities.

The consolidated financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm (PCAOB ID: 42). Their responsibility is to examine our consolidated financial statements in accordance with generally accepted auditing standards of the Public Company Accounting Oversight Board (United States). Ernst & Young's opinion with respect to the fairness of the presentation of the statements is included in Item 8 of our Annual Report on Form 10-K. Ernst & Young reports directly to the audit committee of the board of directors.

Our audit committee includes six nonemployee members of the board of directors, all of whom are independent from our company. The committee charter, which is available on our website, outlines the members' roles and responsibilities. It is the audit committee's responsibility to appoint an independent registered public accounting firm subject to shareholder ratification, pre-approve both audit and non-audit services performed by the independent registered public accounting firm, and review the reports submitted by the firm. The audit committee meets several times during the year with management, the internal auditors, and the independent public accounting firm to discuss audit activities, internal controls, and financial reporting matters, including reviews of our externally published financial results. The internal auditors and the independent registered public accounting firm have full and free access to the committee.

We are dedicated to ensuring that we maintain the high standards of financial accounting and reporting that we have established. We are committed to providing financial information that is transparent, timely, complete, relevant, and accurate. Our culture demands integrity and an unyielding commitment to strong internal practices and policies. Finally, we have the highest confidence in our financial reporting, our underlying system of internal controls, and our people, who are objective in their responsibilities, operate under a code of conduct and are subject to the highest level of ethical standards.

Management's Report on Internal Control Over Financial Reporting—Eli Lilly and Company and Subsidiaries

Management of Eli Lilly and Company and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. We have global financial policies that govern critical areas, including internal controls, financial accounting and reporting, fiduciary accountability, and safeguarding of corporate assets. Our internal accounting control systems are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records are adequate for preparation of financial statements and other financial information. A staff of internal auditors regularly monitors, on a worldwide basis, the adequacy and effectiveness of internal accounting controls. The general auditor reports directly to the audit committee of the board of directors.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control—Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our evaluation under this framework, we concluded that our internal control over financial reporting was effective as of December 31, 2021. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of internal control over financial reporting as of December 31, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report, which appears herein. Their responsibility is to evaluate whether internal control over financial reporting was designed and operating effectively.

David A. Ricks	Anat Ashkenazi
Chair, President, and Chief Executive Officer	*Senior Vice President and Chief Financial Officer*

February 23, 2022

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Eli Lilly and Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eli Lilly and Company and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Medicaid, Managed Care, and Medicare sales rebate accruals

Description of the Matter

As described in Note 2 to the consolidated financial statements under the caption "Net Product Revenue," the Company establishes provisions for sales rebate and discounts in the same period as the related sales occur. At December 31, 2021 the Company had $6,845.8 million in sales rebate and discount accruals. A large portion of these accruals are rebates associated with sales in the United States for which payment for purchase of the product is covered by Medicaid, Managed Care, and Medicare.

Auditing the Medicaid, Managed Care, and Medicare sales rebate and discount liabilities is challenging because of the subjectivity of certain assumptions required to estimate the rebate liabilities. In calculating the appropriate accrual amount, the Company considers historical Medicaid, Managed Care, and Medicare rebate payments by product as a percentage of their historical sales as well as any significant changes in sales trends, the lag in payment timing, an evaluation of the current Medicaid and Medicare laws and interpretations, the percentage of products that are sold via Medicaid, Managed Care, and Medicare, and product pricing. For Medicaid, there is significant complexity associated with calculating the legislated Medicaid rebates. Management utilizes employees with legislative experience and knowledge in developing assumptions used to calculate Medicaid rebates. Similarly, for Managed Care and Medicare, given variability in prescription drug costs, continued historical year over year increases in enrollees and variability in prescription data, historical rebate information may not be predictive for management to estimate the rebate accrual and thus, management supplements its historical data analysis with qualitative adjustments based upon current utilization.

How We Addressed the Matter in Our Audit

We tested the Company's controls addressing the identified risks of material misstatement related to the valuation of the sales rebate and discount liabilities. This included testing controls over management's review of the significant assumptions used to calculate the Medicaid, Managed Care, and Medicare rebate liabilities, including the significant assumptions discussed above. This testing also included management's control to compare actual activity to forecasted activity and controls to ensure the data used to evaluate the significant assumptions was complete and accurate.

Our audit procedures included, among others, evaluating for reasonableness the significant assumptions in light of economic trends, product profiles, and other regulatory factors. Our testing involved assessing the historical accuracy of management's estimates by comparing actual activity to previous estimates and performing analytical procedures, based on internal and external data sources, to evaluate the completeness of the reserves. Additionally, our procedures included reviewing a sample of contracts, testing a sample of rebate payments and testing the underlying data used in management's evaluation. For Medicaid, we involved our professionals with an understanding of the statutory reimbursement requirements to assess the consistency of the Company's calculation methodologies with the applicable government regulations and policy. For Medicare we evaluated the reasonableness of assumptions made by management in estimating the Medicare coverage gap liability.

Retirement Benefits - Valuation of Alternative Investments

Description of the Matter	As described in Note 15 to the consolidated financial statements under the caption "Benefit Plan Investments," the Company's benefit plan investment policies are set with specific consideration of return and risk requirements in relationship to the respective liabilities. At December 31, 2021 the Company had $19,777.4 million in plan assets related to the defined benefit pension plans and retiree health benefit plans. Approximately 38 percent of the total pension and retiree health assets are in hedge funds and private equity-like investment funds ("alternative investments"). These alternative investments are valued using significant unobservable inputs or are valued at net asset value (NAV) reported by the counterparty, adjusted as necessary. Auditing the fair value of these alternative investments is challenging because of the higher estimation uncertainty of the inputs to the fair value calculations, including the underlying net asset values ("NAVs"), discounted cash flow valuations, comparable market valuations, and adjustments for currency, credit, liquidity and other risks. Additionally, certain information regarding the fair value of these alternative investments is based on unaudited information available to management at the time of valuation.
How We Addressed the Matter in Our Audit	We tested the Company's controls addressing the risks of material misstatement relating to valuation of alternative investments. This included testing management's review controls over alternative investment valuation, which included a comparison of returns to benchmarks and in-person or telephonic meetings with investment firms to discuss valuation policies and procedures, as well as portfolio performance. Our audit procedures included, among others, comparing fund returns to selected relevant benchmarks and understanding variations, obtaining the latest audited financial statements and comparing to the Company's estimated fair values and reconciling any differences. We also inquired of management about changes to the investment portfolio and/or related investment strategies and considerations. We assessed the historical accuracy of management's estimates by comparing actual activity to previous estimates. We evaluated for contrary evidence by confirming the fair value of the investments and ownership interest directly with the trustees and a sample of managers at year end.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1940.

Indianapolis, Indiana

February 23, 2022

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Eli Lilly and Company

Opinion on Internal Control Over Financial Reporting

We have audited Eli Lilly and Company and subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Eli Lilly and Company and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Indianapolis, Indiana

February 23, 2022

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under applicable Securities and Exchange Commission (SEC) regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the SEC (such as this Form 10-K) is recorded, processed, summarized, and reported on a timely basis.

Our management, with the participation of David A. Ricks, president and chief executive officer, and Anat Ashkenazi, senior vice president and chief financial officer, evaluated our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2021, and concluded that they were effective.

Management's Report on Internal Control over Financial Reporting

Mr. Ricks and Ms. Ashkenazi provided a report on behalf of management on our internal control over financial reporting, in which management concluded that the company's internal control over financial reporting is effective at December 31, 2021 based on the framework in "Internal Control—Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Due to the inherent limitations, no evaluation over internal control can provide absolute assurance that no material misstatements or fraud exist.

In addition, Ernst & Young LLP, the company's independent registered public accounting firm, issued an attestation report on the company's internal control over financial reporting as of December 31, 2021.

You can find the full text of management's report and Ernst & Young's attestation report in Item 8.

Changes in Internal Control over Financial Reporting

During the fourth quarter of 2021, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

Directors and Executive Officers

Information relating to our board of directors is found in our Definitive Proxy Statement, to be dated on or about March 18, 2022 (Proxy Statement), under "Governance - Board Operations and Governance" and is incorporated in this Annual Report on Form 10-K by reference.

Information relating to our executive officers is found at Item 1, "Business - Executive Officers of the Company" and is incorporated by reference herein.

Code of Ethics

Information relating to our code of ethics is found in our Proxy Statement under "Governance - Board Oversight of Strategy, Compliance, and Risk Management - Code of Ethics" and is incorporated in this Annual Report on Form 10-K by reference.

Corporate Governance

Information about the procedures by which shareholders can recommend nominees to our board of directors is found in our Proxy Statement under "Shareholder Engagement on Governance Issues - Shareholder Recommendations and Nominations for Director Candidates" and is incorporated in this Annual Report on Form 10-K by reference.

The board of directors has appointed an audit committee consisting entirely of independent directors in accordance with applicable Securities and Exchange Commission and New York Stock Exchange requirements for audit committees. Information about our audit committee is found in our Proxy Statement under "Governance - Membership and Meetings of the Board and Its Committees - Audit Committee" and is incorporated in this Annual Report on Form 10-K by reference.

Item 11. Executive Compensation

Information on director compensation, executive compensation, and compensation committee matters can be found in the Proxy Statement under "Governance - Director Compensation," "- Membership and Meetings of the Board and Its Committees - Compensation Committee," "Compensation - Compensation Discussion and Analysis," and "- Executive Compensation." Such information is incorporated in this Annual Report on Form 10-K by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

Information relating to ownership of the company's common stock by management and by persons known by the company to be the beneficial owners of more than five percent of the outstanding shares of common stock is found in the Proxy Statement under "Ownership of Company Stock" and incorporated in this Annual Report on Form 10-K by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents information as of December 31, 2021 regarding the company's compensation plans under which shares of the company's common stock have been authorized for issuance.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights [1]	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	$ —	50,646,706
Equity compensation plan not approved by security holders	—	—	—
Total	—	—	50,646,706

[1] 5,605,694 shares are underlying outstanding equity awards other than options.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Related Person Transactions

Information relating to the policies and procedures for approval of related person transactions by our board of directors can be found in the Proxy Statement under "Governance - Highlights of the Company's Corporate Governance - Conflicts of Interest and Transactions with Related Persons." Such information is incorporated in this Annual Report on Form 10-K by reference.

Director Independence

Information relating to director independence can be found in the Proxy Statement under "Governance - Director Independence" and is incorporated in this Annual Report on Form 10-K by reference.

Item 14. Principal Accountant Fees and Services

Information related to the fees and services of our principal independent accountants, Ernst & Young LLP, can be found in the Proxy Statement under "Audit Matters - Item 3. Ratification of the Appointment of the Independent Auditor - Audit Committee Report - Services Performed by the Independent Auditor" and "- Independent Auditor Fees." Such information is incorporated in this Annual Report on Form 10-K by reference.

Item 15. Exhibits and Financial Statement Schedules

(a)1. Financial Statements

The following consolidated financial statements of the company and its subsidiaries are found at Item 8:

- Consolidated Statements of Operations—Years Ended December 31, 2021, 2020, and 2019
- Consolidated Statements of Comprehensive Income (Loss)—Years Ended December 31, 2021, 2020, and 2019
- Consolidated Balance Sheets—December 31, 2021 and 2020
- Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2021, 2020, and 2019
- Consolidated Statements of Cash Flows—Years Ended December 31, 2021, 2020, and 2019
- Notes to Consolidated Financial Statements

(a)2. Financial Statement Schedules

The consolidated financial statement schedules of the company and its subsidiaries have been omitted because they are not required, are inapplicable, or are adequately explained in the financial statements.

Financial statements of interests of 50 percent or less, which are accounted for by the equity method, have been omitted because they do not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary.

(a)3. Exhibits

The following documents are filed as part of this report:

Exhibit		Location
3.1	Amended Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013
3.2	Bylaws, as amended	Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 16, 2021
4.1	Indenture, dated February 1, 1991, between the Company and Deutsche Bank Trust Company Americas, as successor trustee to Citibank, N.A., as Trustee	Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, Registration No. 333-186979
4.2	Tripartite Agreement, dated September 13, 2007, appointing Deutsche Bank Trust Company Americas as Successor Trustee under the Indenture listed in Exhibit 4.1	Incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008
4.3	Description of the Company's Common Stock	Incorporated by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.4	Description of the Company's 1.000% Notes due 2022, 1.625% Notes due 2026, and 2.125% Notes due 2030	Incorporated by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.5	Description of the Company's 6.77% Notes due 2036	Incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.6	Description of the Company's 7 1/8% Notes due 2025	Incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019

4.7	Description of the Company's 0.625% Notes due 2031 and 1.700% Notes due 2049	Incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2019
4.8	Description of the Company's 0.500% Notes due 2033, 1.125% Notes due 2051, and 1.375% Notes due 2061	Attached
4.9	Description of the Company's 1.625% Notes due 2043	Attached
10.1	Amended and Restated 2002 Lilly Stock Plan(1)	Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018
10.2	Form of Performance Award under the 2002 Lilly Stock Plan(1)	Attached
10.3	Form of Performance Award under the 2002 Lilly Stock Plan (with non-compete)(1)	Attached
10.4	Form of Performance Award under the 2002 Lilly Stock Plan (non-executive officer)(1)	Attached
10.5	Form of Shareholder Value Award under the 2002 Lilly Stock Plan(1)	Attached
10.6	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (with non-compete)(1)	Attached
10.7	Form of Shareholder Value Award under the 2002 Lilly Stock Plan (non-executive officer)(1)	Attached
10.8	Form of Relative Value Award under the 2002 Lilly Stock Plan(1)	Attached
10.9	Form of Relative Value Award under the 2002 Lilly Stock Plan (with non-compete)(1)	Attached
10.10	Form of Relative Value Award under the 2002 Lilly Stock Plan (non-executive)(1)	Attached
10.11	Form of Restricted Stock Unit Award under the 2002 Lilly Stock Plan(1)	Attached
10.12	Form of Restricted Stock Unit Award under the 2002 Lilly Stock Plan (with non-compete)(1)	Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021
10.13	Release Agreement, effective as of February 9, 2021, by and between Eli Lilly and Company and Joshua L. Smiley(1)	Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021
10.14	The Lilly Deferred Compensation Plan, as amended(1)	Incorporated by reference to Exhibit 10.5 to the Company's annual report on Form 10-K for the year ended December 31, 2013
10.15	The Lilly Directors' Deferral Plan, as amended(1)	Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017
10.16	The Eli Lilly and Company Bonus Plan, as amended(1)	Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2020
10.17	The Loxo Oncology, Inc. Bonus Plan(1)	Attached

10.18	2007 Change in Control Severance Pay Plan for Select Employees, as amended(1)	Incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2020
21	List of Subsidiaries	Attached
23	Consent of Independent Registered Public Accounting Firm	Attached
31.1	Rule 13a-14(a) Certification of David A. Ricks, Chair, President, and Chief Executive Officer	Attached
31.2	Rule 13a-14(a) Certification of Anat Ashkenazi, Senior Vice President and Chief Financial Officer	Attached
32	Section 1350 Certification	Attached
101	Interactive Data File	Attached
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	Attached

(1) Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary

Not applicable.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Eli Lilly and Company

By /s/ David A. Ricks
David A. Ricks
Chair, President, and Chief Executive Officer

February 23, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 23, 2022 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
/s/ David A. Ricks DAVID A. RICKS	Chair, President, and Chief Executive Officer (principal executive officer)
/s/ Anat Ashkenazi ANAT ASHKENAZI	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Donald A. Zakrowski DONALD A. ZAKROWSKI	Vice President, Finance, and Chief Accounting Officer (principal accounting officer)
/s/ Ralph Alvarez RALPH ALVAREZ	Director
/s/ Katherine Baicker, Ph.D. KATHERINE BAICKER, Ph.D.	Director
/s/ Michael L. Eskew MICHAEL L. ESKEW	Director
/s/ J. Erik Fyrwald J. ERIK FYRWALD	Director
/s/ Jamere Jackson JAMERE JACKSON	Director
/s/ Kimberly H. Johnson KIMBERLY H. JOHNSON	Director
/s/ William G. Kaelin, Jr., M.D. WILLIAM G. KAELIN, JR., M.D.	Director
/s/ Juan R. Luciano JUAN R. LUCIANO	Director
/s/ Marschall S. Runge, M.D., Ph.D. MARSCHALL S. RUNGE, M.D., Ph.D.	Director
/s/ Gabrielle Sulzberger GABRIELLE SULZBERGER	Director
/s/ Jackson P. Tai JACKSON P. TAI	Director
/s/ Karen Walker KAREN WALKER	Director

Trademarks Used In This Report

Trademarks or service marks owned by Eli Lilly and Company or its affiliates, when first used in each item of this report, appear with an initial capital and are followed by the symbol ® or ™, as applicable. In subsequent uses of the marks in the item, the symbols may be omitted.

Actos® is a trademark of Takeda Pharmaceutical Company Limited.

Byetta® is a trademark of Amylin Pharmaceuticals, Inc.

Glyxambi®, Jardiance®, Jentadueto®, Synjardy®, Trajenta®, and Trijardy® are trademarks of Boehringer Ingelheim International GmbH.

Tyvyt® is a trademark of Innovent Biologics (Suzhou) Co., Ltd.

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ELI LILLY AND COMPANY

NOTICE OF 2022 ANNUAL MEETING OF SHAREHOLDERS AND PROXY STATEMENT



Lilly





From Our Chair and Lead Independent Director

Dear fellow Lilly shareholders,

Thank you for your continued support of, and investment in, Eli Lilly and Company. We are proud of Lilly's achievements in 2021. We delivered on important pipeline advancements that help people with diabetes, immune disorders, neurodegenerative disorders, and cancer, continued our efforts to fight COVID-19, and strengthened our initiatives in support of patients and communities. We also worked hard to deliver value to you, our shareholders. We generated strong total shareholder returns through December 31, 2021, in terms of both share price appreciation and dividends.

To support the health and well-being of our employees, board of directors, shareholders, and other meeting participants, and to facilitate broad shareholder attendance and provide a consistent experience to all shareholders, regardless of location, the 2022 Annual Meeting of Shareholders (the Annual Meeting) will be held virtually via live webcast. We learned during the virtual annual meetings held in 2020 and 2021 that this format, in addition to being safer during the COVID-19 pandemic, actually enables more shareholders to attend, and gives our leadership team time to address more questions from those in attendance.

As part of our mission to improve lives around the world, we are committed to creating a safe, supportive, ethical, and rewarding work environment. Lilly's core values of integrity, excellence, and respect for people, and our dedication to diversity, equity, and inclusion (DEI) are critical components of how we do business. We take a holistic approach because we're a stronger company when we have a workforce of top talent from different backgrounds—people who are respected, valued, welcomed, and heard. To fulfill our purpose, we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us. In short, our differences make a difference—to patients and to our business.

Our board recognizes that one of its key responsibilities is to ensure that Lilly is governed in a manner that provides both independent oversight and efficient and effective decision-making. Our chief executive officer brings to the role of chair of our board substantial strategic and operational perspectives and a unique understanding of Lilly's opportunities and challenges. This familiarity with our business, as well as extensive experience and leadership in our industry, positions our CEO to establish the agenda and drive strategy at the board level. Further, our lead independent director, currently CEO of a Fortune 100 company, elucidates an "outside in" analysis of company decisions and performance, maintains frequent contact with our chair to ensure a productive partnership between our independent directors and management, and leads our independent directors in their important oversight function.

Our board continues to prioritize meaningful engagement with our shareholders and other key stakeholders. Since our 2021 annual meeting, we have spoken with a number of investors on an array of subjects, including: board leadership; environmental social and governance topics; drug pricing transparency and global access to our products; product quality and safety; key enterprise risks; executive compensation; DEI; and human capital management.

We appreciate the thoughtful and constructive feedback that we receive from our stakeholders. As a result of this input, as in past years, the board is putting forward management proposals at the Annual Meeting to eliminate the classified board structure and supermajority voting requirements in our articles of incorporation. In addition, the board is putting forward a management proposal to amend our articles of incorporation to provide shareholders the ability to amend our bylaws.

We remain committed to serving you and the millions of patients around the world whose lives it is our mission to make better. We look forward to welcoming you at the Annual Meeting.

Sincerely,

David A. Ricks
Chair, President, and CEO

Juan Luciano
Lead Independent Director

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Notice of 2022 Annual Meeting of Shareholders

To the holders of common stock of Eli Lilly and Company:

The 2022 Annual Meeting of Shareholders (the Annual Meeting) of Eli Lilly and Company (referred to as Lilly, we, us, or the company in this proxy statement) will be held at the time and location below:

TIME AND DATE	LOCATION	WHO CAN VOTE
11:00 a.m. EDT, Monday, May 2, 2022	**Virtually at** virtualshareholdermeeting.com/LLY2022	Shareholders of record at the close of business on February 22, 2022

To support the health and well-being of our employees, board of directors, shareholders, and other meeting participants, the Annual Meeting will be held virtually via live webcast. We have designed the Annual Meeting live webcast to provide shareholders the opportunity to participate virtually to facilitate shareholder attendance and to provide a consistent experience to all shareholders, regardless of location.

This proxy statement is dated March 18, 2022. We mailed a notice of internet availability of proxy materials on or about that date to our shareholders of record as of February 22, 2022 (other than those who previously requested electronic or paper delivery of our proxy materials and certain participants in The Lilly Employee 401(k) plan (401(k) Plan)).

ITEMS OF BUSINESS

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Admission Procedure for Attending the Annual Meeting

You will be able to attend the Annual Meeting, vote, and submit questions virtually via live webcast by visiting virtualshareholdermeeting.com/LLY2022. To be admitted to the Annual Meeting webcast, you must enter the 16-digit control number found on the proxy card, voting instruction form, or notice you received. You may vote during the Annual Meeting by following the instructions available on virtualshareholdermeeting.com/LLY2022 during the Annual Meeting.

For further information on how to attend the Annual Meeting, see the section titled "Other Information—Meeting and Voting Logistics."

Every shareholder vote is important. Even if you plan to attend the Annual Meeting, we encourage you to vote promptly online, by telephone, or, if you received or requested paper copies of your proxy materials, by signing, dating, and returning your proxy card or voting instructions by mail, so that a quorum may be represented at the meeting.

By order of the Board of Directors,

Ms. Anat Hakim

Senior Vice President, General Counsel,
and Secretary

March 18, 2022

Indianapolis, Indiana

YOUR VOTE IS IMPORTANT

Please vote online, by telephone, or, if you received or requested paper copies of your proxy materials, by signing, dating, and returning your proxy card by mail.

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 2, 2022: The annual report to shareholders and proxy statement are available at ProxyVote.com as well as on our website at lilly.com/policies-reports/annual-report.

Proxy Statement Summary

New in This Year's Proxy Statement

In 2021, we focused on advancing our pipeline to help people with diabetes, immune disorders, neurodegenerative disorders, and cancer. In addition, we have continued to support patients, communities, and our employees affected by the COVID-19 pandemic.

We have undertaken a detailed review of our sustainability efforts, how we communicate progress toward our Environmental, Social and Governance (ESG) goals, and our broader ESG strategy. In 2021, we established new 2030 sustainability goals and held an ESG stakeholder day to share our strategy and progress. In 2021, we also issued Lilly's first sustainability bond, which will help fund projects that will contribute to our ESG objectives. In this proxy statement, you will find additional information about our approach to ESG and sustainability. See "Governance—Highlights of the Company's Corporate Governance—Environmental, Social and Governance."

In addition, we recently enhanced our disclosures related to our lobbying and political activities. For additional information, see "Governance—Highlights of the Company's Corporate Governance—Political and Policy Participation."

Our board has approved, and recommends that our shareholders approve, three important management proposals at the Annual Meeting. As in past years, the board recommends approval of amendments to the company's articles of incorporation to eliminate the classified board structure (see Item 4 herein) and to eliminate supermajority voting provisions (see Item 5 herein). The board also recommends approval of amendments to the company's articles of incorporation to give shareholders the ability to amend our bylaws (see Item 6 herein). The board believes these three proposals balance shareholder interests and demonstrate its accountability and willingness to take steps that address concerns expressed by shareholders.

Michael L. Eskew, who joined the board in 2008 and serves as the Chair of the Directors and Corporate Governance Committee, will retire from the board following the Annual Meeting.

Highlights of 2021 Performance

The following provides a brief overview of our 2021 performance in four dimensions: operating performance, progress in our innovation pipeline, business development, and shareholder return, both absolute and relative. See our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for more details.

We continued to progress our company's purpose and strategy in 2021 as we remained focused on:

- discovering, developing, and acquiring first- or best-in-class medicines to address significant unmet needs in our core therapeutic areas—diabetes, immunology, neuroscience, and oncology;
- reaching patients who can benefit from our innovative medicines around the world, directly and through partnership with healthcare systems and collaborators, providing broad access to safe, life-changing medicines;
- focusing our time and resources on new medicines that patients value most, delivering volume-driven sustainable growth;
- expanding our manufacturing footprint and bolstering our supply chain to support our growing portfolio; and
- reinvesting in our business and our people to discover new medicines to address unmet medical needs, improve cost productivity, reduce environmental impact, and supply quality medicines, while returning capital to shareholders.

We believe our strategic choices, coupled with robust execution, delivered significant value for shareholders and patients in 2021. We reached over 47 million patients globally with our medicines, expanded our patient support programs, achieved significant pipeline advancements and key data readouts across our core therapeutic areas, leveraged external innovation to expand our pipeline, and delivered high total shareholder returns relative to our peers and the S&P 500 index. The discussion below expands on our considerable success in 2021.

Operating Performance

Performance highlights:

- 2021 revenue increased 15 percent to approximately $28.3 billion;
- 2021 earnings per share (EPS) on a reported basis were $6.12, compared to 2020 EPS on a reported basis of $6.79; and
- on a non-GAAP basis, 2021 EPS increased 20 percent to $8.16.

Reported results were prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include all revenue and expenses recognized during the periods. A reconciliation of EPS on a reported basis to EPS on a non-GAAP basis is included in Appendix A.

2021 Innovation and Business Development Progress

We made significant pipeline advances in 2021, including:

- U.S. approval of a new indication for Verzenio® (abemaciclib) for certain people with high-risk, early breast cancer;
- in collaboration with Boehringer Ingelheim International GmbH, U.S. and European Union approval of a new indication for Jardiance® in adults with heart failure with reduced ejection fraction, with and without diabetes;
- in collaboration with AbCellera Biologics Inc. and Junshi Biosciences Co., Ltd., the U.S. FDA granted Emergency Use Authorization for the administration of bamlanivimab and etesevimab together as a treatment for COVID-19 in patients at high risk for hospitalization; and
- in collaboration with Incyte Corporation, approval in Japan for Olumiant® (baricitinib), in combination with remdesivir, as a treatment for COVID-19.

We announced several key data readouts in 2021, including:

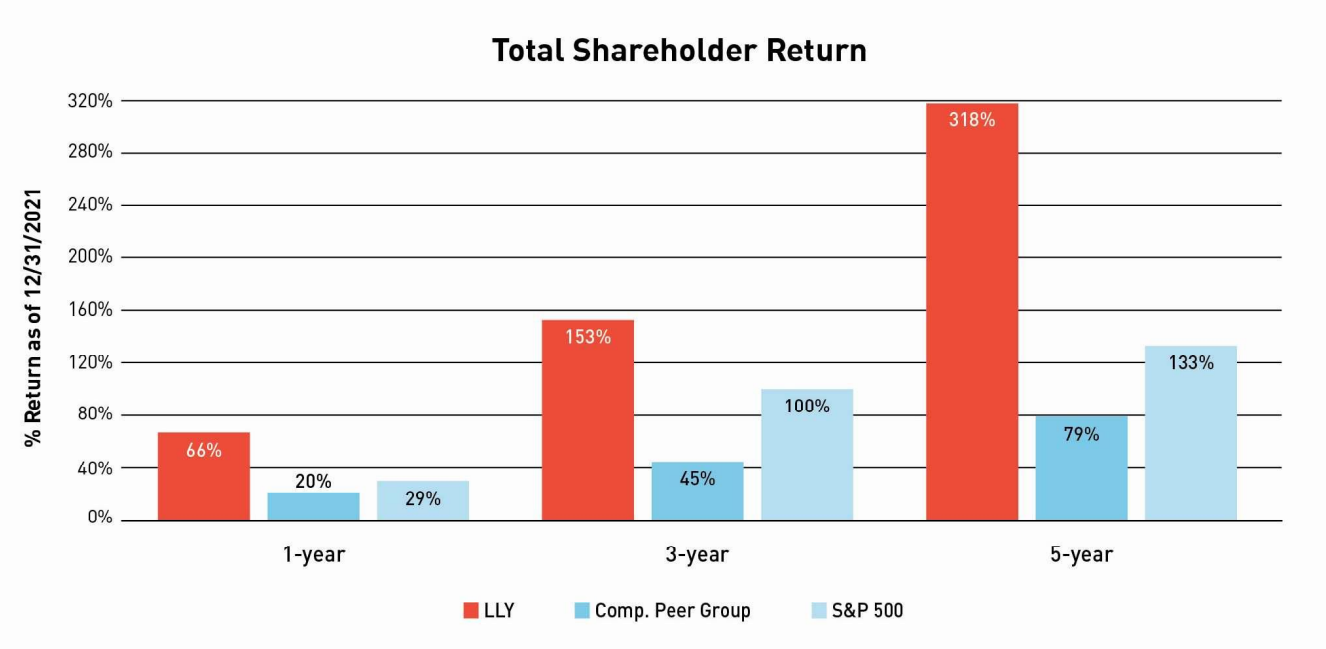
- positive topline results from four studies from tirzepatide's Phase III type 2 diabetes program, SURPASS-2, 3, 4, and 5, and regulatory submission for tirzepatide for type 2 diabetes in the U.S. to which Lilly applied a priority review voucher, as well as submission in Europe and Japan;
- positive topline results from donanemab's TRAILBLAZER-ALZ, a Phase II study evaluating the efficacy and safety of donanemab compared to placebo in patients with early symptomatic Alzheimer's disease;
- updated data for pirtobrutinib from the LOXO-305 BRUIN Phase I/II clinical trial in mantle cell lymphoma and other non-Hodgkin lymphomas, as well as in chronic lymphocytic leukemia and small lymphocytic lymphoma, at the 2021 American Society of Hematology Annual Meeting;
- positive topline results from mirikizumab's Phase III LUCENT-1 and 2 studies evaluating the efficacy and safety of mirikizumab compared to placebo for the treatment of patients with moderately-to-severely active ulcerative colitis;
- positive topline results from three studies of lebrikizumab's Phase III program evaluating the efficacy and safety of lebrikizumab in people with moderate-to-severe atopic dermatitis; and
- in collaboration with Boehringer Ingelheim International GmbH, positive topline results from a Phase III study of Jardiance® (empagliflozin) in adults with heart failure with preserved ejection fraction, with and without diabetes, and submissions in the U.S., Europe, and Japan.

We also completed over fifteen acquisitions, license agreements, and research collaborations to complement our pipeline in 2021, including:

- acquisition of Prevail Therapeutics Inc. to complement our existing expertise as we work to develop a gene therapy platform anchored by Prevail's portfolio of clinical-stage and late pre-clinical stage gene therapies across a range of neurodegenerative disorders;
- acquisition of Protomer Technologies Inc., a private biotechnology company whose proprietary peptide- and protein-engineering platform is used to identify and synthesize molecules that can sense glucose or other endogenous modulators of protein activity; and
- entry into a global exclusive license agreement and strategic collaboration with Rigel Pharmaceuticals, Inc. to co-develop and commercialize Rigel's R552, a receptor-interacting serine/threonine-protein kinase 1 (RIPK1) inhibitor for all indications, including autoimmune and inflammatory diseases.

Shareholder Returns

We generated strong total shareholder returns (TSR) through December 31, 2021. Our TSR takes into account both share price appreciation and dividends. Any dividends paid by a given company are assumed to be reinvested in that company's stock on a quarterly basis. Our returns significantly exceeded our compensation peer group and the S&P 500 during the three- and five-year periods presented below:



Health, Safety and Welfare

In 2021, we continued to supply our therapies for COVID-19 and continued our research and development efforts and our partnership with regulators and governments to bring COVID-19 treatments to patients around the world. Throughout the COVID-19 pandemic, we have prioritized maintaining supply of and access to our medicines, particularly insulin, reducing the strain on the medical system, protecting the health, safety, and well-being of our employees, and supporting our workforce, affected communities, and patients who need our medicines.

Maintaining Supplies of and Access to Lilly Medicines

Throughout 2021, we continued our efforts to protect our manufacturing processes and remained in close communication with key suppliers regarding logistics, transportation, and supplies of raw materials. As a result, we were able to largely maintain our normal operations and continue to provide medicines on which millions of patients rely in the face of global supply chain challenges. We also continued patient support programs to ensure patients maintained affordable access to their medications and adjusted how we operate to offer innovative solutions to our customers. We remain committed to working with stakeholders in healthcare systems to help patients get the medicines they need, including through our Insulin Value Program, which allows anyone with commercial insurance and those without insurance to fill their monthly prescription of Lilly insulin for $35, as well as our other access and affordability initiatives.

Working to Ensure Diversity in Clinical Trials

We continue to identify and address barriers to fair access and representation of communities in our clinical research to help develop innovative medicines. Diverse representation in clinical trials is critical to helping our researchers develop medicines that will be as effective as possible for patients who use them. We are working to ensure trial participants match the composition of the patient population that might use the trial's medicine by selecting diverse investigators and collaborating with external groups to identify and implement solutions. We collaborate with patients, patient advocacy groups, regulatory agencies, health care professionals and community organizations to identify and implement solutions that will result in diverse representation, improve health equity and generate evidence to support better patient outcomes.

Keeping Our Employees Safe and Healthy

We remain focused on protecting the health and safety of our employees and strive to foster a healthy, vibrant work environment. For additional information on our employee health and safety initiatives, see "Governance—Highlights of the Company's Corporate Governance—Human Capital Management—Employee Health and Safety."

Governance

Item 1: Election of Directors

For further information, see page 11

	Name, age* and principal occupation	Public boards	Management recommendation	Vote required to pass
	**Ralph Alvarez, 66** Operating Partner, Advent International Corporation Director since 2009	Lowe's Companies, Inc.; Traeger, Inc.; First Watch Restaurant Group, Inc.	**Vote FOR**	**Majority of votes cast**
	**Kimberly H. Johnson, 49** Executive Vice President and Chief Operating Officer, Federal National Mortgage Association (Fannie Mae) Director since 2021		**Vote FOR**	**Majority of votes cast**
	**Juan R. Luciano, 60** Chairman, Chief Executive Officer and President, Archer-Daniels-Midland Company Director since 2016; Lead Independent Director since 2019	Archer-Daniels-Midland Company	**Vote FOR**	**Majority of votes cast**

*Age is as of the date of this proxy statement.

Our Corporate Governance Policies Reflect Best Practices

Strategy and risk oversight

- ✓ Our board approves and actively oversees our corporate strategy.
- ✓ Our board and board committee agendas are structured to engage our directors in informed reviews of strategic and forward-looking issues, as well as in constructive challenges to management initiatives and programs.
- ✓ Our board reviews the overall state of our compliance program at least annually and reviews our enterprise-level risks, including related to cybersecurity; our Audit Committee oversees the process by which we identify and create mitigation plans for enterprise-level risks.
- ✓ Our board and Audit Committee receive regular presentations on cybersecurity from our management as part of their oversight of enterprise-level risks; in addition to regular presentations, management updates our board regarding changes to the broader cybersecurity landscape, as well as significant threats or incidents as they arise.
- ✓ We have a comprehensive code of business conduct, called The Red Book, which applies to our board and all employees worldwide. This code is reviewed and approved annually by the board, and in 2022 we revised The Red Book training to update our Global Conduct in the Workplace procedure to continue to help ensure that we maintain a respectful, safe, inclusive, and professional workplace.
- ✓ We have a supplemental code of conduct 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.
- ✓ The charters of our board committees clearly establish the committees' respective roles and responsibilities.
- ✓ We have an annual cap on director compensation.

Board skills and experience

- ✓ Our board membership is characterized by leadership, experience, and diversity.
- ✓ We conduct comprehensive orientation and continuing education programs for directors.
- ✓ Our board conducts a robust annual assessment of board performance led by the lead independent director, including an annual assessment of each director.
- ✓ We are committed to maintaining an active and insightful board and seek to balance continuity of experience with fresh perspectives. Currently, eight directors have served on the board for more than five years and five directors have served on the board for five years or less.

Focus on independence

- ✓ Each of our current board members other than the CEO is independent (12 of our 13 directors as of the date of this proxy statement).
- ✓ We have a strong lead independent director empowered with clearly defined responsibilities.
- ✓ All standing board committees are composed solely of independent directors and led by independent committee chairs.
- ✓ Our board holds executive sessions of the independent directors that are presided over by the lead independent director at every regular board meeting.
- ✓ Our independent directors actively engage in board meetings, have direct access to management, and, along with our board committees, have discretion to hire independent advisors at the company's expense.
- ✓ Our independent directors lead the board's process for selecting the CEO.
- ✓ Our Compensation Committee (and, in the case of our CEO, in consultation with other independent directors and our external compensation consultant) establishes the compensation for our CEO and other executive officers.
- ✓ Our conflict of interest policy requires disclosures of potential conflicts to Lilly and clarifies when Lilly board service must be disclosed to others.

Governance and accountability to shareholders

- ✓ Our board values active shareholder engagement. In response to input from our shareholders, we have put forward for consideration at the Annual Meeting management proposals to amend our articles of incorporation to eliminate the classified board structure, to eliminate supermajority voting provisions in our articles of incorporation, and to give shareholders the ability to amend our bylaws.
- ✓ Our bylaws provide proxy access rights for shareholders holding at least three percent of our common stock for at least three years to nominate to the board the greater of two directors or 20 percent of our board seats.
- ✓ We have a majority voting standard and resignation policy for the election of directors in uncontested elections.
- ✓ We do not have a shareholder rights plan ("poison pill").
- ✓ We have meaningful stock ownership and retention guidelines for our directors and executive officers to foster alignment with shareholders.

Sustainability

- ✓ Our board has a longstanding commitment to corporate responsibility.
- ✓ We have strong governance of corporate political spending and transparent policy engagement and recently enhanced our disclosures related to political and lobbying activities.
- ✓ Our board oversees and maintains ongoing engagement with our Compensation Committee, Directors and Corporate Governance Committee, and senior executives on key political, social, and governance matters, including sustainability and human capital management.
- ✓ We enhanced our environmental, social and governance sustainability reporting in 2021, including the adoption of additional prevalent reporting frameworks, and established new goals.

Compensation

Item 2: Advisory Vote on Compensation Paid to Named Executive Officers	Management recommendation	Vote required to pass
For further information, see page 37	**Vote FOR**	**Majority of votes cast**

Our Executive Compensation Programs Reflect Best Practices

- ✓ Shareholders strongly support our compensation practices: for the last five years, greater than 95 percent of shares cast voted in favor of our executive compensation programs.
- ✓ Our compensation programs are designed to align executive pay with shareholder interests and link pay to performance through a blend of short- and long-term performance measures.
- ✓ Our Compensation Committee annually reviews our compensation programs to ensure they provide incentives to deliver long-term, sustainable business results while discouraging excessive risk-taking and other adverse behaviors.
- ✓ We have a comprehensive compensation recovery or "clawback" policy that applies to all executives and covers a wide range of misconduct. In 2021, we enhanced our clawback policy to provide more robust disclosure around facts and circumstances triggering recoupment.
- ✓ Our executive officers are subject to robust stock ownership and retention guidelines and are prohibited from hedging or pledging their company stock. In 2021, we increased stock ownership and retention requirements for executive officers.
- ✓ We do not have "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.
- ✓ We do not provide tax gross-ups to executive officers (except for limited gross-ups related to international assignments).
- ✓ We have a very restrictive policy on perquisites.
- ✓ Our severance plans related to change-in-control require a double trigger.
- ✓ We do not have employment agreements with any of our executive officers.

Executive Compensation Summary for 2021

At the time total target compensation was established at the end of 2020, the target compensation in aggregate for our named executive officers was comparable to the median of the company's peer group. Incentive compensation payouts exceeded target, consistent with strong company performance over the bonus and equity performance periods.

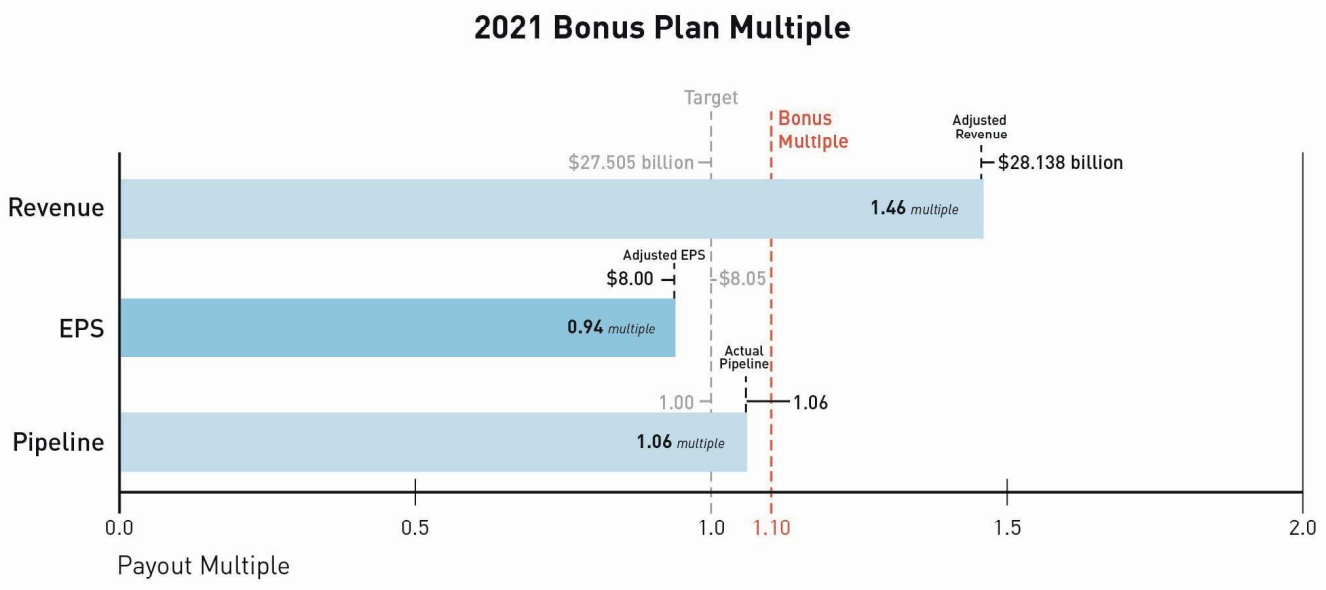
Pay for Performance

As described in the Compensation Discussion and Analysis (CD&A), we generally link our incentive pay programs to a mix of measures on three dimensions of company performance: operating performance; progress with our innovation pipeline; and shareholder return (both absolute and relative). The Compensation Committee adjusts reported EPS results to eliminate the distorting effect of certain unusual items on incentive compensation performance measures.

The summary below highlights how our incentive pay programs are intended to align with company performance. Please also see Appendix A for adjustments made to revenue and EPS for incentive compensation programs.

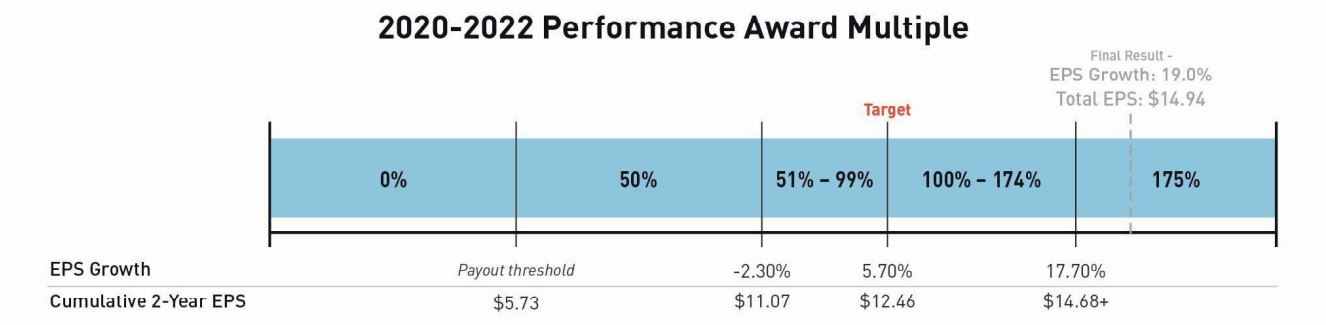
Bonus Plan

In 2021, the company exceeded its annual cash bonus target for revenue and nearly achieved its target for EPS. We also made significant pipeline advances. For purposes of the bonus, the Compensation Committee adjusted revenue and non-GAAP EPS to exclude estimated savings from certain discrete and unplanned performance items from the bonus plan multiple. See the CD&A for further discussion of the Eli Lilly and Company Bonus Plan (Bonus Plan).



2020-2022 Performance Award Multiple

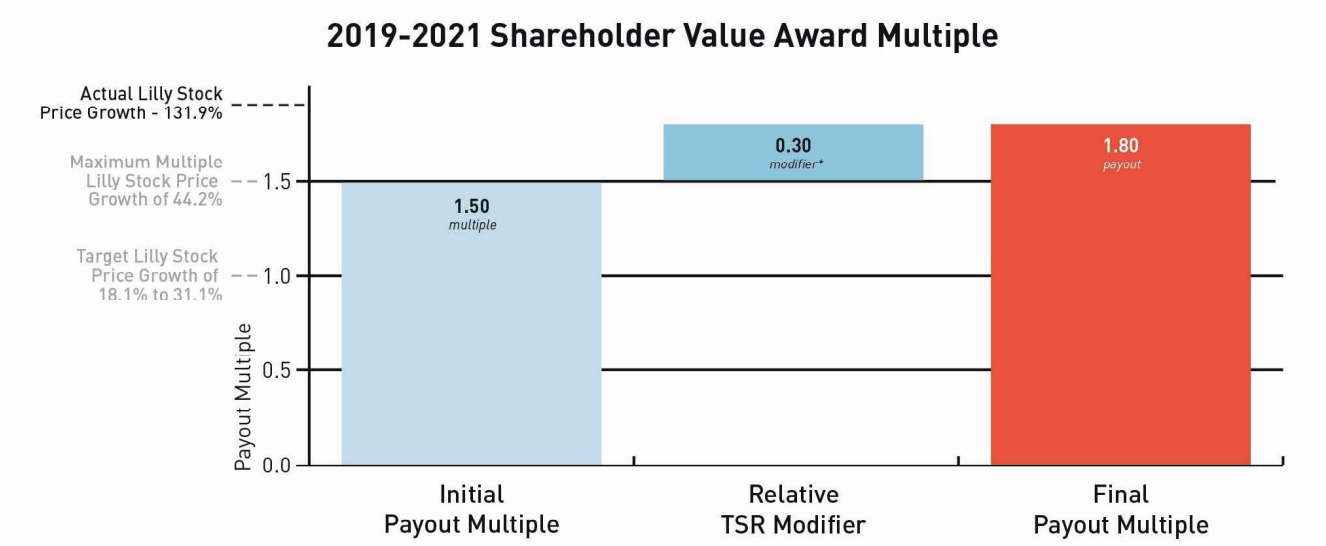
We exceeded the EPS growth target set for our performance award program. The performance award target is based on expected EPS growth of peer companies over a two-year period. As a result of exceeding the EPS growth target set for our performance award program, the performance award payout was above target. See the CD&A for further discussion on the performance award program.



2019-2021 Shareholder Value Award (SVA) Multiple

Our stock price growth exceeded the target range (18.1 percent to 31.1 percent) under our shareholder value award program, which is based on expected large-cap company returns over a three-year period. This performance resulted in a shareholder value award payout above target.

For individuals who were executive officers when the award was granted, shareholder value award payouts were modified based on a three-year cumulative TSR relative to our peer companies. Lilly's relative TSR was 121.1 percentage points above the peer group median, resulting in a maximum award payout of 180 percent of target (SVA payout multiple of 150 percent multiplied by the 1.2 modifier = 180 percent final payout). See the CD&A for further discussion on the shareholder value award program and the TSR modifier.



**Over the performance period, Lilly's cumulative TSR was 145.7 percent and the median peer cumulative TSR was 24.6 percent for a total outperformance of 121.1 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the Compensation Committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent – 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

Audit Matters

	Management recommendation	Vote required to pass
Item 3: Ratification of the Appointment of the Independent Auditor For further information, see page 64	Vote FOR	Majority of votes cast

Management Proposals

	Management recommendation	Vote required to pass
Item 4: Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure For further information, see page 66	Vote FOR	80% of outstanding shares
Item 5: Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions For further information, see page 67	Vote FOR	80% of outstanding shares
Item 6: Proposal to Amend the Company's Articles of Incorporation to Provide Shareholders the Ability to Amend the Company's Bylaws For further information, see page 68	Vote FOR	Majority of votes cast

Shareholder Proposals

	Management recommendation	Vote required to pass
Item 7: Proposal to Amend the Bylaws to Require an Independent Board Chair For further information, see page 70	Vote AGAINST	Majority of votes cast
Item 8: Proposal to Publish an Annual Report Disclosing Lobbying Activities For further information, see page 72	Vote AGAINST	Majority of votes cast
Item 9: Proposal to Disclose Lobbying Activities and Alignment with Public Policy Positions and Statements For further information, see page 75	Vote AGAINST	Majority of votes cast
Item 10: Proposal to Report Oversight of Risks Related to Anticompetitive Pricing Strategies For further information, see page 77	Vote AGAINST	Majority of votes cast

Voting

How to Vote in Advance of the Meeting

Even if you plan to attend the Annual Meeting, we encourage you to vote prior to the meeting using one of the methods described below.



ONLINE

Visit the website listed on your notice, proxy card, or voting instruction form



BY TELEPHONE

Call 1-800-690-6903 using a touch-tone phone and follow the instructions provided



BY MAIL

If you received or requested paper copies of your proxy materials, sign, date, and return your proxy card or voting instruction form

Shareholders who hold their shares beneficially through an institutional holder of record, such as a broker or bank (sometimes referred to as holding shares in street name), will receive voting instructions from that holder of record. If you do not provide voting instructions to the holder of record, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. See "Other Information—Meeting and Voting Logistics—Voting Shares Held by a Broker" for more information.

Further information on how to vote, including if you hold voting shares in the 401(k) Plan, is provided at the end of this proxy statement under "Other Information—Meeting and Voting Logistics."

You may vote your shares prior to the Annual Meeting until 11:59 p.m. EDT on May 1, 2022, online or by telephone. If you are voting by mail, your marked, signed, and dated proxy card must be received by May 1, 2022. Shareholders who hold their shares in the 401(k) Plan must vote in advance of the Annual Meeting, by April 27, 2022, so the plan trustee can vote their shares accordingly. See "Other Information—Meeting and Voting Logistics—Voting Shares Held in the Company 401(k) Plan" for more information.

Voting at Our 2022 Annual Meeting

You may also opt to vote by attending the Annual Meeting, which will be held online via live webcast at virtualshareholdermeeting.com/LLY2022 on Monday, May 2, 2022, at 11:00 a.m. EDT. See the section titled "Other Information—Meeting and Voting Logistics" for instructions.

Governance

Item 1. Election of Directors

Under our articles of incorporation, the board is divided into three classes with approximately one-third of the directors standing for election each year. The term for directors to be elected this year will expire at the annual meeting of shareholders held in 2025. Each of the director nominees listed below has agreed to serve that term. The following sections provide information about our director nominees, including their qualifications, the director nomination process, and director compensation.

Board Recommendation on Item 1

The board recommends that you vote **FOR** each of the following director nominees:

- Ralph Alvarez
- Kimberly H. Johnson
- Juan R. Luciano

Board Operations and Governance

Board of Directors

Each of our directors is elected to serve until his or her successor is duly elected and qualified. If a bona fide nominee set forth in this proxy statement is unable to serve or for good cause will not serve, proxy holders may vote for another nominee proposed by the board or, as an alternative, the board may reduce the number of directors to be elected at the Annual Meeting.

Director Biographies

Set forth below is information, as of February 22, 2022, regarding our directors and director nominees, which has been confirmed by each of them for inclusion in this proxy statement. We have provided the most significant experiences, qualifications, attributes, and skills that led to the conclusion that each director or director nominee should serve as a director in light of our business and structure.

No family relationship exists among any of our directors, 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. Additionally, to the best of our knowledge, there have been no events under any bankruptcy laws, no criminal proceedings and no judgments, sanctions, or injunctions during the past 10 years that are material to the evaluation of the ability or integrity of any of our directors or nominees for director. There is no arrangement or understanding between any director or director nominee and any other person pursuant to which he or she was or is to be selected as a director or director nominee.

Class of 2022

The three directors listed below will seek reelection at the Annual Meeting. See "Item 1. Election of Directors" above for more information.



Ralph Alvarez

Age: 66, Director since 2009, **Board Committees:** Audit; Compensation (chair)

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	ORGANIZATIONS
Lowe's Companies, Inc.; Traeger, Inc.; First Watch Restaurant Group, Inc.	Dunkin' Brands Group, Inc.; McDonald's Corporation; KeyCorp; Skylark Co., Ltd.; Realogy Holdings Corp.	University of Miami President's Council

CAREER HIGHLIGHTS

- **Advent International Corporation,** a leading global private equity firm
  - Operating Partner (2017 - present)
- **Skylark Co., Ltd.,** a leading restaurant operator in Japan
  - Chairman of the Board (2013 - 2018)
- **McDonald's Corporation,** a leading global foodservice retailer
  - President and Chief Operating Officer (2006 - 2009)

QUALIFICATIONS

Through his 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. Mr. Alvarez is an audit committee financial expert based on his public company experience, including his prior audit committee service on the Lowe's board of directors. His international experience includes a special focus on Japan and emerging markets. He also has extensive corporate governance experience through his service on other public company boards as well as several private company boards.



Kimberly H. Johnson

Age: 49, Director since 2021, **Board Committees:** Compensation; Ethics and Compliance

NON-PROFIT BOARDS + OTHER ORGANIZATIONS

Princeton University, Trustee; Share Our Strength, Director; Planet Word, Director

CAREER HIGHLIGHTS

- **Federal National Mortgage Association (Fannie Mae),** provider of affordable mortgage financing in the United States
  - Executive Vice President and Chief Operating Officer (2018 - present)
  - Executive Vice President and Chief Risk Officer (2017 - 2018)
  - Senior Vice President and Chief Risk Officer (2015 - 2017)
  - Senior Vice President and Deputy Chief Risk Officer (2013 - 2015)
- **Credit Suisse AG,** a global wealth manager, investment bank, and financial services firm founded and based in Switzerland
  - Director, Interest Rate Derivative Products (2005 - 2006)
  - Vice President (2002 - 2004)

QUALIFICATIONS

Through her roles at Fannie Mae, where she also serves on the management committee, Ms. Johnson brings to the board significant financial expertise and a strong background in technology, governance, and strategy for global risk management.



Juan R. Luciano

Age: 60, Director since 2016, Lead Independent Director since 2019, **Board Committees:** Compensation; Directors and Corporate Governance

PUBLIC BOARDS	NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
Archer-Daniels-Midland Company	Intersect Illinois; Kellogg School of Management, Northwestern University; Rush University Medical Center Board of Trustees	Economic Club of Chicago; Commercial Club of Chicago; The Business Roundtable

CAREER HIGHLIGHTS

- **Archer-Daniels-Midland Company,** a global food-processing and commodities-trading company
  - Chairman (2016 - present)
  - Chief Executive Officer and President (2015 - present)
  - President (2014 - 2015)
  - Executive Vice President and Chief Operating Officer (2011 - 2014)
- **The Dow Chemical Company,** a multinational chemical company
  - Executive Vice President and President, Performance Division (2010 - 2011)

QUALIFICATIONS

Mr. Luciano has chief executive officer and global business experience with Archer-Daniels-Midland Company, where he has established a reputation for strong results-oriented and strategic leadership, as well as many years of global leadership experience at The Dow Chemical Company. He brings to the board a strong technology and operations background, along with expertise in the highly regulated food and agriculture sectors.

Class of 2023

The following five directors are serving terms that will expire in May 2023.



Michael L. Eskew*

Age: 72, Director since 2008, **Board Committees:** Audit; Directors and Corporate Governance (chair)

PUBLIC BOARDS	NON-PROFIT BOARDS
3M Corporation; IBM Corporation; The Allstate Corporation	Chairman of the board of trustees of The Annie E. Casey Foundation

CAREER HIGHLIGHTS

- **United Parcel Service, Inc. (UPS),** a global shipping and logistics company
  - UPS Board of Directors (1998 - 2014)
  - Chairman and Chief Executive Officer (2002 - 2007)
  - Vice Chairman (2000 - 2002)

QUALIFICATIONS

Mr. Eskew has chief executive officer 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 chief executive officer experience and his service on other U.S. public company audit committees. He has extensive corporate governance experience through his service on the boards of other companies.

*Mr. Eskew will retire from the board following the Annual Meeting.



William G. Kaelin, Jr., M.D.

Age: 64, Director since 2012, **Board Committees:** Directors and Corporate Governance; Science and Technology (chair)

INDUSTRY MEMBERSHIPS	HONORS
National Academy of Medicine; National Academy of Sciences; American College of Physicians; Association of American Physicians; American Society of Clinical Investigation (ASCI); American Academy of Arts and Sciences	Nobel Prize in Physiology or Medicine; Albert Lasker Basic Medical Research Award; Wiley Prize in Biomedical Sciences from the Rockefeller University; Steven C. Beering Award from the Indiana University School of Medicine; ASCI's Stanley J. Korsmeyer Award; Paul Marks Prize for Cancer Research from the Memorial Sloan Kettering Cancer Center; Richard and Hinda Rosenthal Prize from the American Association for Cancer Research; Scientific Grand Prix of the Foundation Lefoulon-Delalande; Canada Gairdner International Award; Doris Duke Distinguished Clinical Scientist Award; Helis Award from Baylor College of Medicine; Massry Prize from the Meira and Shaul G. Massry Foundation

CAREER HIGHLIGHTS

- **Harvard Medical School**
  - Sidney Farber Professor of Medicine (2018 - present)
  - Professor of Medicine (2002 - 2018)
- **Dana-Farber Cancer Institute and Brigham and Women's Hospital**
  - Professor (2002 - present)
- **Howard Hughes Medical Institute**
  - Investigator (2002 - present)
  - Assistant Investigator (1998 - 2002)

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.



David A. Ricks

Age: 54, Director since 2017, **Board Committees:** none

PUBLIC BOARDS	NON-PROFIT BOARDS	INDUSTRY MEMBERSHIPS
Adobe Inc.	Board of Governors for Riley Children's Foundation; Central Indiana Corporate Partnership	International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) CEO Steering Committee; Pharmaceutical Research and Manufacturers of America (PhRMA); The Business Roundtable; National Council for Expanding American Innovation (NCEAI)

CAREER HIGHLIGHTS

- **Eli Lilly and Company**
  - Chair, President, and Chief Executive Officer (2017 - present)
  - Senior Vice President and President, Lilly Bio-Medicines (2012 - 2016)

QUALIFICATIONS

Mr. Ricks was named President and Chief Executive Officer on January 1, 2017, and Chair on June 1, 2017. Mr. Ricks joined Lilly in 1996, and most recently served as president of Lilly Bio-Medicines. He has significant expertise across Lilly's value chain and global operations, as well as in public policy.



Marschall S. Runge, M.D., Ph.D.

Age: 67, Director since 2013, **Board Committees:** Ethics and Compliance; Science and Technology

NON-PROFIT BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
University of Michigan Health (vice chair); Michigan Health Corporation (chair)	American Association of Medical Colleges; American College of Cardiology; American Medical Association

CAREER HIGHLIGHTS

- **University of Michigan**
  - CEO, Michigan Medicine (2015 - present)
  - Executive Vice President for Medical Affairs (2015 - present)
  - Dean, Medical School (2015 - present)
- **University of North Carolina School of Medicine**
  - Executive Dean (2010 - 2015)
  - Chair of the Department of Medicine (2000 - 2015)
  - Principal Investigator and Director of the North Carolina Translational and Clinical Sciences Institute (2010 - 2015)

QUALIFICATIONS

Dr. Runge brings the unique perspective of a practicing physician who has a broad background in healthcare and academia. He has extensive experience as a practicing cardiologist, a strong understanding of healthcare facility systems, and deep expertise in biomedical research and clinical trial design.



Karen Walker

Age: 60, Director since 2018, **Board Committees:** Audit; Compensation

PUBLIC BOARDS	NON-PROFIT BOARDS	ORGANIZATIONS
Sprout Social, Inc.	Salvation Army Advisory Board of Silicon Valley	Association of National Advertisers (board and executive committee)

CAREER HIGHLIGHTS

- **Intel Corporation,** a leader in the semiconductor industry
  - Senior Vice President and Chief Marketing Officer (2019 - present)
- **Cisco Systems, Inc.,** a provider of communications technologies and services to commercial and governmental customers
  - Senior Vice President and Chief Marketing Officer (2015 - 2019)
  - Senior Vice President, Marketing (2013 - 2015)
  - Senior Vice President of Segment, Services and Partner Marketing (2012 - 2013)

QUALIFICATIONS

Ms. Walker brings extensive marketing and digital expertise. She has valuable business experience developed through her business and consumer leadership positions in the information technology industry and is a recognized industry authority on both technology and marketing. Her business expertise includes senior field and marketing roles in Europe, North America, and the Asia-Pacific region.

Class of 2024

The following five directors are serving terms that will expire in May 2024.



Katherine Baicker, Ph.D.

Age: 50, Director since 2011, **Board Committees:** Ethics and Compliance (chair); Science and Technology

PRIOR PUBLIC BOARDS	MEMBERSHIPS + OTHER ORGANIZATIONS
HMS Holdings Corp.	Panel of Health Advisers to the Congressional Budget Office; Advisory Board of the National Institute for Health Care Management; Editorial Board of Health Affairs; Research Associate of the National Bureau of Economic Research; Trustee of the Mayo Clinic, National Opinion Research Center, and the Chicago Council on Global Affairs; Member of the National Academy of Medicine, the National Academy of Social Insurance, the Council on Foreign Relations, and the American Academy of Arts and Sciences

CAREER HIGHLIGHTS

- **Harris School of Public Policy, University of Chicago**
  - Dean and the Emmett Dedmon Professor (2017 - present)
- **Harvard T.H. Chan School of Public Health, Department of Health Policy and Management**
  - C. Boyden Gray Professor (2014 - 2017)
  - Acting Chair (2014 - 2016)
  - Professor of health economics (2007 - 2017)
- **Council of Economic Advisers, Executive Office of the President**
  - Member (2005 - 2007)
  - Senior Economist (2001 - 2002)

QUALIFICATIONS

Dr. Baicker is a leading researcher in the fields of health economics and public economics. As a valued adviser to numerous healthcare-related commissions and committees, her expertise in healthcare policy and healthcare delivery is recognized in both academia and government.



J. Erik Fyrwald

Age: 62, Director since 2005, **Board Committees:** Compensation; Science and Technology

PUBLIC BOARDS	PRIVATE BOARDS	NON-PROFIT BOARDS
Bunge Limited	Syngenta Group	UN World Food Program Farm to Market Alliance; CropLife International (chair); Swiss-American Chamber of Commerce; Syngenta Foundation for Sustainable Agriculture

CAREER HIGHLIGHTS

- **Syngenta Group,** a global Swiss-based agriculture technology company that produces agrochemicals and seeds
  - President and Chief Executive Officer (2016 - present)
- **Univar, Inc.,** a leading distributor of chemicals and provider of related services
  - President and Chief Executive Officer (2012 - 2016)
- **Ecolab Inc.,** a leading provider of cleaning, sanitization, and water products and services
  - President (2012)
- **Nalco Company,** a leading provider of water treatment products and services
  - 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)

QUALIFICATIONS

Mr. Fyrwald has a strong record of operational and strategic leadership in complex worldwide businesses with a focus on technology and innovation. He is an engineer by training and has significant chief executive officer experience with Syngenta, Univar, and Nalco.



Jamere Jackson

Age: 53, Director since 2016, **Board Committees:** Audit (chair); Ethics and Compliance

PUBLIC BOARDS

Hibbett Sports, Inc.

CAREER HIGHLIGHTS

- **Autozone, Inc.,** a leading retailer and distributor of automotive replacement parts and accessories in the United States, Mexico, and Brazil
  - Executive Vice President and Chief Financial Officer (2020 - present)
- **Hertz Global Holdings Inc.,** a global vehicle rental, leasing, and fleet management business
  - Chief Financial Officer (2018 - 2020)
- **Nielsen Holdings plc,** a global measurement and data analytics company
  - Chief Financial Officer (2014 - 2018)
- **General Electric Company,** an American multinational company and leader in the power, renewable energy, aviation and healthcare industries
  - Vice President and Chief Financial Officer, General Electric Oil & Gas, drilling and surface division (2013 - 2014)
  - Senior Executive, Finance, General Electric Aviation (2007 - 2013)
  - Finance Executive, General Electric Corporate (2004 - 2007)

QUALIFICATIONS

Through his senior financial roles at Autozone, Hertz, Nielsen, and General Electric, Mr. Jackson brings to the board significant global financial expertise and a strong background in strategic planning. He has spent his professional career in a broad range of financial and strategic planning roles. He is an audit committee financial expert, based on his chief financial officer experience and his training as a certified public accountant.



Gabrielle Sulzberger

Age: 61, Director since 2021, **Board Committees:** Audit; Ethics and Compliance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS
Mastercard Incorporated; Cerevel Therapeutics Holdings, Inc.; Warby Parker Inc.	Whole Foods Markets, Inc.; Teva Pharmaceuticals Industries Limited; Stage Stores, Inc.; IndyMac Bancorp, Inc.; Bright Horizons Family Solutions Inc.; Brixmor Property Group Inc.	Metropolitan Museum of Art; Ford Foundation; Trinity Wall Street; Sesame Street Workshop; TimesUp

CAREER HIGHLIGHTS

- **Teneo,** a global CEO advisory firm
  - Chair of Global ESG Advisory (2021 - present)
- **TwoSigma Impact,** a private equity fund based in New York, New York
  - Strategic Advisor (2021 - present)
- **Rustic Canyon/Fontis Partners L.P.,** a private equity fund based in Pasadena, California
  - General Partner (2005 - 2018)

QUALIFICATIONS

Ms. Sulzberger brings 30 years of experience advising public and privately held companies in consumer products, retail, financial services, and life sciences, and deep corporate governance experience through her work with corporate boards. She is an audit committee financial expert based on her audit committee service at Cerevel and Whole Foods, her experience in private equity, and her prior service as chief financial officer of several public and private companies.



Jackson P. Tai

Age: 71, Director since 2013, **Board Committees:** Audit; Directors and Corporate Governance

PUBLIC BOARDS	PRIOR PUBLIC BOARDS	NON-PROFIT BOARDS	OTHER ORGANIZATIONS
Mastercard Incorporated; HSBC Holdings plc	Canada Pension Plan; Investment Board; Koninklijke Philips N.V.; The Bank of China Limited; Singapore Airlines Limited; NYSE Euronext; ING Groep N.V.; CapitaLand Limited (Singapore); DBS Group Holdings Ltd and DBS Bank Ltd	Metropolitan Opera; Rensselaer Polytechnic Institute	Harvard Business School Asia-Pacific Advisory Board

CAREER HIGHLIGHTS

- **DBS Group Holdings Ltd and DBS Bank Ltd (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)
  - Chief Financial Officer (1999 - 2001)
- **J.P. Morgan & Co. Incorporated,** a leading global financial institution
  - Managing Director in the Investment Banking Division (1974 - 1999), including service as the senior officer for Japan Capital Markets and chairman of the Asia Pacific Management Committee

QUALIFICATIONS

Mr. Tai is a former chief executive officer with extensive experience in international business and finance, and he is an audit committee financial expert based on his public company experience, including as an audit committee member of HSBC Holdings and Mastercard, and as chair of the risk committee of HSBC Holdings. He has deep expertise in the Asia-Pacific region, an important growth market for Lilly. He also has broad corporate governance experience from his service on public company boards in North America, Europe, and Asia.

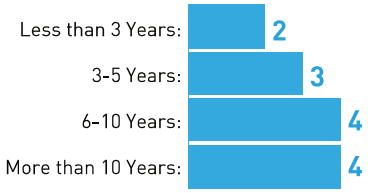
Director Qualifications and Nomination Process

Director Qualifications

Experience: Our directors are responsible for overseeing the company's business consistent with their fiduciary duties. This significant responsibility requires highly skilled individuals with various qualities, attributes, and professional experience. We believe the board is well-rounded, with a balance of relevant perspectives and experience, as illustrated in the following chart. Categories referencing "expertise" indicate that the director is an expert in the field, while "experience" indicates direct experience, including management and oversight of significant operations:



Board Tenure: As the following chart demonstrates, our director composition reflects a mix of tenure on the board, which provides an effective balance of historical perspective and an understanding of the evolution of our business with fresh perspectives and insights. Mr. Eskew, who joined the board in 2008, will retire from the board following the Annual Meeting. The following graphic highlights the tenure of our current board members:



Diversity: The board strives to achieve diversity in the broadest sense, including persons diverse in geography, gender, ethnicity, age, and experiences. Although the board does not establish specific diversity goals or have a standalone diversity policy, the board's overall diversity is an important 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 13 directors range in age from 49 to 72 and include four women and six minority group members (MGM).

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

Director Refreshment

Together with our lead independent director, the Directors and Corporate Governance Committee performs periodic assessments of the overall composition and skills of the board to ensure that the board is actively engaged in succession planning for directors, and that our board reflects the viewpoints, diversity, and expertise necessary to support our complex and evolving business. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors.

The results of these assessments inform the board's recommendations on nominations for directors at the annual meeting of shareholders each year and help provide us with insight on the types of experiences, skills, perspectives, and other characteristics we should be seeking for future director candidates. Based on this assessment, the Directors and Corporate Governance Committee has recommended that each of the directors in the class of 2022 be elected at the Annual Meeting.

The board delegates the director screening process to the Directors and Corporate Governance Committee, which receives input from other board members. Director candidates are identified from several sources, including executive search firms retained by the committee, incumbent directors, management, and shareholders. The Directors and Corporate Governance Committee has retained Russell Reynolds Associates, an executive search and leadership consulting firm, to assist with identifying potential director candidates.

The Directors and Corporate Governance Committee employs the same process to evaluate 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 a 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 chair of the board and one or more of the independent directors, including the lead independent director, for direct discussions to determine the mutual level of interest in pursuing the candidacy. If these discussions are favorable, the committee recommends that the board nominate the candidate for election by the shareholders (or elects the candidate to fill a vacancy, as applicable).

Director Compensation

Directors who are employees receive no additional compensation for serving on the board. Non-employee director compensation is reviewed and approved by the board, on the recommendation of the Directors and Corporate Governance Committee.

Cash Compensation

The following table shows the retainers and meeting fees in effect in 2021 for all non-employee directors:

Board and Committee Membership Retainers (annual, paid in monthly installments)		Leadership Retainers (annual, paid in monthly installments)	
Annual board retainer	$110,000	Lead independent director	$35,000
Audit Committee and Science and Technology Committee members (including the chairs)	$6,000	Audit Committee chair	$18,000
Compensation Committee, Directors and Corporate Governance Committee, and Ethics and Compliance Committee members (including the chairs)	$3,000	Science and Technology Committee chair	$15,000
		All other committee chairs	$12,000

Directors are reimbursed for customary and usual travel expenses in connection with their travel to and from board meetings and other company events. Non-employee directors may also receive additional cash compensation for serving on ad hoc committees that may be formed by the board from time to time.

Effective January 1, 2022, leadership retainers for committee chairs were increased to $22,000 for the Audit Committee chair, $18,000 for the Science and Technology Committee chair, and $17,000 for all other committee chairs. No increase was made to the lead independent director retainer.

Stock Compensation

A significant portion of non-employee director compensation is linked to the long-term performance of Lilly stock. In 2021, non-employee directors received an annual equity-based award valued at $175,000. The award was credited to each non-employee director's deferred stock account established under the Lilly Directors' Deferral Plan as a number of units calculated by dividing $175,000 by the closing stock price on a pre-set annual date (approximately 677 units). The units track the economic value of shares of company stock with stock dividends being deemed "reinvested" in additional units based on the market price of the stock on the date dividends are paid. The units become converted into and issuable to the non-employee directors as shares of company stock commencing on the second January following a director's departure from board service (either in lump sum or installments as described below). When applicable, the annual equity-based award is prorated for time served.

Effective January 1, 2022, non-employee directors will receive an annual equity-based award valued at $180,000.

Share Ownership Guidelines

Directors are required to hold meaningful equity ownership positions in the company. Non-employee directors are required to hold Lilly stock, directly or through units representing the right to receive shares of Lilly stock under the Lilly Directors' Deferral Plan, valued at not less than five times their annual board retainer; new non-employee directors are allowed five years to reach this ownership level. All non-employee directors serving at least five years have satisfied these guidelines. All other non-employee directors are, or in the case of recently elected directors, are expected to begin making progress toward these requirements.

Annual Compensation Cap for Directors

In 2018, the board approved an annual cap to the total annual compensation (cash and equity compensation) for non-employee directors of $800,000. The cap is intended to avoid excessive director compensation and is included in both the Lilly Directors' Deferral Plan and in the Amended and Restated 2002 Lilly Stock Plan approved by shareholders at the 2018 annual meeting of shareholders.

Lilly Directors' Deferral Plan

In addition to the annual equity-based grants credited to each non-employee director's deferred stock account as described above, the Lilly Directors' Deferral Plan allows non-employee 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 any amounts deferred in one or both of the following two accounts:

Deferred Stock Account. This account allows the non-employee director, in effect, to invest his or her deferred cash compensation in company stock. Funds in this account are credited as units representing the right to receive shares of company stock based on the closing stock price on pre-set monthly dates. Hypothetical dividends are deemed "reinvested" in additional units based on the market price of the stock on the date dividends are paid. The units become converted into and issuable to the non-employee director as shares of company stock commencing on the second January following the director's departure from board service (either in a lump sum or installments as described below). The deferral stock account is the same account where the annual equity-based awards are credited with the same conversion timing and procedure applicable to the annual equity-based awards.

Deferred Compensation Account. Deferred cash compensation in this account earns 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 (the Internal Revenue Code). The aggregate amount of interest that accrued in 2021 for the participating directors was $68,808, at a rate of 1.6 percent. The rate for 2022 is 2.3 percent.

Both accounts may be paid out in a lump sum or in annual installments for up to 10 years based on individual director annual elections. All payments begin the second January following the director's departure from board service. Amounts in the deferred stock account are paid in shares of company stock.

2021 Compensation for Non-Employee Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	All Other Compensation and Payments ($)[2]	Total ($)[3]
Mr. Alvarez	$131,000	$175,000	$0	$306,000
Dr. Baicker	$131,000	$175,000	$0	$306,000
Mr. Eskew	$131,000	$175,000	$10,000	$316,000
Mr. Fyrwald	$119,000	$175,000	$52,708	$346,708
Mr. Jackson	$137,000	$175,000	$0	$312,000
Ms. Johnson	$101,155	$160,417	$0	$261,572
Dr. Kaelin	$134,000	$175,000	$7,000	$316,000
Mr. Luciano	$151,000	$175,000	$0	$326,000
Dr. Runge	$119,000	$175,000	$0	$294,000
Ms. Sulzberger	$111,323	$175,000	$0	$286,323
Mr. Tai	$119,000	$175,000	$60,000	$354,000
Ms. Walker	$119,000	$175,000	$40,000	$334,000
Former Directors:				
Carolyn R. Bertozzi, Ph.D.	$79,333	$116,667	$0	$196,000
Kathi P. Seifert	$39,602	$72,917	$46,500	$159,019

[1] Each non-employee director received an equity-based award of units valued at $175,000 (approximately 677 units) except Ms. Johnson, Dr. Bertozzi and Ms. Seifert, each of whom received a pro-rated award for a partial year of service. These units, and all prior awards of such units, are fully vested; however, the shares subject to such awards of units are not issued until the second January following the director's departure from board service when, as described above under "Lilly Directors' Deferral Plan," the units are converted into shares of company stock and distributed to the former director. The column shows the grant date fair value for each director's equity-based award computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for additional detail regarding assumptions underlying the valuation of equity awards. 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.

[2] This column consists of amounts donated by the Eli Lilly and Company Foundation, Inc. (the Foundation) under its matching gift program, which is generally available to U.S. employees as well as non-employee directors. Under this program, the Foundation matched 100 percent of charitable donations over $25 made to eligible charities, up to a maximum of $30,000 per year for each individual. The Foundation matched these donations via payments made directly to the recipient charity. The amounts for Mr. Fyrwald, Mr. Kaelin, Ms. Seifert, Mr. Tai and Ms. Walker include matching contributions for donations made at the end of 2020 (Mr. Fyrwald - $27,926; Mr. Kaelin - $4,000; Ms. Seifert - $9,000; Mr. Tai - $30,000; Ms. Walker - $20,000) for which the matching contribution was not paid until 2021. The amount for Ms. Seifert also includes a $10,000 donation by the Foundation to a charity of Ms. Seifert's choosing in honor of her retirement from the board, consistent with the company's traditional practice for retiring directors.

[3] Non-employee directors do not participate in a company pension plan or non-equity incentive plan.

2022 Director Compensation

The Directors and Corporate Governance Committee performs regular reviews of non-employee director compensation. In 2021, the Directors and Corporate Governance Committee performed an in depth review of non-employee director compensation, including a general industry peer group analysis and a pharmaceutical company peer group analysis conducted with the assistance of an outside compensation consultant, discussions regarding the effectiveness of the non-employee directors in their various duties, and other considerations, including the desire to have non-employee director compensation positioned near the market median when compared against the general industry peer group. Following this review, and upon the recommendation of the Directors and Corporate Governance Committee, the board approved increases to the non-employee director committee leadership retainers effective January 1, 2022, and the annual non-employee director equity-award beginning in 2022, as further described above.

Director Independence

The board annually determines the independence of directors based on a review and recommendation by the Directors and Corporate Governance Committee. No director is considered independent unless the board has affirmatively determined that he or she has no material relationship with the company, either directly or as a partner, shareholder, or officer of an organization that has a relationship with the company. In assessing whether a director has no material relationship with Lilly, the board of directors also considers any persons or organizations with which the director has an affiliation. 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.

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 lilly.com/leadership/governance, along with our corporate governance guidelines.

On the recommendation of the Directors and Corporate Governance Committee, the board determined that each current non-employee director is independent. The board also determined that the members of our Audit and Compensation Committees also meet the heightened independence standards applicable to those committees. Prior to their departures from our board in 2021, the board had reached the same conclusions about Dr. Bertozzi and Ms. Seifert. The board determined that none of the current non-employee directors has had during the last three years (i) any of the relationships identified in the company's categorical independence standards or (ii) any other material relationship with the company that would compromise his or her independence.

In making its independence determinations, the board considered that some of the current non-employee directors are affiliated with companies or entities to which the company sold products or made payments, or from which the company purchased products or services during the year. Drs. Baicker, Kaelin, and Runge are employed at medical or academic institutions with which the company engages in clinical research, provides research grants, and/or engages in commercial transactions in the ordinary course of business. Mr. Luciano is employed by Archer-Daniels-Midland Company and Mr. Fyrwald is employed by Syngenta Group. The company engages in routine business transactions with these organizations. Aggregate payments to or from each such organization, in each of the last three 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. In reviewing these relationships, the board considers all relevant factors, including:

- whether any transactions were entered into at arm's length in the normal course of business and, to the extent they are commercial relationships, have standard commercial terms; and
- whether any 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 our board-appointed committees are described below.

All committee members are independent as defined in the NYSE listing requirements and Lilly's independence standards. The members of the Audit and Compensation Committees each meet the additional independence requirements applicable to them as members of those committees.

The Directors and Corporate Governance Committee, together with the lead independent director, identifies and recommends to the board candidates for membership on the board and board committees, and develops and recommends criteria and policies relating to service and tenure of directors. 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 innovative perspectives on the committees.

The chair of each committee determines the frequency and agenda of committee meetings, subject to any minimums specified in the relevant committee charter, and the committees meet alone in executive session on a regular basis.

Membership and Meetings of the Board and Its Committees

In 2021, each director attended at least 75 percent of the total number of meetings of the board and the committees on which he or she served during his or her tenure as a board or committee member. In addition, all board members are expected to attend the Annual Meeting. All directors then serving on the board attended the 2021 annual meeting of shareholders with the exception of Ms. Seifert, who retired following the 2021 annual meeting. Current committee membership and the number of meetings of the board and each committee held in 2021 are shown in the table below.

Name	Board	Audit	Compensation	Directors and Corporate Governance	Ethics and Compliance	Science and Technology
Mr. Alvarez	✓	✓	C			
Dr. Baicker	✓				C	✓
Mr. Eskew	✓	✓		C		
Mr. Fyrwald	✓		✓			✓
Mr. Jackson	✓	C			✓	
Ms. Johnson	✓		✓		✓	
Dr. Kaelin	✓			✓		C
Mr. Luciano	LD		✓	✓		
Mr. Ricks	✓					
Dr. Runge	✓				✓	✓
Ms. Sulzberger	✓	✓			✓	
Mr. Tai	✓	✓		✓		
Ms. Walker	✓	✓	✓			
Number of 2021 Meetings	7	9	9	4	6	9

C Committee Chair
LD Lead Independent Director

All committee charters are available online at lilly.com/leadership/governance. Key responsibilities of each committee are set forth below.

Audit Committee

The Audit Committee assists the board in fulfilling its oversight responsibilities by monitoring:

- the integrity of financial information provided to our shareholders and others
- management's systems of internal controls and disclosure controls
- the performance of internal and independent audit functions
- the qualifications and independence of the company's independent auditor
- the company's compliance with legal and regulatory requirements
- processes and procedures related to identifying and mitigating enterprise-level risks.

The committee has sole authority to appoint or replace the independent auditor, subject to shareholder ratification.

The board has determined that Mr. Alvarez, Mr. Eskew, Mr. Jackson, Ms. Sulzberger, and Mr. Tai are audit committee financial experts, as defined in the rules of the U.S. Securities and Exchange Commission (SEC).

Compensation Committee

The Compensation Committee:

- establishes the compensation of our CEO, in consultation with other independent directors and our external compensation consultant, and other executive officers
- oversees the company's global compensation philosophy and human management capital efforts, including DEI efforts
- acts as the oversight committee with respect to the company's deferred compensation plans, management stock plans, and other management incentive and benefit programs
- reviews succession plans for the CEO and other key senior leadership positions, including a broad review of our succession management

- advises our management and the board regarding other human capital management, DEI efforts, and employee compensation and benefits matters
- reviews, monitors, and oversees stock ownership guidelines for executive officers
- oversees the company's executive compensation recovery policy
- oversees the company's engagement with shareholders regarding executive compensation matters, including reviewing and evaluating the results of advisory votes on executive compensation.

Compensation Committee Interlocks and Insider Participation

During the year ended December 31, 2021, Mr. Alvarez, Mr. Fyrwald, Ms. Johnson, Mr. Luciano, Ms. Seifert, and Ms. Walker served on the Compensation Committee, with Ms. Seifert's service on the Compensation Committee concluding in May 2021, upon her retirement from the board and Ms. Walker's service on the Compensation Committee beginning January 1, 2021.

None of the Compensation Committee members:

- has ever been an officer or employee of the company
- is or has been a participant in a related person transaction with the company (see "Governance—Highlights of the Company's Corporate Governance—Conflicts of Interest and Transactions with Related Persons—Review and Approval of Transactions with Related Persons" for a description of our policy on related person transactions)
- has any other interlocking relationships requiring disclosure under applicable SEC rules.

Directors and Corporate Governance Committee

The Directors and Corporate Governance Committee:

- reviews and recommends to the board the size and composition of the board and its committees
- leads the process for director recruitment, together with the lead independent director
- reviews recommendations for nominees for the board of directors
- oversees matters of corporate governance, including board performance, non-employee director independence and compensation, corporate governance guidelines, and shareholder engagement on governance matters
- identifies and brings to the attention of the board as appropriate current and emerging environmental, social, political, and governance trends and public policy issues that may affect the business operations, performance, or reputation of the company
- annually assesses the performance of the board, board committees and board processes, and reviews such findings with the board.

Ethics and Compliance Committee

The Ethics and Compliance Committee:

- reviews, identifies and, when appropriate, brings to the attention of the board legal and regulatory trends and issues, and compliance and quality matters that may have an impact on the business operations, financial performance, or reputation of the company
- reviews, monitors, and makes recommendations to the board on corporate policies and practices related to compliance, including those related to employee health and safety.

Science and Technology Committee

The Science and Technology Committee:

- reviews and advises the board regarding the company's long-term strategic goals and objectives and the quality and direction of the company's research and development programs
- reviews and advises the board and management on the company's major technology positions and strategies relative to emerging technologies, emerging concepts of therapy and health care, and changing market requirements
- monitors and evaluates developments, technologies, and trends in pharmaceutical research and development
- regularly reviews the company's product pipeline
- assists the board with its oversight responsibility for enterprise risk management in areas affecting the company's research and development.

Board Oversight of Strategy, Compliance, and Risk Management

The board takes an active approach to its role in overseeing the development and execution of the company's business strategies. On an annual basis, the board and executive management conduct an extended review and discussion of the company's strategy, evaluating goals, the external environment, key questions, and key risks. Board meetings include discussions of company performance relative to the strategy. The board also reviews strategic focus areas for the company, such as innovation, information security, cybersecurity, and human capital management. See also "Governance—Highlights of the Company's Corporate Governance—Human Capital Management."

The board, together with its committees, oversees 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 Ethics and Compliance Committee meets at least four times per year, including semi-annual private sessions to discuss compliance with the company's chief ethics and compliance officer, the general auditor, and the senior vice president, global quality. On an annual basis, the full board reviews the company's overall state of compliance and the Ethics and Compliance Committee receives an update on compliance at each meeting.

The chief ethics and compliance officer and the senior vice president, global quality report directly to the CEO.

The company also has an enterprise risk management program directed by its chief ethics and compliance officer. Enterprise risks are identified and prioritized by management through both top-down and bottom-up processes. Key enterprise-level risks are overseen by the full board and our enterprise risk management process is overseen by the Audit Committee. Company management is charged with managing risk through robust internal processes and controls. The enterprise-level risks are reviewed annually at a full board meeting, and relevant enterprise risks are also addressed in periodic business function reviews and at the annual board and senior management strategy session.

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. The Red Book is reviewed and approved annually by the board. In 2022, we revised The Red Book training to update our Global Conduct in the Workplace procedure to continue to help ensure that we maintain a respectful, safe, inclusive, and professional workplace.

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.

These documents are available online at lilly.com/operating-responsibly/ethics-compliance and lilly.com/operating-responsibly/ethics-compliance/financial-management-ethical-conduct. In the event of any amendments to, or waivers from, a provision of the code affecting the CEO, chief financial officer, chief accounting officer, controller, or persons performing similar functions, we intend to post on the above website, within four business days after the event, a description of the amendment or waiver as required under applicable SEC rules, and we will maintain that information on our website for at least 12 months.

Highlights of the Company's Corporate Governance

We are committed to good corporate governance, which promotes the long-term interests of shareholders and other company stakeholders, builds confidence in our leadership, and strengthens accountability by the board and management. The board has adopted corporate governance guidelines that set forth the company's basic principles of corporate governance. The section that follows outlines key elements of the guidelines and other important governance matters. Investors can learn more by reviewing the corporate governance guidelines, which are available online at lilly.com/leadership/governance.

Role of the Board

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 the following (certain of which are carried out through the board's committees):

- providing general oversight of the business
- approving corporate strategy
- approving major management initiatives
- overseeing capital allocation
- selecting, compensating, evaluating, and, when necessary, replacing the CEO, and compensating other senior executives
- ensuring that an effective succession plan is in place for all key senior leadership positions and reviewing our broader talent management process, including human capital management strategies, overall corporate culture, and DEI programs

- overseeing the company's ethics and compliance program and management of significant business risks
- selecting, compensating, and evaluating directors
- evaluating board processes and performance
- overseeing the company's enterprise risk management program, including receiving regular briefings on cyber, technology and information risks
- overseeing the company's approach to current and emerging environmental, social, political, and governance trends and public policy issues that may affect the business operations, performance or reputation of the company
- overseeing the company's political expenditures and lobbying activities.

The board takes an active role in its oversight of our corporate strategy. Each year, the board and executive management closely examine the company's strategy, including key risks and decisions facing the company. Decisions reached in this session are updated throughout the year, including as the board discusses the company's financial performance, the performance of our business units, and progress in our product pipeline.

Board Composition and Requirements

Mix of Independent Directors and Officer-Directors

We believe there should always be a substantial majority (75 percent or more) of independent directors. The CEO should be a member of the board.

Voting for Directors

In an uncontested election, directors are elected by a majority of votes cast. An incumbent nominee who fails to receive a greater number of votes "for" than "against" his or her election will tender his or her resignation from the board following the certification of the shareholder vote. 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 the board rejected the resignation.

Director Tenure and Retirement Policy

Non-employee directors must retire from the board no later than the date of the annual meeting that follows their seventy-second birthday, although the Directors and Corporate Governance Committee may recommend exceptions to this policy. The Directors and Corporate Governance Committee, with input from all board members, also considers the contributions of the individual directors annually, with a more robust assessment at least every three years when considering whether to nominate directors to new three-year terms. The company has not adopted term limits because the board believes that the company benefits from having a mix of longer- and shorter-tenured members of the board.

Other Board Service

To ensure proper engagement from our directors and effective functioning of our board, we have instituted certain limitations on service on the boards of other companies. In general, no director may serve on more than three other public company boards. No director that is an executive officer of a public company may serve on more than two public company boards (inclusive of Lilly). 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. In addition, no director serving on the Audit Committee may serve simultaneously on the audit committee of more than two other public companies without the prior approval of the board.

Board Confidentiality Policy

The board has adopted a Confidentiality Policy, applicable to all current and future members of the board. The policy prohibits a director from sharing confidential information obtained in his or her role as a director with any third party except under limited circumstances where the director is seeking legal advice or is required by law to disclose information. The Confidentiality Policy can be viewed on the company's website: lilly.com/leadership/governance.

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

Leadership Structure

Our board believes that there is no "one-size-fits-all" approach to board leadership and recognizes that one of its key responsibilities is to evaluate its optimal leadership structure to ensure both independent oversight of management and an engaged board with complementary qualities, perspectives, and experiences. The board regularly reviews its leadership structure and developments in the area of corporate governance to ensure that our chosen leadership structure continues to strike the appropriate balance for the company and our stakeholders and enables us to promote the long-term interests of our shareholders. Throughout 2021, the board continued its proactive assessment of board succession and refreshment. After thoughtful consideration of our business, long-term strategy, and related risks, and the strong role of our lead independent director, the independent directors believe that combining the chair and CEO roles, coupled with a strong lead independent director position, continues to be in the best interest of the company and our shareholders. The board believes

that Mr. Ricks' extensive knowledge of, and experience in, the pharmaceutical industry enables him to effectively set the long-term strategic direction of the company and provide diligent, long-term leadership and direction for management and our board.

Mr. Luciano serves as the current lead independent director. Mr. Luciano is a strong lead independent director who fulfilled each of the duties below during the past year. As the CEO and president of Archer-Daniels-Midland Company, he brings valuable and diverse experience and outside perspective to his lead independent director role, which permits him to serve as a trusted adviser to Mr. Ricks and ensure effective board management.

In 2021, the independent directors, led by Mr. Luciano, met at each regularly scheduled board meeting in executive session to discuss various matters related to the oversight of the company, the management of the board's affairs, and the CEO's performance. We believe Mr. Luciano fosters an open and constructive dialogue during these sessions as well as during individual discussions with the independent directors. Mr. Luciano advises Mr. Ricks on the independent directors' discussions, including performance feedback.

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 and presided over by the lead independent director.
- **Annual performance evaluation of the chair and CEO:** Conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee and independent directors in establishing the CEO's compensation for the next year.
- **A strong, independent, clearly defined lead independent director role:** The lead independent director's responsibilities include:
  - leading the board's processes for selecting the CEO
  - overseeing the independent directors' annual performance evaluation of the chair and CEO
  - serving as a liaison between the chair and the independent directors
  - presiding at all meetings of the board at which the chair is not present
  - presiding at executive sessions of the independent directors
  - calling meetings of the independent directors, as appropriate
  - approving meeting agendas and schedules and reviewing information to be provided to the board
  - being available for consultation and direct communication with shareholders, as appropriate
  - together with the chair and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process
  - together with the Directors and Corporate Governance Committee, leading the director succession planning process
  - retaining advisors for the independent directors, as appropriate.
- **Lead independent director assessment:** The lead independent director is elected by and from among the independent directors of the board, which conducts an assessment of his or her performance as part of the annual board assessment process. Currently, Mr. Luciano is the lead independent director.
- **Director access to independent advisors:** The independent directors and all committees have the ability to retain their own independent advisors, at the company's expense, whenever they deem it desirable to do so.
- **Director access to management:** Independent directors have direct access to members of management whenever they deem it necessary, and the company's executive officers attend part of each regularly scheduled board meeting.

CEO Succession Planning

The Compensation Committee, board, and CEO annually review the company's succession plans for the CEO and other key senior leadership positions. The independent directors also meet without the CEO to discuss CEO succession planning.

During these reviews, the CEO and directors discuss:

- future candidates for the CEO and other senior leadership positions
- succession timing
- development plans for potential candidates.

The independent directors and the CEO maintain a confidential plan for the timely and efficient transfer of the CEO's responsibilities in the event of an emergency or his sudden departure, incapacitation, or death.

The company ensures that the directors have multiple opportunities to interact with the company's top leadership talent in both formal and informal settings to allow them to most effectively assess the candidates' qualifications and capabilities.

Environmental, Social and Governance

Overview and Oversight

Our purpose is to unite caring with discovery to create medicines that make life better for people around the world. This purpose guides our ESG strategy, which includes five key pillars: Increase Access to Medicines, Improve Lives and Communities, Empower a Diverse Workforce, Minimize Our Environmental Impact, and Operate Ethically and Responsibly.

We have undertaken a detailed review of our sustainability efforts, how we communicate our progress toward our ESG goals, and our broader ESG strategy. In 2021, we adopted additional prevalent reporting frameworks, established new 2030 sustainability goals, and held an ESG stakeholder day to share our strategy and progress. In 2021, we also issued Lilly's first sustainability bond, which will help fund projects that will contribute to our ESG objectives.

We made progress toward our ESG goals in 2021 by, among other things:

- Continuing our 30x30 global health effort, including an expansion of our partnership with Life for a Child to provide diabetes support to children in more than 60 countries over the next 10 years and the establishment of royalty-free licensing agreements with Indian pharmaceutical companies to accelerate manufacturing and distribution of our COVID-19 therapy baricitinib.
- Making investments in our communities, including our investment in Sixty8 Capital, and a $5 million commitment to Direct Relief's Fund for Health Equity.
- Lilly employees completing 10,015 hours of 25,000 volunteer hours pledged over five years by Lilly as part of our Racial Justice Commitment.
- Sharing our EEO-1 data for 2020 in an effort to enhance transparency about our workforce diversity and respond to stakeholder interest in this information.
- Bringing on-line the largest solar field in Ireland at our facility in Kinsale, Ireland and completing solar installations at our facilities in Spain.

Our approach to ESG governance includes board oversight, management accountability, corporate policies and management systems, and stated public policies and positions on key ESG topics. Our full board is engaged in strategic ESG oversight, receiving regular updates on ESG matters, reviewing and approving our long-term environmental goals, and weighing in on significant strategic investments, including those related to ESG. The Directors and Corporate Governance Committee is also responsible for identifying and bringing to the attention of the board, as appropriate, current and emerging environmental, social, political, and governance trends and public policy issues that may affect our business operations, performance or reputation. In addition, the Compensation Committee is responsible for oversight of human capital management matters, including DEI.

In addition, we have formed an ESG Governance Committee that includes senior leaders across many of our business functions. The committee reports to our senior leadership Executive Committee. Throughout Lilly, leaders are responsible for embedding ESG goals in their operations and are accountable for progress and achievement of those goals.

We have adopted the Sustainability Accounting Standards Board for Biotechnology and Pharmaceuticals and the Task Force on Climate-Related Financial Disclosures frameworks to communicate our progress toward our ESG objectives and continue to report our progress on the United Nations Sustainable Development Goals.

Additional information on our ESG efforts is available at the ESG page of our website.

Increase Access to Medicines

We work with global health systems and organizations to improve equitable access to our medicines and address complex global health challenges, such as the COVID-19 pandemic and the growing prevalence of diabetes. We have established a comprehensive goal—Lilly 30x30—to improve access to quality health care for 30 million people living in communities with limited resources, annually, by 2030.

Improve Lives and Communities

Beyond our medicines, we invest our time, expertise, and resources to drive social impact with a focus on health. We focus on action and advocacy that build stronger communities where people and companies can prosper and thrive. We collaborate with organizations that have proven track records of social impact. We also encourage our employees to volunteer and give in meaningful ways.

Empower a Diverse Workforce

DEI is at the core of how we do business. Our long-standing values of integrity, excellence, and respect for people foster an environment where team members are encouraged to speak up, share ideas, and be fully engaged in our work, while bringing their full authentic selves to work every day. By doing so, we help innovate, accelerate, and deliver life-changing medicines that make a difference for people around the world. See below under "—Human Capital Management" for additional information regarding our DEI efforts and progress.

Minimize our Environmental Impact

We believe that making life better means protecting and preserving the world in which we live. While making medicines requires the use of valuable resources, including energy, water, and raw materials, we remain committed to improving our environmental impact across our product life cycles and supply chain. We have set new 2030 sustainability goals to reduce our emissions and waste and to continue using water responsibly and efficiently.

Recognizing our responsibility to reduce our carbon footprint to help fight climate change, we have set new targets and have an established global energy-management program. Our 2030 climate goals include:

- Sourcing 100% of our purchased electricity from renewable sources.
- Becoming carbon neutral in our own operations.
- Enhancing the tracking and reporting of emissions from our full value chain.

We are committed to minimizing waste and conserving energy, resources, and landfill space. We have enhanced our commitment to reduce landfill waste and have introduced new goals focused on addressing plastic waste from our operations and integrating sustainability into the designs of our products. Our 2030 waste goals include:

- Zero waste to landfill from routine operations.
- Repurposing 100% of plastic waste for beneficial use, with at least 90% recycled or reused.
- Integrating sustainability-focused design principles into product and packaging design processes.

Water is essential to both our operations and the facilities where we discover and manufacture our medicines, and we are committed to using this critical resource more efficiently. We have set new water-related goals for 2030 that include establishing and implementing water management plans for all Lilly sites in water-stressed areas, as well as working to ensure our internal and external manufacturing operations do not adversely impact our waterways as a result of discharges of pharmaceuticals. These goals include:

- Establishing and implementing water management plans for Lilly sites in water-stressed areas.
- Ensuring 100% of Lilly sites meet predicted no-effect concentrations (PNEC) for Pharmaceuticals in the Environment.
- Ensuring appropriate controls are in place by Lilly contract manufacturers to prevent discharge of pharmaceuticals in wastewater above applicable PNEC values.

Operate Ethically and Responsibly

We strive to earn and maintain the trust of people we serve by acting ethically and responsibly. We set high standards for our products, operations and performance, and we show caring and respect for those touched by our work. Our actions are grounded in our company's core values of integrity, excellence, and respect for people. See "Board Oversight of Strategy, Compliance, and Risk Management—Code of Ethics" for additional information.

Human Capital Management

Overview and Oversight

At Lilly, dedication to human capital management is a core component of our corporate governance and culture. Our comprehensive approach to human capital management is grounded in our core values of integrity, excellence, and respect for people, which reflect our commitment to creating a safe, supportive, ethical, and rewarding work environment.

The board exercises active oversight over our overall talent management process, including human capital management strategies, corporate culture, and DEI programs. The board also oversees the work of its committees in developing corporate policies and frameworks designed to attract, retain, engage, and develop a workforce that aligns with our values and mission. The Compensation Committee advises the board and management on and is responsible for oversight of human capital management, DEI efforts, and employee compensation and benefits matters, and annually reviews our leadership development and succession planning practices. The Directors and Corporate Governance Committee is responsible for identifying and bringing to the attention of the board, as appropriate, current and emerging environmental, social, political, and governance trends and public policy issues that may affect our business operations, performance, or reputation.

The board also oversees human capital management by regularly engaging with management and facilitating a system of reporting that highlights the importance of DEI to Lilly. For example, as part of our commitment to DEI, our board considers the contributions related to DEI of our CEO and other executive committee members when determining their compensation.

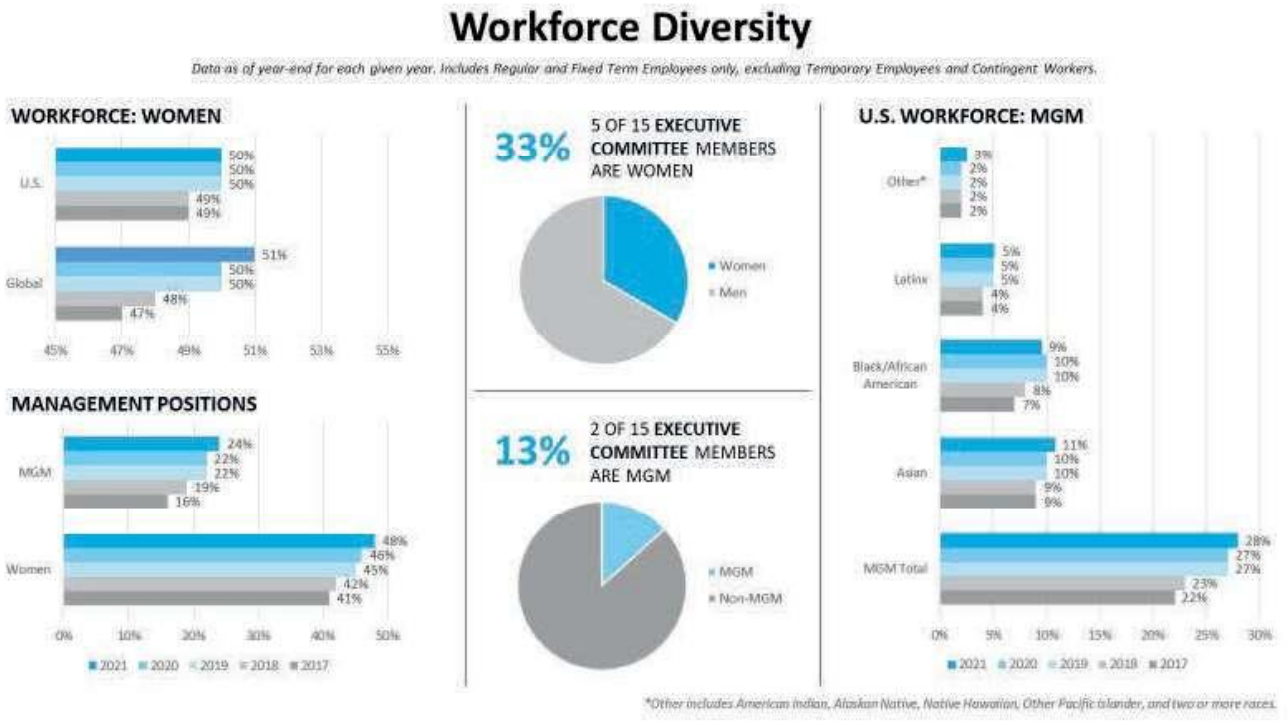
Our board also oversees the activities of our CEO and executive committee in setting expectations for inclusive leadership and holding leaders accountable for building diverse and inclusive teams. Our CEO receives regular reports from Lilly's senior vice president for human resources and diversity. In addition, our chief DEI officer is a vice president who also has responsibility for all aspects of talent management in the company, which enables full integration of DEI into our talent systems. The vice president of DEI and talent management reports to the senior vice president for human resources and diversity, who is a member of our executive committee. We believe this system of oversight and reporting by the board and our key executives is critical to our success in fostering an inclusive, supportive, and rewarding workplace.

Measuring Progress on Diversity, Equity, and Inclusion

We are committed to fairness and nondiscrimination in our employment practices, and we deeply value diverse backgrounds, skills, and global perspectives. To fulfill our purpose, we believe we must look at challenges from multiple viewpoints and understand the diverse experiences of the patients who depend on us. In short, our differences make a difference—to patients and to our business.

We believe that fostering DEI begins with understanding, and we have approached DEI with the same rigor as our other business-critical priorities. Our Employee Journeys research has yielded important insights about the experiences of women, Black/African American, Latinx, Asian, and LGBTQ+ employees at Lilly. In response to insights from our Employee Journeys research, we developed, among others, an education and awareness program to help build cultural literacy and foster an understanding of employee expectations for feeling psychologically safe at work. More than 3,500 leaders and more than 13,000 employees have participated in required training to gain greater awareness of how unconscious bias and microaggressions can harm team cohesiveness and hurt employee engagement. Our Employee Journeys research has also resulted in growing energy around DEI, with a company-wide network of DEI champions, initiatives, and teams across business areas—and an expanding appreciation of the value of different perspectives. The results of this research are reviewed by our senior leadership, and we deploy actions and activities in response to these insights to improve our workplace and corporate culture.

In 2020, Lilly and the Lilly Foundation launched the Racial Justice Commitment, with Lilly pledging 25,000 volunteer hours over five years and the Lilly Foundation committing $25 million over five years to help decrease the burden of racial injustice and its effects on communities of color. The Racial Justice Commitment aims to drive change across five areas: internal people development, health equity, social impact, diversity partners, and family sustaining jobs, through the use of financial and people resources. In 2021, we made progress in these efforts, including through the development of two apprenticeship programs at Lilly for individuals without college degrees.



Since 2017, we have committed to increasing the number of women, Black/African American, Latinx, and Asian populations in leadership roles, and we actively monitor our progress. From the end of 2017 through the end of 2021, we increased the percentage of women in management globally from 41 percent to 48 percent. For MGM in the U.S. over the same period, we increased management representation from 16 percent to 24 percent. Across all levels of our workforce, from the end of 2017 through the end of 2021, we have seen increased representation for MGMs in the U.S. and women globally.

Our focus on DEI is also a critical component of our broader corporate governance. Five of fifteen current members (approximately 33 percent) of our executive committee (which includes our CEO) are women and two are MGM. In addition,

as of the date of this proxy statement, the company's 13 directors range in age from 49 to 72 and include four women and six members who are MGMs.

Recognition

At Lilly we strive to be leaders in DEI and workplace benefits, and we are honored when we receive recognition for our efforts to improve the lives of our employees. Below are some of our accolades for 2021:

DiversityInc: Top 50 Companies for Diversity: No. 3	**Ethisphere:** World's Most Ethical Companies	**Forbes:** America's Best Employers for Diversity	**Forbes and JUST Capital:** Forbes JUST 100, America's Most JUST Companies
Human Rights Campaign Foundation Corporate Equality Index – Perfect Score	**National Organization on Disability:** 2021 Leading Disability Employer	**Science Magazine:** Top Employers: No. 18	**Working Mother Magazine:** 100 Best Companies, Top Companies for Executive Women, Best Companies for Dads, Best Companies for Multicultural Women

Employee Development

We believe talent begins with the hiring process. We therefore require hiring managers to consider a diverse pool of candidates, and we strive to provide a diverse panel of interviewers for open positions. We believe that hiring in this way helps ensure that people from all backgrounds have equal opportunity to advance their careers.

We offer training to enable our employees to perform their duties in our highly regulated industry. We also strive to cultivate a culture that promotes ongoing learning by encouraging employees to seek further education and growth experiences, helping them build rewarding careers. We have introduced online programming to facilitate access to our learning and development offerings. Many training courses are designed to improve accessibility for people with disabilities and other unique needs. Across Lilly, we are working to design learning experiences to be more inclusive and effective. In addition, we have implemented tools and resources and improved our talent programs and processes to provide broad access to information and transparency regarding career development and advancement at Lilly.

In early 2022, we launched ***Discover***, a 12-month new employee onboarding program with multiple touchpoints designed to foster integration into the Lilly culture, to accelerate learning in their new roles and to create connections to further a sense of belonging at Lilly. Discover was shaped in part by external benchmarking, feedback from employees and learnings from onboarding remotely during the COVID-19 pandemic.

Employee resource groups (ERGs) are another important component of developing talent at Lilly. We currently have 11 ERGs representing groups including women, MGMs, LGBTQ+ individuals, veterans, and people with disabilities. ERGs offer our diverse workforce opportunities to build relationships, engage with senior leaders, advance our caring community, and offer unique insights and perspectives to improve our business.

We have continued our efforts to create an inclusive workplace with the goal of ensuring that all employees feel safe to speak up and share their ideas at work. Our Make it Safe to Thrive education and awareness program is designed to help employees and leaders understand how individual psychological safety can be created and enhanced and includes live and online training and a monthly video series.

Lilly is committed to fostering a culture of diversity and respect in the workplace—an environment free of discrimination, harassment, or retaliation of any kind. In 2022, as part of our annual review of The Red Book and related policies and procedures, we revised the Global Conduct in the Workplace procedure to continue to help ensure that we maintain a respectful, safe, inclusive, and professional workplace.

Compensation, Benefits, and Pay Equity

While our rewards programs vary around the world, we take a holistic approach to employee benefits. These may include flexible work arrangements, on-site conveniences, such as cafes, fitness centers, child development centers, competitive time-off programs, retirement benefits, and health and disability programs that are available to eligible employees when they need support. We are committed to rewarding, supporting, and developing our employees who make it possible to fulfill our mission to unite caring with discovery to create medicines that make life better for people around the world.

We are also committed to ensuring pay is administered equitably across our workforce. For more than 20 years, we have regularly conducted pay equity studies of our workforce in the U.S. and have more recently started conducting studies of our workforce outside of the U.S. While infrequent, we have made pay adjustments as warranted based on these analyses. We believe that pay equity is critical to our success in supporting a global, diverse, and inclusive workforce.

Employee Health and Safety

We strive to foster a healthy, vibrant work environment, which includes keeping our employees safe. We seek to create a companywide culture where best-in-class safety practices are consistently followed. To do this, we assess and continuously attempt to improve our companywide safety performance to promote the well-being of employees and to help safeguard communities where we operate. As the COVID-19 pandemic has evolved, we have taken various measures to protect and support the health and safety of our employees globally, including instituting travel restrictions and work-from-home arrangements, offering onsite testing and vaccination options where possible, and instituting safety precautions such as masking, social distancing, and enhanced cleaning practices. To support employee well-being in the U.S., we also enhanced local benefits related to health care, childcare, and time off. We believe this holistic approach and dedication to safety helps us be our best as we deliver on our company purpose to improve lives around the world.

Political and Policy Participation

As a biopharmaceutical company that develops treatment for serious diseases, we believe it is important for our company to be a responsible participant in global political and public policy debates. Our engagement in the political arena helps ensure that patients have access to needed medications. Through public policy engagement, we provide a way for all our locations globally to offer Lilly's perspective on the political environment in a manner that supports access to innovative medicines and a way to engage on issues specific to local business environments.

The board exercises governance oversight of our political expenditures and lobbying activities, ensuring our commitment to stewardship of corporate funds and risk minimization with respect to such activities. The Directors and Corporate Governance Committee is responsible for identifying current and emerging environmental, social, political, and governance trends and public policy issues that may affect the business operations, performance, or reputation of the company. In addition, the board receives regular updates at board meetings from our senior vice president, corporate affairs, and communications, which include updates on public policy issues and the company's political corporate activity, as needed. The board also receives semi-annual updates on political engagement, including information on the contributions made by our employee political action committee (LillyPAC) and the company, as well as trade association memberships.

In particular, our board is deeply engaged in oversight over Lilly's approach to drug pricing and access. Guided by this active oversight, Lilly has taken numerous steps to address drug pricing and access concerns. For example, Lilly introduced two additional lower-priced versions of Humalog in January 2020 and added the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which now enables customers with commercial insurance or no insurance to purchase their monthly prescription of all Lilly insulins for $35. In addition, in September 2021, the company announced that it lowered the list price of all Lilly's non-branded insulins, including Insulin Lispro Injection, by an additional 40% in the U.S. effective January 1, 2022, effectively reducing its list price to 2008 levels. These examples, among others, demonstrate Lilly's commitment to providing effective oversight over drug pricing and access.

We provide information on our website related to direct company contributions and LillyPAC contributions to support candidates for political office, political parties, officials, or committees in the U.S., as well as information regarding our trade association memberships and the company's oversight of these activities. In response to input from our stakeholders, we have reviewed and enhanced the information available on our corporate website and plan to continue to engage with stakeholders on this topic.

Board Education and Annual Performance Assessment

The company provides a comprehensive orientation process for incoming directors. Directors also attend regular continuing education sessions on areas of relevance or importance to our company, and we hold periodic mandatory training sessions for the Audit Committee.

Every year, the Directors and Corporate Governance Committee, together with the chair and the lead independent director, conducts a robust assessment of the performance of the board and board committees, and of all board processes, based on input from all directors. We also conduct an annual assessment of each director's performance, and every three years we conduct a detailed review of individual director performance when considering whether to nominate the director to a new three-year term.

Conflicts of Interest and Transactions with Related Persons

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. As outlined in the company's corporate governance guidelines, directors must disclose to the company all relationships that could 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 with respect to that issue. A director may be excused from board discussions and decisions on an issue related to an actual or apparent conflict, as appropriate.

In addition, a director's relationship with Lilly may give rise to an interest that conflicts, or appears to conflict, with the interests of another company, institution, or other stakeholder. A director must disclose his or her relationship with Lilly in connection with any scientific publication, using the International Committee of Medical Journal Editors (ICMJE) conflict of interest form for this purpose when possible. Each director must disclose his or her service on the board to his or her employer and any other organization with which the director has a relationship of trust and where the relationship with the

company is relevant. In addition, directors must follow the internal conflict of interest policies and procedures of each such organization.

Review and Approval of Transactions with Related Persons

The board has adopted a written policy and procedures for review, approval, and monitoring of transactions involving the company and related persons (including current executive officers, directors, or director nominees and persons who served in those roles at any time since the beginning of our last fiscal year, greater than five percent shareholders of the company, immediate family members of such persons, and related entities of such persons, including entities in which any of such persons is employed, is a general partner or principal or in which such person has a 10 percent or greater beneficial ownership interest). The policy covers any related person transaction that meets the minimum threshold for disclosure in this proxy statement under 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 preapproved by the Directors and Corporate Governance Committee of the board or another independent body of the board, who will approve the transaction only if the Directors and Corporate Governance Committee or such independent body determines it to be consistent with the interests of the company and its shareholders. In considering the transaction, the Directors and Corporate Governance Committee or such independent body will consider all relevant factors, including:

- the company's business rationale for entering into the transaction;
- the purpose of, and potential benefits to the company of, 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;
- the overall fairness of the transaction to the company;
- the approximate dollar value of the amount involved in the transaction, particularly as it relates to the related person;
- the related person's interest in the transaction; and
- any other information regarding the transaction or the related person that would be material to the company's shareholders in light of the circumstances of the particular transaction.

Procedures:

- Prior to entering into a transaction that may be a related person transaction, the related person (or the appropriate executive officer or director, in the case of immediate family members) is required to bring the matter to the attention of the chair of the board or the lead independent director, or alternatively, the Senior Vice President, General Counsel and Secretary.
- The chair of the board and the lead independent director jointly determine (or, if either is involved in the transaction, the other determines in consultation with the chair of the Directors and Corporate Governance Committee) whether the matter should be considered by the Directors and Corporate Governance Committee or another independent body of the board.
- If a director is involved in the transaction, he or she will be recused from all discussions and decisions relating to the transaction.
- The Directors and Corporate Governance Committee or such other independent body may approve the related person transaction only if the Directors and Corporate Governance Committee or such other independent body determines in good faith that, under all of the circumstances, the transaction is consistent with the interests of the company and its shareholders.
- The Directors and Corporate Governance Committee or such other independent body may impose such conditions as it deems appropriate on the company or the related person in connection with the approval of the related person transaction.
- If the transaction is recurring and is approved, the Directors and Corporate Governance Committee or such other independent body will review the related person transaction annually to determine whether it continues to be consistent with the interests of the company and its shareholders.

The Directors and Corporate Governance Committee or another independent body of the board retains the right to review and ratify related person transactions. In addition, the Directors and Corporate Governance Committee or such other

independent body may take or cause to be taken additional actions including, but not limited to, immediate discontinuation or rescission of the transaction, or modification of the transaction.

On August 23, 2021, the company entered into a multi-year research collaboration and licensing agreement with Lycia Therapeutics, Inc. (Lycia). Dr. Bertozzi, a former member of our board, is the academic founder of Lycia and held an approximate 10.1 percent ownership interest therein as of August 23, 2021. The transaction was approved in accordance with Lilly's related persons transactions policy and Dr. Bertozzi did not participate in any discussions or votes relating to the transaction. Immediately upon the company's entry into the collaboration and licensing agreement, Dr. Bertozzi resigned from our board. Lycia received an upfront payment of $35 million during the year ended December 31, 2021, and is eligible to receive over $1.6 billion in potential milestone payments based on the achievement of prespecified preclinical, development and commercial milestones, as well as tiered royalties from mid-single to low double-digits on sales resulting from the agreement.

Communication with the Board of Directors

You may send written communications to members of the board, including independent directors, addressed to:

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

Shareholder Engagement on Governance Issues

To ensure that a variety of perspectives are thoughtfully considered on several issues, each year the company engages large shareholders and other key constituents to discuss areas of interest or concern related to corporate governance, as well as any specific issues for the coming proxy season. Since our 2021 annual meeting of shareholders, we have spoken with a number of investors on an array of subjects, including board leadership; environmental, social and governance topics; drug pricing transparency and global access to our products; product quality and safety; key enterprise risks; executive compensation; DEI; and human capital management. We appreciate the thoughtful and constructive feedback that we receive from our stakeholders. While a few shareholders communicated differing views on some of our governance practices, the investors with whom we spoke were generally supportive of our performance and overall compensation and governance policies. This feedback has been discussed with our chair and CEO, the lead independent director, our Compensation Committee, and our Directors and Corporate Governance Committee, and it was a key input into board discussions on corporate governance topics. As a result of these discussions and its own deliberations, the board decided to recommend in favor of the three management proposals described below. We are committed to continuing to engage with our investors to ensure that their diverse perspectives on corporate governance and other issues are thoughtfully considered.

Management Proposals to Eliminate Classified Board, Supermajority Voting Requirements and to Give Shareholders the Ability to Amend the Company's Bylaws

Each year between 2007 and 2012, and again from 2019 through 2021, our management put forward 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 of our common stock, as required in the company's articles of incorporation. In addition, each year from 2010 through 2012, and again from 2018 through 2021, we submitted management proposals to eliminate the supermajority voting requirements. Those proposals also did not receive the required 80 percent vote.

Prior to 2012, these proposals received support ranging from 72 to 77 percent of our outstanding shares. In 2012, the vote in support of these proposals was approximately 63 percent of our outstanding shares, driven in part by a 2012 NYSE rule revision prohibiting brokers from voting their clients' shares on corporate governance matters absent specific instructions from such clients. In 2018, 2019, 2020, and 2021, the vote in support was approximately 62, 66, 69, and 70 percent of our outstanding shares, respectively.

After considering the interests of the company and our shareholders, we have resubmitted for consideration at the Annual Meeting management proposals to eliminate the classified board structure and supermajority voting requirements (see Items 4 and 5).

Our articles of incorporation and bylaws currently do not allow shareholders to amend the bylaws. This position reflects the default under Indiana law, which reserves the exclusive authority to amend the bylaws to the board of directors. After considering feedback from our shareholders, we are submitting a management proposal to amend our articles of incorporation to give shareholders the ability to amend our bylaws (see Item 6).

We will continue to engage with our shareholders on these and other topics to ensure that we continue to demonstrate strong corporate governance and accountability to shareholders.

Shareholder Proposals

Shareholder Proposals under Rule 14a-8

Shareholders interested in submitting a proposal considered for inclusion in the proxy statement for the 2023 annual meeting must follow the procedures set forth in Rule 14a-8 under the Securities Exchange Act of 1934. Proposals should be addressed to the General Counsel and Secretary and mailed to Lilly Corporate Center, Indianapolis, IN 46285. For convenience, emailed copies may also be sent to shareholderproposals@lilly.com. In general, to be eligible for inclusion in the proxy statement for the 2023 annual meeting, shareholder proposals must be received no later than November 18, 2022.

Other Shareholder Proposals

In addition, under section 1.8 of the company's bylaws, any shareholder of record wishing to propose any other business (i.e., not pursuant to Rule 14a-8) at the 2023 annual meeting of shareholders must give the company written notice no later than the close of business on November 18, 2022, and no earlier than the close of business on September 19, 2022. However, if the date of the 2023 annual meeting is changed by more than 30 days from May 1, 2023 (the date contemplated for the 2023 annual meeting as set forth in this proxy statement), a shareholder must give the company written notice no later than the close of business on the later of 120 days in advance of the 2023 annual meeting or 10 days following the date we first publicly announce the date of 2023 annual meeting. Any such notice must also comply with the timing, disclosure, procedural and other requirements as set forth in the bylaws. A copy of the bylaws is available online at lilly.com/leadership/governance.

Shareholder Recommendations and Nominations for Director Candidates

Shareholder Recommendations of Director Candidates

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

Chair of the Directors and Corporate Governance Committee
c/o General Counsel and Secretary
Lilly Corporate Center
Indianapolis, IN 46285

The candidate must meet the selection criteria described above under "Governance—Director Qualifications and Nomination Process—Director Qualifications" and must be willing and expressly interested in serving on the board.

Shareholder Nominations for Director Candidates for Inclusion in the Proxy Statement ("Proxy Access")

If a shareholder or group of shareholders wishes to nominate one or more director candidates to be included in the proxy statement for the 2023 annual meeting pursuant to the "proxy access" provisions of the company's bylaws (section 1.10), such shareholder or group of shareholders must give the company written notice no later than the close of business on November 18, 2022, and no earlier than the close of business on October 19, 2022. However, if the date of the 2023 annual meeting is changed by more than 30 days from May 1, 2023 (the date contemplated for the 2023 annual meeting as set forth in this proxy statement), a shareholder must give the company written notice no earlier than 150 days in advance of the date of the 2023 meeting and no later than the close of business on the later of 120 days in advance of the 2023 annual meeting or 10 days following the date we first publicly announce the date of 2023 annual meeting. Any such notice must also comply with the timing, disclosure, procedural, and other requirements as set forth in the bylaws.

Other Shareholder Nominations for Director Candidates

In addition, under Section 1.9 of the company's bylaws, any shareholder of record wishing to directly nominate a director candidate at the 2023 annual meeting of shareholders (i.e., to propose a candidate for election who is not otherwise nominated by the board through the recommendation process described above and not pursuant to the "proxy access" provisions described above) must give the company written notice no later than the close of business on November 18, 2022, and no earlier than the close of business on September 19, 2022. However, if the date of the 2023 annual meeting is changed by more than 30 days from May 1, 2023 (the date contemplated for the 2023 annual meeting as set forth in this proxy statement), a shareholder must give the company written notice no later than the close of business on the later of 120 days in advance of the 2023 annual meeting or 10 days following the date we first publicly announce the date of 2023 annual meeting. Any such notice must also comply with the timing, disclosure, procedural and other requirements as set forth in the bylaws. A copy of the bylaws is available online at lilly.com/leadership/governance.

We know of no other matters to be submitted to shareholders at the Annual Meeting other than the proposals referred to in this proxy statement.

Ownership of Company Stock

Common Stock Ownership by Directors and Executive Officers

The following table sets forth the number of shares of company common stock beneficially owned by the directors, the named executive officers, and all directors and executive officers as a group, as of February 22, 2022. On February 22, 2022, there were 952,347,126 shares of the company's common stock outstanding. None of the stock or stock units owned by any of the listed individuals has been pledged as collateral for a loan or other obligation.

	Common Stock[1]			
Beneficial Owners	Shares Owned[2]	Stock Units Distributable Within 60 Days[3]	Percent of Class	Stock Units Not Distributable Within 60 Days[4]
Ralph Alvarez	—	—	*	51,142
Anat Ashkenazi	31,603	—	*	11,499
Katherine Baicker, Ph.D.	—	—	*	21,381
Michael L. Eskew	—	—	*	45,237
J. Erik Fyrwald	100	—	*	68,742
Jamere Jackson	—	—	*	7,793
Kimberly H. Johnson	—	—	*	1,093
William G. Kaelin, Jr., M.D.	—	—	*	19,772
Juan R. Luciano	—	—	*	13,537
Diogo Rau	—	—	*	20,160
David A. Ricks	561,433 [5]	—	*	47,786
Marschall S. Runge, M.D., Ph.D.	—	—	*	15,234
Daniel Skovronsky, M.D., Ph.D.	148,559	—	*	15,675
Joshua L. Smiley	75,865 [6]	—	*	—
Gabrielle Sulzberger	—	—	*	720
Jackson P. Tai	46,936	—	*	15,159
Jacob Van Naarden	12,309	—	*	6,403
Karen Walker	—	—	*	4,967
All directors and current executive officers as a group (27 people):	**1,171,778**	**7,929**	*	**424,724**

* Less than 1.0 percent of the outstanding common stock of the company.

[1] The sum of the "Shares Owned" and "Stock Units Distributable Within 60 Days" columns represents the shares considered "beneficially owned" for purposes of disclosure in this proxy statement. Unless otherwise indicated in a footnote, each person listed in the table possesses sole voting and sole investment power with respect to their shares.

[2] This column includes the number of shares of common stock held directly or indirectly, including the number of 401(k) Plan shares held by the beneficial owners indirectly through the 401(k) Plan.

[3] This column sets forth restricted stock units that vest within 60 days of February 22, 2022.

[4] For the executive officers, this column reflects restricted stock units that will not vest within 60 days of February 22, 2022. For the non-employee directors, this column reflects the number of units representing the right to receive shares of company stock credited to the directors' accounts in the Lilly Directors' Deferral Plan.

[5] The shares shown for Mr. Ricks include 23,030 shares that are owned by a family foundation for which he is a director. Mr. Ricks has shared voting power and shared investment power with respect to the shares held by the foundation.

[6] Mr. Smiley resigned from his officer position on February 9, 2021. His share information is as of December 31, 2021, and his shares are excluded in the total for all directors and current executive officers as a group.

Common Stock Ownership of Certain Beneficial Holders

The following table sets forth the number of shares of company common stock beneficially owned as of December 31, 2021, unless otherwise indicated, by each person known to the company to beneficially own more than 5 percent of the outstanding shares of the company's common stock:

Name and Address		Number of Shares Beneficially Owned	Percent of Class*
Lilly Endowment Inc. (the Endowment) 2801 North Meridian Street Indianapolis, IN 46208	[1]	107,463,810	11.3%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	[2]	69,261,754	7.3%
BlackRock, Inc. 55 East 52nd Street New York, NY 10055	[3]	63,877,023	6.7%
The PNC Financial Services Group, Inc. 300 Fifth Avenue Pittsburgh, PA 15222	[4]	51,888,455	5.4%

*Percent of class is calculated based on the shares of our common stock outstanding as of February 22, 2022.

[1] Based on information provided to Lilly by the Endowment as of January 11, 2022, and a Schedule 13G/A filed by the Endowment with the SEC on January 27, 2022, the Endowment has sole voting and sole dispositive power with respect to all of its shares. The board of directors of the Endowment is composed of N. Clay Robbins, chairman & chief executive officer; Mary K. Lisher; William G. Enright; Daniel P. Carmichael; Charles E. Golden; Eli Lilly II; David N. Shane; Craig Dykstra; Jennett M. Hill, president; John C. Lechleiter; and Clarence Crain.

[2] Based solely on the Schedule 13G/A filed with the SEC on February 9, 2022, by The Vanguard Group, it beneficially owns 69,261,754 shares altogether. It does not have sole voting power with respect to any of its shares and it has shared voting power with respect to 1,357,292 of its shares. It has sole dispositive power with respect to 65,918,837 of its shares and shared dispositive power with respect to 3,342,917 of its shares.

[3] Based solely on the Schedule 13G/A filed with the SEC on February 8, 2022, by BlackRock, Inc., it has sole voting power with respect to 55,682,054 of its shares and sole dispositive power with respect to 63,877,023 of its shares.

[4] Based solely on the Schedule 13G/A filed with the SEC on February 11, 2022, by The PNC Financial Services Group, Inc.; PNC Bancorp, Inc.; PNC Bank, National Association (PNC Bank); PNC Delaware Trust Company; and PNC Investments LLC (collectively, PNC), PNC beneficially owns 51,888,455 shares altogether. PNC has sole voting power with respect to 1,848,764 of its shares and shared voting power with respect to 50,005,199 of its shares. PNC has sole dispositive power with respect to 1,515,580 of its shares and shared dispositive power with respect to 50,333,641 of its shares. Of the total shares of common stock reported for PNC above, 50,000,000 shares are held in the Eli Lilly and Company Compensation Trust account for which PNC Bank serves as directed trustee. As directed trustee, PNC Bank is deemed to share both voting power and investment discretion with respect to those 50,000,000 shares.

Compensation

Item 2. Advisory Vote on Compensation Paid to Named Executive Officers

Section 14A of the Securities Exchange Act of 1934 provides the company's shareholders with the opportunity to approve, on an advisory basis, the compensation of the company's named executive officers as disclosed in the proxy statement. Our compensation philosophy is designed to attract, engage, and retain highly talented individuals from a variety of backgrounds and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing the company's core values of integrity, excellence, and respect for people.

The Compensation Committee and the board believe that our executive compensation aligns well with our philosophy and with corporate performance. Executive compensation is an important matter for our shareholders. We routinely review our compensation practices and engage in ongoing dialogue with our shareholders to ensure our practices are aligned with stakeholder interests and reflect best practices.

We request shareholder approval, on an advisory basis, of the compensation of the company's named executive officers as disclosed in this proxy statement. As an advisory vote, this proposal is not binding on the company. However, the Compensation Committee values input from shareholders and will consider the outcome of the vote when making future executive compensation decisions. At our 2017 annual meeting of shareholders, our shareholders expressed a preference that advisory votes on executive compensation occur every year, as recommended by our board. Consistent with this preference, the board determined that the company would hold advisory votes on executive compensation on an annual basis until the next advisory vote on the frequency of advisory votes on executive compensation, which will occur no later than our 2023 annual meeting of shareholders.

Board Recommendation on Item 2

The board recommends that you vote **FOR** the approval, on an advisory basis, of the compensation paid to the named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the CD&A, the compensation tables, and related narratives provided below in this proxy statement.

Compensation Committee Matters

Background

Role of the Independent Consultant in Assessing Executive Compensation

The Compensation Committee has retained Frederic W. Cook & Co., Inc. (FW Cook) as its independent compensation consultant. FW Cook reports directly to the Compensation Committee, and it is not permitted to have any business or personal relationship with management or members of the Compensation Committee. FW Cook's responsibilities are to:

- review the company's total compensation philosophy, peer group, and target competitive positioning for reasonableness and appropriateness;
- review the company's executive compensation program and advise the Compensation Committee of evolving best practices;
- provide independent analyses and recommendations to the Compensation Committee on the CEO's pay;
- review the draft CD&A and related tables for the proxy statement;
- proactively advise the Compensation Committee on best practices for board governance of executive compensation; and
- undertake special projects at the request of the Compensation Committee chair.

FW Cook interacts directly with members of company management only on matters under the Compensation Committee's oversight and with the knowledge and permission of the Compensation Committee chair.

Role of Executive Officers and Management in Assessing Executive Compensation

With the oversight of the CEO and the senior vice president of human resources and diversity, the company's global compensation group formulates recommendations on compensation philosophy, plan design, and compensation for executive officers (other than the CEO, as noted below). The CEO provides the Compensation Committee with a performance assessment and compensation recommendation for each of the other executive officers. The Compensation Committee considers those recommendations with the assistance of its compensation consultant. The CEO and the senior vice president of human resources and diversity attend Compensation Committee meetings; however, they are not present for executive sessions or any discussion of their own compensation. Only non-employee directors and the Compensation Committee's consultant attend executive sessions.

The CEO does not participate in the formulation or discussion of his pay recommendations. He has no prior knowledge of the recommendations that FW Cook makes to the Compensation Committee.

Risk Assessment Process

As part of the company's overall enterprise risk management program, in 2021 (consistent with prior years), the Compensation Committee reviewed the company's compensation policies and practices and concluded that the programs and practices are not reasonably likely to have a material adverse effect on the company. The Compensation Committee noted numerous policy and design features of the company's compensation programs and governance structure that reduce the likelihood of inappropriate risk-taking, including, but not limited to:

- Only independent directors serve on the Compensation Committee
- The Compensation Committee engages its own independent compensation consultant
- The Compensation Committee has downward discretion to lower compensation plan payouts
- The Compensation Committee approves all adjustments to financial results that affect compensation calculations
- Different measures and metrics are used across multiple incentive plans that appropriately balance cash/stock, fixed/variable pay, and short-term/long-term incentives
- Incentive plans have predetermined maximum payouts
- Performance objectives are challenging but achievable
- Programs with operational metrics have a continuum of payout multiples based upon achievement of performance milestones, rather than "cliffs" that might encourage suboptimal or improper behavior
- A compensation recovery policy is in place for all members of senior management; negative compensation consequences can result in cases involving serious compliance violations

- Meaningful share ownership and retention requirements are in place for all members of senior management and the board.

Compensation Committee Report

The Compensation Committee evaluates and establishes compensation for executive officers and oversees the deferred compensation plan, management stock plans, and other management incentive and benefit programs. Management has the primary responsibility for the company's financial statements and reporting process, including the disclosure of executive compensation in the CD&A. With this in mind, the Compensation Committee has reviewed and discussed the CD&A with management. Based on this discussion, the Compensation Committee recommended to the board that the CD&A be included in this proxy statement and the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for filing with the SEC.

Compensation Committee

Ralph Alvarez, Chair
J. Erik Fyrwald
Kimberly H. Johnson
Juan R. Luciano
Karen Walker

Compensation Discussion and Analysis

This CD&A describes our executive compensation philosophy, the Compensation Committee's process for setting executive compensation, the elements of our compensation program, the factors the Compensation Committee considered when setting executive compensation for 2021, and how the company's results affected incentive payouts. This CD&A provides compensation information for our chief executive officer, David Ricks, our chief financial officer, Anat Ashkenazi, and our next three most highly compensated executive officers who were serving as executive officers on December 31, 2021, Daniel Skovronsky, Jacob Van Naarden, and Diogo Rau. The CD&A also includes our former chief financial officer, Joshua Smiley, who resigned from his officer position on February 9, 2021.

Name and principal occupation
 **David A. Ricks** Chair, President, and CEO
 **Anat Ashkenazi** Senior Vice President and Chief Financial Officer
 **Daniel Skovronsky, M.D., Ph.D.** Senior Vice President, Chief Scientific and Medical Officer and President, Lilly Research Laboratories
 **Jacob Van Naarden** Senior Vice President, CEO Loxo Oncology at Lilly and President, Lilly Oncology
 **Diogo Rau** Senior Vice President and Chief Information and Digital Officer

Four of our named executive officers, Ms. Ashkenazi, Mr. Van Naarden, Mr. Rau, and Mr. Smiley, served in their respective roles for a portion of 2021. Ms. Ashkenazi succeeded Mr. Smiley as senior vice president and CFO on February 9, 2021. Prior to becoming CFO, Ms. Ashkenazi served as senior vice president, controller, and chief financial officer, Lilly Research Laboratories.

Mr. Van Naarden became senior vice president, CEO of Loxo Oncology at Lilly and President of Lilly Oncology on September 5, 2021. He previously served as CEO of Loxo Oncology at Lilly. Mr. Rau joined Lilly as senior vice president and chief information and digital officer on May 17, 2021. Prior to joining Lilly, Mr. Rau served as senior director, information systems and technology for retail and online stores at Apple, Inc.

Our Philosophy on Compensation

At Lilly, our purpose is to unite caring with discovery to create medicines that make life better for people around the world. To do this, we must attract, engage, and retain highly talented individuals from a variety of backgrounds and motivate them to create long-term shareholder value by achieving top-tier corporate performance while embracing 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 shareholders and customers.

Objectives

Our compensation and benefits programs are based on the following objectives:

- **Reflect individual and company performance:** We reinforce a high-performance culture by linking pay with individual and company performance. As employees assume greater responsibilities, the proportion of total compensation based on absolute company performance, relative company performance and shareholder returns increases. We perform annual reviews to ensure our programs provide an incentive to deliver long-term, sustainable business results while discouraging excessive risk-taking or other adverse behaviors.
- **Attract and retain talented employees:** Compensation opportunity is market competitive and reflects the level of job impact and responsibilities. Retention of talent is an important factor in the design of our compensation and benefit programs.
- **Implement broad-based programs:** 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 executive compensation and benefit programs.

Say-on-Pay Results

At our 2021 annual meeting of shareholders, greater than 95 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.

Compensation Committee's Processes and Analyses

Setting Compensation

The Compensation Committee considers individual performance assessments, compensation recommendations from the CEO (with respect to each of the other executive officers), company performance, peer group data, input from its compensation consultant, and its own judgment when determining compensation for the company's executive officers.

- **Individual performance:** Generally, the independent directors, under the direction of the lead independent director, meet with the CEO at the beginning of each year to establish the CEO's performance objectives. At the end of the year, the independent directors meet to assess the CEO's achievement of those objectives along with other factors, including contribution to the company's performance, diversity, ethics, and integrity. This evaluation is used in setting the CEO's compensation opportunity for the next year.

  The Compensation Committee receives individual performance assessments and target compensation recommendations from the CEO for each of the remaining executive officers. Each executive officer's performance assessment is based on the achievement of objectives established at the start of the year, as well as other factors, including contribution to the company's performance, diversity, ethics, and integrity. The Compensation Committee considers these inputs, its knowledge of and interactions with each executive officer, and its judgment to develop a final individual performance assessment. For new executive officers, target compensation is set by the Compensation Committee at the time of promotion or offer.
- **Company performance:** Lilly performance is considered in multiple ways:
  - Overall prior year performance is a factor in setting target compensation for the coming year.

- At the beginning of each calendar year, annual performance goals are established and approved by the Compensation Committee. Performance against these annual goals is used to determine the short-term cash incentive payout.
- Prior to the annual equity grant, multi-year performance goals are established and approved by the Compensation Committee. Performance against these multi-year objectives is used to determine the long-term incentive equity payout.

- **Peer group analysis:** The Compensation Committee uses data from the peer group described below as a market check for compensation decisions but does not use this data as the sole basis for its compensation targets and does not target a specific position within that range of market data.
- **Input from independent compensation consultant:** The Compensation Committee considers the advice of its independent compensation consultant, FW Cook, when setting executive officer compensation.

Competitive Pay Assessment

Lilly's peer group is composed of companies that directly compete with Lilly, use a similar business model, and employ people with the unique skills required to operate an established biopharmaceutical company. The Compensation Committee selects a peer group whose median market cap and revenue are broadly like Lilly's. The Compensation Committee reviews the peer group at least every three years. The Compensation Committee established the following peer group in May 2018 for purposes of assessing competitive pay:

AbbVie	Bristol-Myers Squibb	Merck	Sanofi
Allergan*	Celgene*	Novartis	Shire*
Amgen	Gilead	Novo Nordisk	Takeda
AstraZeneca	GlaxoSmithKline	Pfizer	
Biogen	Johnson & Johnson	Roche	

*Market data unavailable for assessing competitive 2021 pay due to business mergers.

At the time of the review in May 2018, all peer companies were no greater than two times our revenue or market cap except Johnson & Johnson, Novartis, Pfizer, and Roche. The Compensation Committee included these four 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.

When determining pay levels for target compensation, the Compensation Committee considers an analysis of market competitive pay for each executive officer position (except CEO), along with internal factors such as the performance and experience of each executive officer. The independent compensation consultant for the Compensation Committee provides a similar analysis when recommending pay levels for the CEO. The CEO analysis includes a comparison of our CEO actual total direct compensation in the prior year to company performance on an absolute and relative basis. The analysis also includes a comparison of current target total direct compensation for our CEO to the most recently available data on CEO target total direct compensation for our peer group with an emphasis on peers that are headquartered in the U.S. On average, the named executive officers' target total direct compensation for 2021 was comparable to the median of the peer group.

Components of Our Compensation

Our 2021 executive compensation was primarily composed of three components:

- base salary
- annual cash bonus, which is generally based on company performance relative to internal targets for revenue, EPS, and the progress of our pipeline
- three different forms of equity incentives:
  - performance award, which is a performance-based equity award that vests over three years. Payout is based on the company's two-year growth in EPS relative to the median external analyst anticipated peer group EPS growth. The earned shares are then subject to a 13-month service-vesting period
  - shareholder value award, which is a performance-based equity award that pays out based on absolute company stock price growth measured over a three-year period, followed by a one-year holding period
  - relative value award, which is a performance-based equity award that pays out based on company TSR results relative to peers measured over a three-year period, followed by a one-year holding period.

Executives also receive a company benefits package, described below under "Other Compensation Practices and Information—Employee Benefits."

Adjustments to Reported Financial Results

The Compensation Committee has authority to adjust the company's reported revenue and EPS upon which incentive compensation payouts are determined to eliminate the distorting effect of unusual income or expense items. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items in any year in the performance period
- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

The Compensation Committee considers the adjustments approved by the Audit Committee for reporting non-GAAP EPS and other adjustments, based on guidelines approved by the Compensation Committee prior to the performance period. The Compensation Committee reviews and approves adjustments on a quarterly basis and may adjust payouts for items, including but not limited to, the impact of significant acquisitions or divestitures, the impact of share repurchases that differ significantly from business plan, and large swings in foreign exchange rates. Further details on the adjustments for 2021 and the rationale for making these adjustments are set forth in Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award." For ease of reference, throughout the CD&A and the other compensation disclosures, we refer simply to "revenue" and "EPS," but we encourage you to review the information in Appendix A to understand the adjustments from reported revenue and EPS that were approved.

The Compensation Committee also has general authority to apply downward discretion to bonus, performance award, shareholder value award, and relative value award payouts for individual or all executive officers.

1. Base Salary

In setting salaries, Lilly seeks to retain, motivate, and reward successful performers while maintaining affordability within the company's business plan. 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 competitiveness and are compared annually with peer group data.

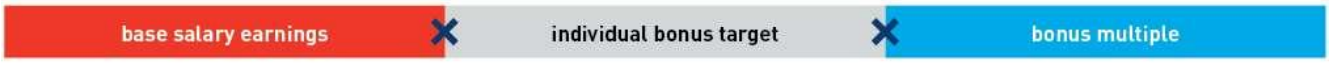
Base salary increases for 2021 were based on competitiveness. Generally, executive base salaries are positioned against market salaries, considering experience and performance over time. If an executive's salary is deemed competitive given their experience and performance, no salary increase is provided.

2. Annual Cash Bonus

The Bonus Plan is designed to reward the achievement of the company's annual financial and innovation objectives. All the named executive officers participated in the Bonus Plan during 2021. Mr. Van Naarden's participation in the Bonus Plan commenced at the time of his promotion on September 5, 2021. For the portion of the 2021 performance year prior to his promotion, Mr. Van Naarden participated in The Loxo Oncology, Inc. Bonus Plan (Loxo Bonus Plan), and in lieu of the payments he would have been eligible to receive thereunder, the Company paid Mr. Van Naarden a one-time payment, as further described below in the Summary Compensation Table.

Bonus Plan

The Compensation Committee sets performance goals and individual bonus targets for the Bonus Plan at the beginning of each year. The bonus is based on three areas of company performance measured relative to internal targets: revenue, EPS, and pipeline progress. The annual cash bonus payout is calculated as follows:



Actual payouts can range from 0 to 200 percent of an individual's bonus target. The Compensation Committee references the annual operating plan and pipeline objectives to establish performance targets and to assess the relative weighting for each objective. In 2021, the weightings remain unchanged from the prior year:

Lilly Goals	Weighting
Revenue performance	25%
EPS performance	50%
Pipeline progress	25%

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



Loxo Bonus Plan

Performance goals for the Loxo Bonus Plan are determined by a committee consisting of senior company leadership (the Loxo Oncology Steering Committee) and mirror the goals under the Bonus Plan; provided, however, that eligible employees have an additional bonus opportunity that may be awarded for the attainment of other goals specific to oncology research and development (Additional Cash Award). These other goals can vary annually, but typically include preclinical, clinical, regulatory actions, external innovation and scientific publication milestones. These additional goals associated with molecule advancement and proof of concept milestones typically carry more weight in the Additional Cash Award results.

The annual Loxo Bonus Plan payout is calculated by multiplying a participant's base earnings, the individual bonus target and the sum of the Bonus Plan and Additional Cash Award payout multiples.

Base Earnings x Individual Bonus Target x (Bonus Plan Multiple + Additional Cash Award Multiple)

Actual payouts for the Loxo Bonus Plan can range from 0 to 400 percent of an individual's bonus target (0 to 200 percent for the Bonus Plan performance and 0 to 200 percent for the Additional Cash Award). Goal attainment is determined by the Loxo Oncology Steering Committee.

3. Equity Incentives

The company grants three types of equity incentives to executives and certain other employees: performance awards that are designed to focus leaders on multi-year operational performance relative to peer companies, shareholder value awards that are intended to align earned compensation with long-term growth in shareholder value, and relative value awards which encourage TSR outperformance compared to our peer group. These awards, when considered together, align with shareholder interests by incenting long-term operational excellence, shareholder return and peer company outperformance without encouraging excessive risk-taking behaviors. The Compensation Committee has the discretion to adjust payout from an equity award granted to an executive officer downward from the amount yielded by the applicable formula.

Performance Awards

Performance awards vest over three years. Payouts are based on achieving EPS growth targets over a two-year performance period, followed by an additional 13-month service-vesting period for executive officers. During the service-vesting period, the award is held in the form of restricted stock units. The growth-rate targets are set relative to the median external analyst anticipated EPS growth for our peer group over the same performance period. These awards do not accumulate dividends during the two-year performance period, but they do accumulate dividend equivalent units during the service-vesting period.

The Compensation Committee believes EPS growth is an effective measure of operational performance because it is closely linked to shareholder value, is broadly communicated to the public, is understood by Lilly employees, and allows for objective comparisons to the performance of Lilly's peer group. Consistent with the objectives established by the Compensation Committee, Lilly company performance exceeding the expected peer group median results in above-target payouts, while Lilly company performance lagging the expected peer group median results in below-target payouts. Possible payouts range from 0 percent to 175 percent of the target number of shares, depending on Lilly EPS growth over the performance period.

The measure of EPS used in the performance award program differs from the measure used in the Bonus Plan in two ways. First, the EPS goal in the Bonus Plan is set with reference to internal goals that align to our annual operating plan, while the EPS goal in the performance award program is set based on the external analyst anticipated EPS growth rates of our peer group. Second, the Bonus Plan measures EPS over a one-year period, while the performance award program measures EPS over a two-year period. In any given year, the Bonus Plan may pay above target while the performance award pays below target (or vice versa).

Shareholder Value Awards

Shareholder value awards are earned based on Lilly's share price performance. Shareholder value awards pay above target if Lilly's stock outperforms an expected rate of return and below target if Lilly's stock underperforms that expected rate of return. The expected rate of return is based on the three-year TSR that a reasonable investor would consider appropriate when investing in a basket of large-cap U.S. companies, as determined by the Compensation Committee. The minimum price to achieve target is calculated by multiplying the starting share price of Lilly's stock by the three-year compounded expected rate of return less Lilly's dividend yield. Shareholder value awards have a three-year performance period, and any shares paid are subject to a one-year holding requirement. No dividends are accrued during the performance period. Possible payouts are based on share price growth and range from 0 to 175 percent of the target number of shares. Executive officers receive no payout if Lilly's TSR for the three-year period is zero or negative.

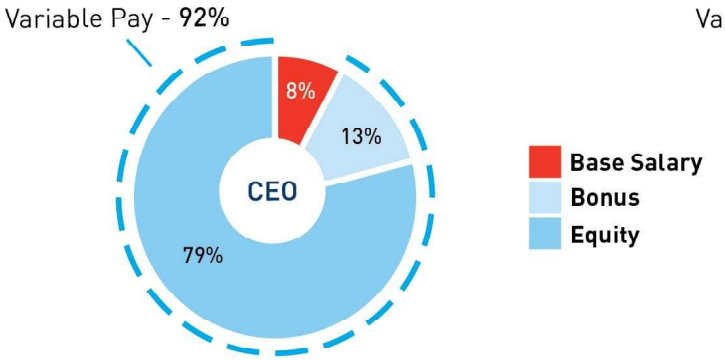
Relative Value Awards

Relative value awards are earned based on Lilly's TSR performance relative to our peer group. The minimum performance to achieve target is a TSR that is equal to the median TSR performance for the peer group. Relative value awards have a three-year performance period, and any shares paid are subject to a one-year holding requirement. No dividends are accrued during the performance period. Executive officers receive no payout if Lilly's TSR for the three-year period is 30 or more percentage points below the median TSR performance for the peer group over the same time period. Possible payouts range from 0 to 175 percent of the target number of shares.

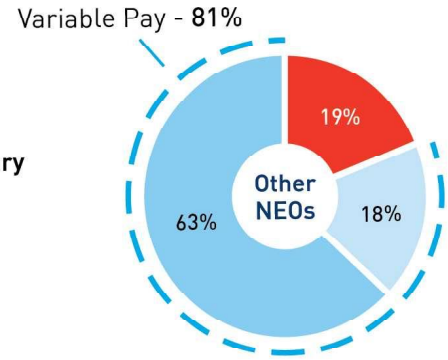
Pay for Performance

The mix of compensation for our named executive officers reflects Lilly's desire to link executive compensation with individual and company performance. As reflected in the charts below, a substantial portion of the target pay for executive officers is performance-based. The annual cash bonus and equity payouts are contingent upon company performance, with the bonus factoring in performance over a one-year period, and equity compensation factoring in performance over multi-year periods. The charts below depict the annualized mix of target compensation for Lilly's CEO and the average for the other named executive officers annualized for Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau. The Other Named Executive Officers chart below excludes Mr. Smiley.

CEO 2021 Target Compensation Mix



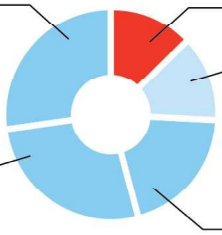
Other Named Executive Officers (NEOs) 2021 Target Compensation Mix



COMPENSATION DETAILS

Shareholder Value Award
- Promotes delivery of shareholder returns
- Measures 3-year stock price appreciation
- No payout occurs if TSR performance is less than or equal to 0%
- Payouts must be held for at least 1 year

Relative Value Award
- Encourages relative outperformance within the industry
- Measures 3-year relative TSR performance compared to peers
- No payout occurs if Lilly's TSR lags peer group median TSR by 30 percentage points or more
- Payouts must be held for at least 1 year



Base Salary
- Encourages talent attraction and retention

Bonus
- Drives annual financial performance and pipeline progression
- Measures revenue and non-GAAP EPS compared to business plan and pipeline progress against internal objectives

Performance Award
- Rewards efficient business execution
- Measures 2-year non-GAAP EPS growth vs. projected peer non-GAAP EPS growth
- Includes an additional 13-month service vesting period

Target Total Compensation

Performance Review Process

In setting 2021 target compensation for the named executive officers, the Compensation Committee considered individual contributions, Lilly's performance during 2020, internal relativity, peer group data, and input from the CEO for named executive officers other than himself.

Evaluation of Individual Named Executive Officer Performance

A summary of the Compensation Committee's review of individual named executive officer performance in 2020 that influenced decisions on 2021 target compensation for these executives is provided below:

David Ricks, Chair, President, and CEO:

In accordance with the company's corporate governance guidelines, the independent directors conducted an assessment of Mr. Ricks' performance led by the lead independent director. The independent directors believe the company largely met or exceeded its combined financial and strategic goals for 2020 under Mr. Ricks' leadership. In 2020, Mr. Ricks and his team:

- Launched several innovative medicines to patients globally. Additionally, 25 new indications for already marketed medicines were launched to patients around the world

- Progressed 17 potential new medicines into Phase I clinical development from both internal research and external sources
- Initiated actions against the global COVID-19 pandemic, including (1) implementing diagnostic testing in our community, (2) discovering and developing SARS-CoV-2 neutralizing antibodies leading to the Emergency Use Authorization for bamlanivimab, and (3) striving to protect the health and safety of Lilly employees while continuing to provide life saving medicines
- Completed the acquisition of Dermira, expanded Lilly's strategic collaboration with Innovent for Tyvyt globally and completed seven preclinical asset transactions
- Continued to drive a cross-company productivity agenda resulting in savings that funded increased investment in research and development
- Implemented a strategy that improved diversity, equity and inclusion across the company, increased the representation of women and minorities in management and conducted pay equity studies to promote equality in pay. The company was ranked #3 on the DiversityInc top 50 companies list and received Women Business Collaborative CEO recognition for excellence in gender diversity
- Led the development of Lilly's comprehensive Racial Justice Commitment to help improve equity within Lilly and the communities in which it operates
- Achieved certain 2020 environmental performance goals first established in 2013, such as greenhouse gas emissions, energy efficiency, waste efficiency and wastewater
- Established new long-term goals for environmental, safety and governance goals for 2030

In addition, the company was named one of the world's most ethical companies by the Ethisphere Institute.

Anat Ashkenazi, Senior Vice President and Chief Financial Officer:
Ms. Ashkenazi became Senior Vice President and Chief Financial Officer (CFO) on February 9, 2021. Prior to becoming CFO, Ms. Ashkenazi served as senior vice president and controller, and led corporate strategy at Lilly Research Laboratories. As controller, Ms. Ashkenazi:

- Played a key role in the company achieving its financial targets in 2020 and in the company's efforts to reallocate financial resources in the fight against COVID-19
- Led the company's broad productivity agenda for several years, having been a key partner to the operating units across the value cycle and played a key role in all business development activities
- Led the company's 2021 strategic plan and 2021 operating plan
- Sponsors Lilly's Veteran Network, an employee resource group focused on recruiting and advancing people who served in the country's military

Daniel Skovronsky, M.D., Ph.D., Senior Vice President, Chief Scientific and Medical Officer and President, Lilly Research Laboratories:
Dr. Skovronsky advanced innovation for patients as the company's chief scientific and medical officer. His contributions in 2020 include:

- Advanced innovative medicines through the product pipeline leading to numerous first approvals, including bamlanivimab (under Emergency Use Authorization from the FDA) in partnership with AbCellera. Additionally, 25 new indications for already-marketed medicines were launched to patients globally
- Achieved several significant positive data readouts for Verzenio (Phase III in the adjuvant setting), LOXO-305 (advanced b-cell malignancies), Jardiance (cardiovascular outcomes in heart failure with reduced ejection fraction), mirikizumab (psoriasis head-to-head versus secukinumab), and tirzepatide (type 2 diabetes)
- Co-led the acquisition of Dermira, expanded Lilly's strategic collaboration with Innovent for Tyvyt globally, and completed seven preclinical asset transactions
- Sped research resulting in 17 potential new medicines advancing to Phase I clinical development including both internally discovered molecules and molecules sourced externally via business development
- Led the company's efforts in the fight against SARS-CoV-2 including (1) implementing diagnostic testing at our headquarters in Indianapolis, Indiana and (2) discovering and developing SARS-CoV-2 neutralizing antibodies leading to the Emergency Use Authorization for bamlanivimab
- Enhanced strategies to further reduce drug discovery and development timelines, leading to earlier product launch
- Led DEI strategies in research and development to improve innovation and productivity.

Jacob Van Naarden, Senior Vice President, CEO Loxo Oncology at Lilly and President, Lilly Oncology:
Mr. Van Naarden served as chief operating officer of Loxo Oncology at Lilly when the company acquired Loxo Oncology, Inc. in 2019, and was later named CEO of Loxo Oncology at Lilly in January 2021. Mr. Van Naarden played an integral role with numerous oncology assets including the approval of Retevmo. As CEO of Loxo Oncology at Lilly, Mr. Van Naarden has built a

science-first drug discovery and development organization. He has led numerous business development transactions and contributed to the company's scientific efforts in other therapeutic areas.

Diogo Rau, Senior Vice President and Chief Information and Digital Officer:
Mr. Rau joined Lilly as senior vice president and chief information and digital officer in May 2021. Prior to joining Lilly, Mr. Rau served as senior director of information systems and technology for retail and online stores and most recently served as the top executive of information technology for retail and online stores at Apple, Inc. (Apple). During his 10 years at Apple, he led the development and implementation of the technology supporting the Apple Online Store and Apple retail stores, including e-commerce platform, mobile point of sale, the Apple Store App, and systems used by store team members. Prior to joining Apple, Mr. Rau was a partner with McKinsey & Company.

In connection with Mr. Smiley's resignation as an officer on February 9, 2021, the Compensation Committee took action to reduce his 2020 Bonus Plan payout to zero, reduce his 2018-2020 shareholder value award and cancel all his other outstanding equity incentive awards granted in 2019 and 2020. The foregoing terms were agreed to by Mr. Smiley pursuant to his release agreement effective as of February 9, 2021. The material terms of the agreement were previously disclosed in the company's 2021 proxy statement.

Target Compensation

The information below reflects total compensation at target for named executive officers for 2021. The actual compensation received is summarized below in "Compensation Results."

Rationale for Changes to Named Executive Officer Target Compensation

The Compensation Committee established the 2021 target total compensation for each named executive officer, except Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau, based on the named executive officer's 2020 performance, internal relativity, and peer group data. The Compensation Committee approved target total compensation for Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau upon their promotion or hire, as applicable, based on job scope, market data, experience, and internal relativity.

Base Salary

The following table shows the approved annualized salary for each named executive officer. Mr. Ricks and Dr. Skovronsky did not receive an adjustment to base pay in 2021 and the remaining executive officers' 2021 annualized salaries were effective on the day they assumed their new responsibilities. Each named executive officer's actual base salary earned during 2021 is reflected in the Summary Compensation Table in the "Executive Compensation" section of this proxy statement.

Name[2]	2020 Annual Base Salary Effective March 1, 2020	2021 Annual Base Salary Effective March 7, 2021	Increase
Mr. Ricks	$1,500,000	$1,500,000	0 %
Ms. Ashkenazi	N/A [1]	$900,000	N/A
Dr. Skovronsky	$1,000,000	$1,000,000	0 %
Mr. Van Naarden	N/A [1]	$675,000	N/A
Mr. Rau	N/A [1]	$670,000	N/A

[1] Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau were not named executive officers in 2020.

[2] For the period beginning on January 1, 2021 through February 8, 2021, Mr. Smiley's annual base salary was $1,000,000, and for the transition period beginning on February 9, 2021 through July 31, 2021, Mr. Smiley earned a biweekly base salary of $9,000.

Annual Cash Bonus Targets

Based on a review of internal relativity, peer group data, and individual performance, the Compensation Committee retained the same percent-of-salary bonus target as in 2020 for Mr. Ricks, increased the bonus target for Dr. Skovronsky to 100 percent, set Ms. Ashkenazi's bonus target at 100 percent, and set Mr. Van Naarden's and Mr. Rau's bonus targets at 80 percent. Bonus targets are shown in the table below as a percentage of each named executive officer's earnings from base salary in 2021:

Name[3]	2020 Bonus Target	2021 Bonus Target
Mr. Ricks	150 %	150 %
Ms. Ashkenazi	N/A [1]	100 %
Dr. Skovronsky	95 %	100 %
Mr. Van Naarden	N/A [1]	80 % [2]
Mr. Rau	N/A [1]	80 % [2]

[1] Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau were not named executive officers in 2020.
[2] Mr. Van Naarden's Bonus Plan participation was initiated upon his promotion on September 5, 2021. Prior to his promotion, Mr. Van Naarden participated in the Loxo Bonus Plan, which entitled him to a target bonus equal to 60% of base salary.
[3] Pursuant to the terms of his separation agreement with the company, Mr. Smiley was not entitled to an annual bonus for the 2020 and 2021 calendar years. See "Agreement with Former Chief Financial Officer" for additional information.

Equity Incentives - Target Grant Values

For 2021 equity grants, the Compensation Committee set the total target values for named executive officers based on market data, individual performance, and internal relativity. Named executive officers have 35 percent of their equity target allocated to shareholder value awards and relative value awards, respectively, and 30 percent to performance awards. Total target values for the 2020 and 2021 equity grants to the named executive officers were as follows:

Name[5]	2020 Annual Equity Grant	2021 Annual Equity Grant
Mr. Ricks	$12,500,000	$14,000,000
Ms. Ashkenazi	N/A [1]	$2,200,000 [2]
Dr. Skovronsky	$4,100,000	$4,700,000
Mr. Van Naarden	N/A [1]	$1,300,000 [3]
Mr. Rau	N/A [1]	N/A [4]

[1] Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau were not named executive officers in 2020.
[2] Ms. Ashkenazi's 2021 award was granted prior to her transition into the Chief Financial Officer role. As such, her 2021 annual equity grant aligns with the terms and conditions associated with her prior position.
[3] Mr. Van Naarden was not an executive officer at the time of the 2021 annual equity grant. As such, his 2021 annual equity grant aligns with the terms and conditions associated with his prior position. Mr. Van Naarden also received equity awards of restricted stock units valued at (i) $1,650,000 in February 2021 representing transition equity following Lilly's acquisition of Loxo Oncology, Inc. and (ii) $1,000,000 in December 2021 associated with Mr. Van Naarden's promotion.
[4] Mr. Rau started with Lilly in May 2021, after annual grants were issued; however, he received an equity grant of restricted stock units valued at $4,000,000 upon hire to replace a portion of the outstanding equity he forfeited after leaving Apple and the missed opportunity for a 2021 annual equity award from Lilly.
[5] Pursuant to the terms of his separation agreement with the company, Mr. Smiley was not entitled to an annual equity grant in 2021. See "Agreement with Former Chief Financial Officer" for additional information.

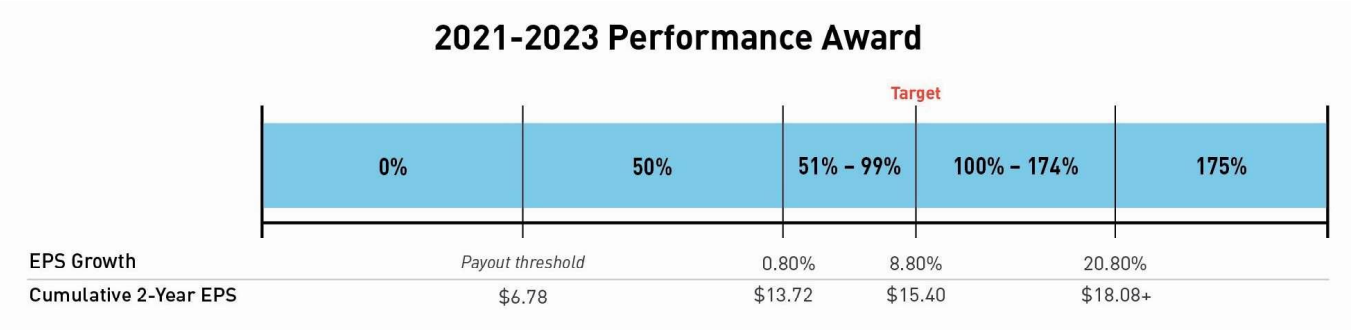
Performance Goals for Incentive Programs

Annual Cash Bonus Goals

The Compensation Committee established the company performance targets using the company's 2021 annual operating plan, which was approved by the board in 2020. These targets are described below under "Compensation Results."

Performance Award

In February 2021, the Compensation Committee established a compounded two-year EPS growth target of 8.8 percent per year based on investment analysts' EPS growth estimates for our peer group companies at that time. To translate the 8.8 percent per year growth goal into a two-year cumulative EPS target, the Compensation Committee applied the target growth to the 2020 adjusted non-GAAP EPS of $6.78 to obtain target 2021 results of $7.38 and then applied the goal growth again to the target 2021 results to obtain target 2022 results of $8.02. The target 2021 and 2022 results were added together to yield a two-year cumulative EPS target of $15.40. Payouts for the 2021-2023 performance award can range from 0 to 175 percent of the target number of shares, as shown below:



Shareholder Value Award

For purposes of establishing the stock price target for the shareholder value awards, the starting price was $152.16 per share, the average closing stock price for all trading days in November and December 2020. The target share price was established using the expected annual rate of return for large-cap companies (8 percent), less an assumed Lilly dividend yield (2.23 percent). To determine payout, the ending price will be the average closing price of company stock for all trading days in November and December 2023. The award is designed to deliver no payout to executive officers if the shareholder return (including projected dividends) is zero or negative. Possible payouts based on share price ranges are illustrated in the grid below.

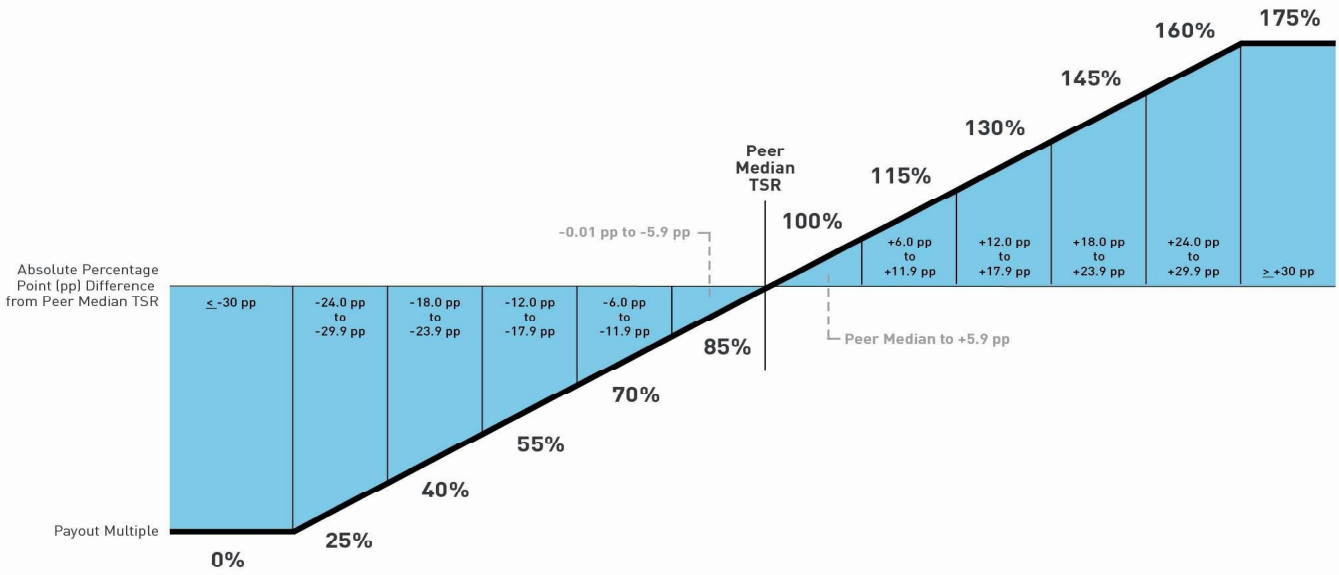
2021-2023 Shareholder Value Award

				Target			
% of Target	0%	50%	75%	100%	125%	150%	175%
Stock Price	<$140.70	$140.70 – $160.36	$160.37 – $180.02	$180.03 – $199.69	$199.70 – $219.36	$219.37 – $239.03	>$239.03
Compounded Annual Stock Price Growth	< -2.6%	-2.6% – 1.8%	1.8% – 5.8%	5.8% – 9.5%	9.5% – 13.0%	13.0% – 16.2%	>16.2%

Relative Value Award

The relative value award is based on the three-year Lilly TSR performance compared to our peer group. To determine payout, the TSR performance is calculated for Lilly and its peers. This calculation compares the average closing price of each company's stock for all trading days in November and December 2020 to the average closing price of each company's stock for all trading days in November and December 2023, assuming reinvestment of dividends, to obtain the TSR for each company. The median TSR for the peer companies is then subtracted from Lilly's TSR to determine what payout has been earned. For example, if Lilly's TSR was 55 percent over the three-year performance period and the median peer company performance was 41 percent, Lilly would have outperformed by 14 percentage points (55 percent - 41 percent). This outperformance would have resulted in a 130 percent payout based on the payout ranges depicted below.

2021-2023 Relative Value Award



Compensation Results

The information in this section reflects the amounts paid to named executive officers under the Bonus Plan and for equity awards granted in prior years for which the relevant performance period ended in 2021.

Lilly Performance

In 2021, we exceeded our revenue target and nearly achieved our EPS target. We also made significant pipeline advances. Key pipeline highlights include U.S. approval of a new indication for Verzenio® for certain people with high-risk, early breast cancer; the Emergency Use Authorization for the administration of bamlanivimab and etesevimab together for the treatment of COVID-19 in patients at high risk for hospitalization; the regulatory submission for tirzepatide for type 2 diabetes in the U.S. to which Lilly applied a priority review voucher, as well as submission in Europe and Japan; positive topline results from donanemab's TRAILBLAZER-ALZ, a Phase II study evaluating the efficacy and safety of donanemab compared to placebo in

patients with early symptomatic Alzheimer's disease; updated data for pirtobrutinib, from the LOXO-305 BRUIN Phase I/II clinical trial in mantle cell lymphoma and other non-Hodgkin lymphomas, as well as in chronic lymphocytic leukemia and small lymphocytic lymphoma, at the 2021 American Society of Hematology Annual Meeting; positive topline results from mirikizumab's Phase III LUCENT-1 and 2 studies evaluating the efficacy and safety of mirikizumab compared to placebo for the treatment of patients with moderately-to-severely active ulcerative colitis; and positive topline results from three studies of lebrikizumab's Phase III program evaluating the efficacy and safety of lebrikizumab in people with moderate-to-severe atopic dermatitis. See "Proxy Statement Summary—Highlights of 2021 Performance."

By the end of 2021, Lilly exceeded its two-year EPS growth target for the performance award and our three-year stock price growth target for the shareholder value award. The company began granting relative value awards in 2020; therefore, no relative value awards were granted or earned for the 2019-2021 performance period. The discussion below details the measures used in each program, what the performance goal was to obtain target performance, how performance outcomes were assessed and what the Compensation Committee approved as the final payout multiple.

Bonus Plan

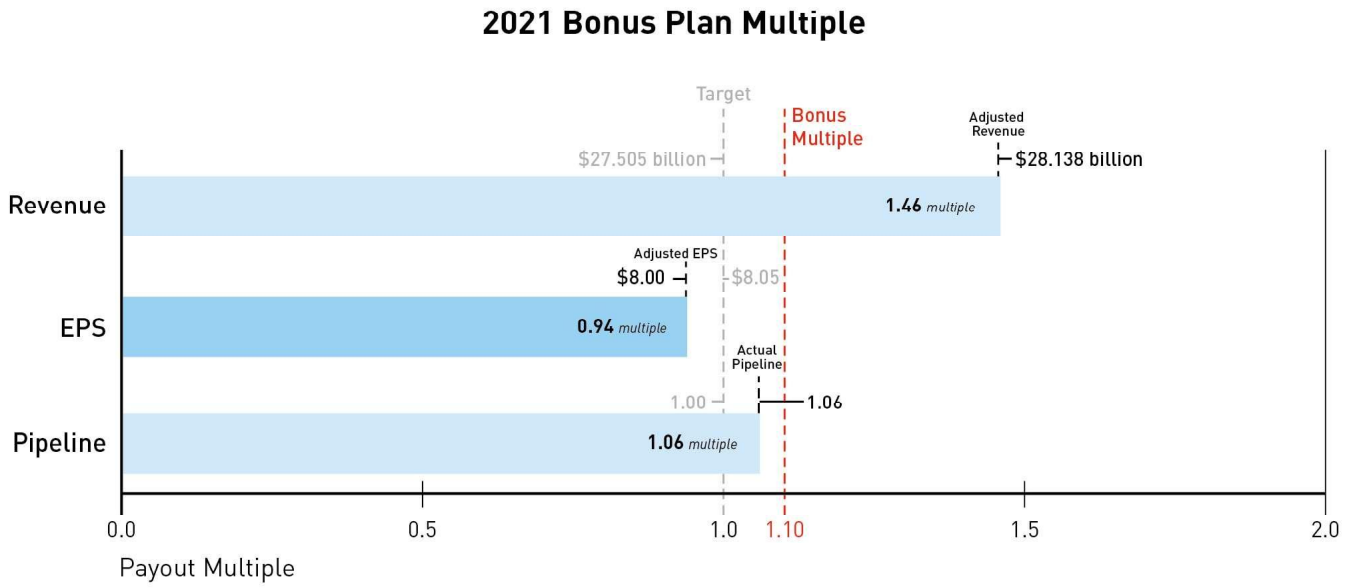
The company utilized revenue, EPS, and pipeline progress to incent the achievement of 2021 company objectives. Each measure contributes to the final payout multiple on a weighted basis: revenue (25 percent), EPS (50 percent), and pipeline progress (25 percent). Each performance measure is assessed a payout multiple of 0 to 200 percent.

For purposes of the bonus, the Compensation Committee adjusted revenue and non-GAAP EPS to exclude estimated savings from certain discrete and unplanned performance items from the bonus plan multiple. The Science and Technology Committee's assessment of the company's product pipeline achievements is detailed below:

Activity	Objective	Achievement
Approvals	2 new drug first approvals 14-15 other approvals	0 new drug first approvals 18 other approvals
Potential new drug Phase III starts	3	2
Potential new drug Phase I starts	16-17	12
Potential new indication or line extension Phase III starts	5	9
Plan Boldly	Meet industry benchmark for speed of development	Exceeded industry benchmark for speed of development
Deliver to Launch	Meet planned project timelines	Met planned project timelines
Qualitative Assessment	Assessment of the chief scientific and medical officer's evaluation of performance against strategic objectives	

Based on the recommendation of the Science and Technology Committee, the Compensation Committee approved a pipeline multiple of 1.06.

The company's performance compared to targets as well as the resulting bonus multiple, is illustrated below:



For additional information on financial results, see Appendix A, "Summary of Adjustments Related to the Annual Cash Bonus and Performance Award."

When combined, the revenue, EPS, and pipeline multiples yielded a bonus multiple of 1.10.



Loxo Bonus

The Loxo Bonus Plan Committee assessed the level of oncology research and development goal achievement compared to the preclinical, clinical, regulatory actions, external innovation and scientific disclosure milestones established at the beginning of the year. On a payout continuum between 0 – 200 percent, the Loxo Bonus Plan Committee determined the Additional Cash Award portion of the Loxo Bonus would pay at 200 percent. To determine the final Loxo Bonus payout multiple, the Loxo Bonus Plan Committee added the Bonus Plan multiple to the Additional Cash Award multiple to yield a total payout of 310 percent.

Bonus Payments

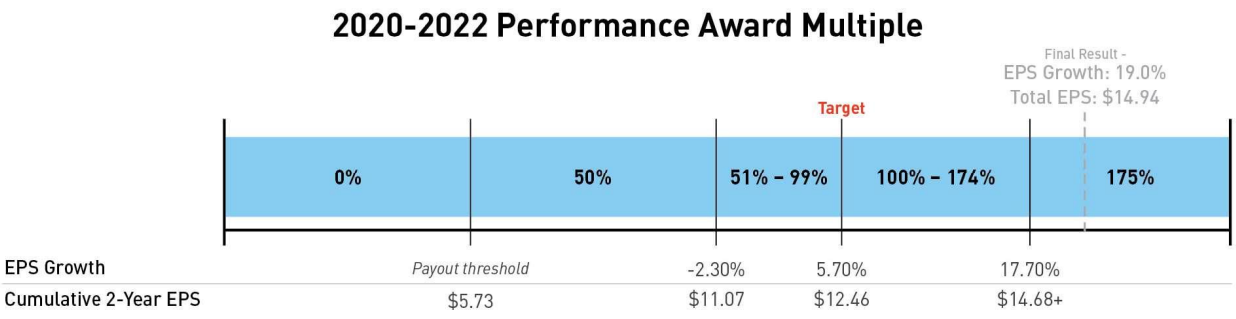
The 2021 bonuses paid to the applicable named executive officers under the Bonus Plan were as follows:

Name[3]	2021 Bonus ($)
Mr. Ricks	$2,475,000
Ms. Ashkenazi	$907,816
Dr. Skovronsky	$1,100,000
Mr. Van Naarden[1]	$1,029,507
Mr. Rau[2]	$362,831

[1] A portion of the 2021 bonus payable to Mr. Van Naarden was attributable to achievement of the performance goals under the Loxo Bonus Plan. The 2021 Loxo Bonus Plan achievement was 310%. The amount of the 2021 bonus paid to Mr. Van Naarden in the table above reflects his achievement under both the Loxo Bonus Plan and the Bonus Plan, in each case, pro-rated to reflect the period in 2021 during which he was a participant in the respective plan. Mr. Van Naarden also received a one-time cash payment of $218,715 in lieu of compensation and benefits he was no longer eligible to receive following his transition to his new role, including compensation for the difference between the bonus he would have earned under the Loxo Bonus Plan and the Lilly Bonus Plan, and changes in his expected out-of-pocket costs for healthcare expenses.
[2] Mr. Rau joined Lilly in May 2021, and the table reflects the pro-rated bonus paid for the portion of the year for which he was employed.
[3] Pursuant to the terms of his separation agreement with the company, Mr. Smiley was not entitled to an annual bonus for calendar year 2021. See "Agreement with Former Chief Financial Officer" for additional Information.

2020-2022 Performance Awards

The target cumulative EPS for the 2020-2022 performance award was originally set in the first quarter of 2020, reflecting expected peer group EPS growth of 5.7 percent each year and a total target EPS of $13.13 over the two-year performance period. In December 2020, the Compensation Committee updated the award to align with Lilly's decision to adjust EPS results to remove the impact of gains and losses on investments in equity securities from its non-GAAP measures and compensation program outcomes. The updated award retained the Compensation Committee's decision to establish a compounded two-year EPS growth target of 5.7 percent per year, but the growth was applied to an adjusted 2019 non-GAAP EPS of $5.73 that excluded gains and losses on investments in equity securities. Using this methodology, the adjusted EPS target became $12.46 for the two-year performance period of 2020-2021. The company's actual adjusted EPS over the performance period was $14.94 representing a growth rate of 19.0 percent.



For Mr. Ricks and Dr. Skovronsky, shares earned for the 2020-2021 performance period are subject to an additional 13-month service-vesting period and are shown in the table below as restricted stock units. Because she was not an executive officer when the award was granted, Ms. Ashkenazi's 2020-2021 performance award was paid in shares of Lilly common stock and not subject to the additional service-vesting period. Mr. Van Naarden was an employee of Loxo Oncology, Inc. and did not receive a performance award grant in 2020. Mr. Rau joined Lilly in May 2021, so he did not receive a performance award grant in 2020.

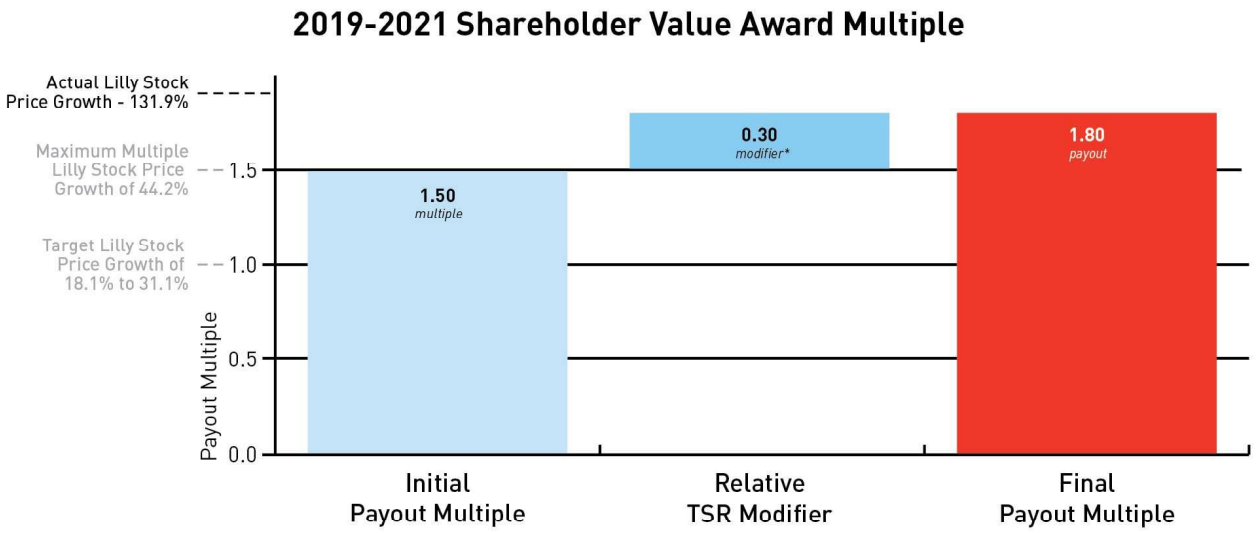
Name[3]	Target Shares	Shares Earned	RSUs
Mr. Ricks	27,306	N/A	47,786
Ms. Ashkenazi	2,731	4,779	N/A
Dr. Skovronsky	8,957	N/A	15,675
Mr. Van Naarden[1]	N/A	N/A	N/A
Mr. Rau[2]	N/A	N/A	N/A

[1] Mr. Van Naarden was an employee of Loxo Oncology, Inc. and did not receive a performance award grant in 2020.
[2] Mr. Rau joined Lilly in May 2021, so he did not receive a performance award grant in 2020.
[3] Pursuant to the terms of his separation agreement with the company, Mr. Smiley forfeited his entire 2020-2022 performance award. See "Agreement with Former Chief Financial Officer" for additional information.

2019-2021 Shareholder Value Award

The target stock price range of $132.73 to $147.37 (18.1 percent to 31.1 percent total stock price growth) for the 2019-2021 shareholder value award was set in 2019 based on a beginning stock price of $112.38, which was the average closing price for Lilly stock for all trading days in November and December 2018. The ending stock price of $260.57 represents stock price growth of 131.9 percent over the relevant three-year period resulting in a payout multiple of 1.50.

The relative TSR modifier applies to those individuals who were executive officers when the award was granted. The cumulative TSR median for the company's peer group was 24.6 percent, and Lilly's TSR over the same period was 145.7 percent. Given this positive relative performance, Lilly's relative TSR was 121.1 percentage points above the peer group median resulting in a maximum award payout of 180 percent of target (SVA payout multiple of 150 percent multiplied by the 1.2 modifier = 180 percent final payout).



**Over the performance period, Lilly's cumulative TSR was 145.7 percent and the median peer cumulative TSR was 24.6 percent for a total outperformance of 121.1 percent. This performance resulted in a maximum relative TSR modifier of +20 percent, based on a grid approved by the Compensation Committee at the beginning of the performance period, and a final payout multiple modification of 0.30 (initial payout multiple of 1.50 * 20 percent = 0.30). Therefore, the final payout multiple is 1.50 + 0.30 = 1.80.*

The number of shares paid to each of our named executive officers for the 2019-2021 performance period were as follows:

Name[3]	Target Shares	Shares Paid Out
Mr. Ricks	68,382	123,088
Ms. Ashkenazi[1]	3,633	5,450
Dr. Skovronsky	22,794	41,029
Mr. Van Naarden[2]	N/A	N/A
Mr. Rau[2]	N/A	N/A

[1] The TSR modifier did not apply to Ms. Ashkenazi's 2019-2021 shareholder value award payouts since she was not an executive

officer at the time of grant.
[2] Mr. Van Naarden was an employee of Loxo Oncology, Inc. in 2019 and so he did not receive a shareholder value award grant in 2019. Mr. Rau joined Lilly in May 2021, so he did not receive a shareholder value award grant in 2019.
[3] Pursuant to the terms of his separation agreement with the company, Mr. Smiley forfeited his entire 2019-2021 shareholder value award. See "Agreement with Former Chief Financial Officer" for additional information.

Other Compensation Practices and Information

Employee Benefits

The company offers core employee benefits coverage to:

- provide our workforce with a reasonable level of financial support in the event of illness or injury
- provide post-retirement income
- enhance productivity and job satisfaction through benefit programs that focus on overall well-being.

The benefit programs available to executive officers are offered to all eligible U.S. employees and include benefits such as medical and dental coverage, disability insurance, and life insurance. In addition, the 401(k) Plan and The Lilly Retirement Plan (the Retirement Plan) are intended to provide U.S. employees a reasonable level of retirement income reflecting employees' careers with the company. To the extent that any employee's calculated retirement benefit exceeds Internal Revenue Service (IRS) limits for amounts that can be paid through a qualified plan, the company also offers a nonqualified pension plan and a nonqualified savings plan. These plans provide only the difference between the calculated benefits and the applicable IRS limits, and the formula is the same for all participating employees. The cost of employee benefits is partially borne by the employee, including each executive officer.

Perquisites

The company provides limited perquisites to executive officers. In response to the COVID-19 pandemic, the company considered various actions to promote the health and safety of its employees, including its named executive officers, recognizing that the company's important objectives during this critical time would be significantly disadvantaged without the full services of its employees. As part of this process, the company has encouraged Mr. Ricks' personal use of the corporate aircraft (up to a maximum incremental cost of $60,000) as a means to (i) increase his time available for company business; and (ii) protect his health and safety. The incremental cost of personal use of the corporate aircraft is included as a perquisite in the Summary Compensation Table under the heading "All Other Compensation."

The Lilly Deferred Compensation Plan

Members of senior management may defer receipt of part or all of their cash compensation under The Lilly Deferred Compensation Plan (Deferred Compensation Plan), which allows executives to save for retirement in a tax-effective way at minimal cost to the company. Under this unfunded plan, amounts deferred by the executive are credited at an interest rate of 120 percent of the applicable federal long-term rate, as described in more detail following the "Nonqualified Deferred Compensation in 2021" table.

Severance Benefits

Except in the case of certain terminations following a change in control of the company, the company is generally not obligated to pay severance to executive officers upon termination of their employment; any such payments are at the discretion of the Compensation Committee.

The company has adopted change-in-control severance pay plans for nearly all employees, including executive officers. The plans are intended to preserve employee morale and productivity and encourage retention in the face of the disruptive impact of an actual or rumored change in control. In addition, the plans are intended to align executive and shareholder interests by enabling executives to evaluate corporate transactions that may be in the best interests of the shareholders and other constituents of the company without undue concern over whether the transactions may jeopardize the executives' own employment.

Highlights of Our Change-in-Control Severance Plans

- all regular employees are covered
- double trigger required
- no tax gross-ups
- up to two-year pay protection
- 18-month benefit continuation

Although benefit levels may differ depending on the employee's job level and seniority, the basic elements of the plans are comparable for all eligible employees:

- **Double trigger:** Unlike "single trigger" plans that pay out immediately upon a change in control, our plans require a "double trigger"—a change in control followed by an involuntary loss of employment within two years. This is consistent

with the plans' intent to provide employees with financial protection upon loss of employment. With respect to unvested equity, performance to the date of the change in control will be used to determine the number of shares earned under an award, but vesting does not accelerate immediately upon a change in control. Rather, the performance-adjusted awards will convert to time-based restricted stock units that continue to vest with the new company. Shares will pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the awards.

- **Covered terminations:** Employees are eligible for payments if, within two years of the change in control, their employment is terminated (i) without cause by the company or (ii) for good reason by the employee, each as defined in the plans. See "Compensation—Executive Compensation—Payments upon Termination or Change in Control" for a more detailed discussion, including a discussion of what constitutes a change in control.
- **Employees who suffer a covered termination receive up to two years of pay and 18 months of benefits protection:** These provisions ensure employees a reasonable period of protection of their income and core employee benefits.
    - Severance payment. Eligible terminated employees would receive a severance payment ranging from six months' to two years' base salary. Executives are all eligible for two years' base salary plus two times the then-current year's target bonus.
    - Benefit continuation. Basic employee benefits such as health, dental, life insurance and long-term disability would continue for 18 months following termination of employment, unless the individual becomes eligible for coverage with a new employer. All employees would receive an additional two years of both age and years-of-service credit for purposes of determining eligibility for retiree medical and dental benefits.
- **Accelerated vesting of equity awards:** Any unvested equity awards would vest at the time of a covered termination.
- **Excise tax:** In some circumstances, the payments or other benefits received by the employee in connection with a change in control could exceed limits established under Section 280G of the Internal Revenue Code. The employee would then be subject to an excise tax on top of normal federal income tax. The company does not reimburse employees for these taxes. However, the amount of any change-in-control-related benefit will be reduced to the 280G limit if the effect would be to deliver a greater after-tax benefit than the employee would receive with an unreduced benefit.

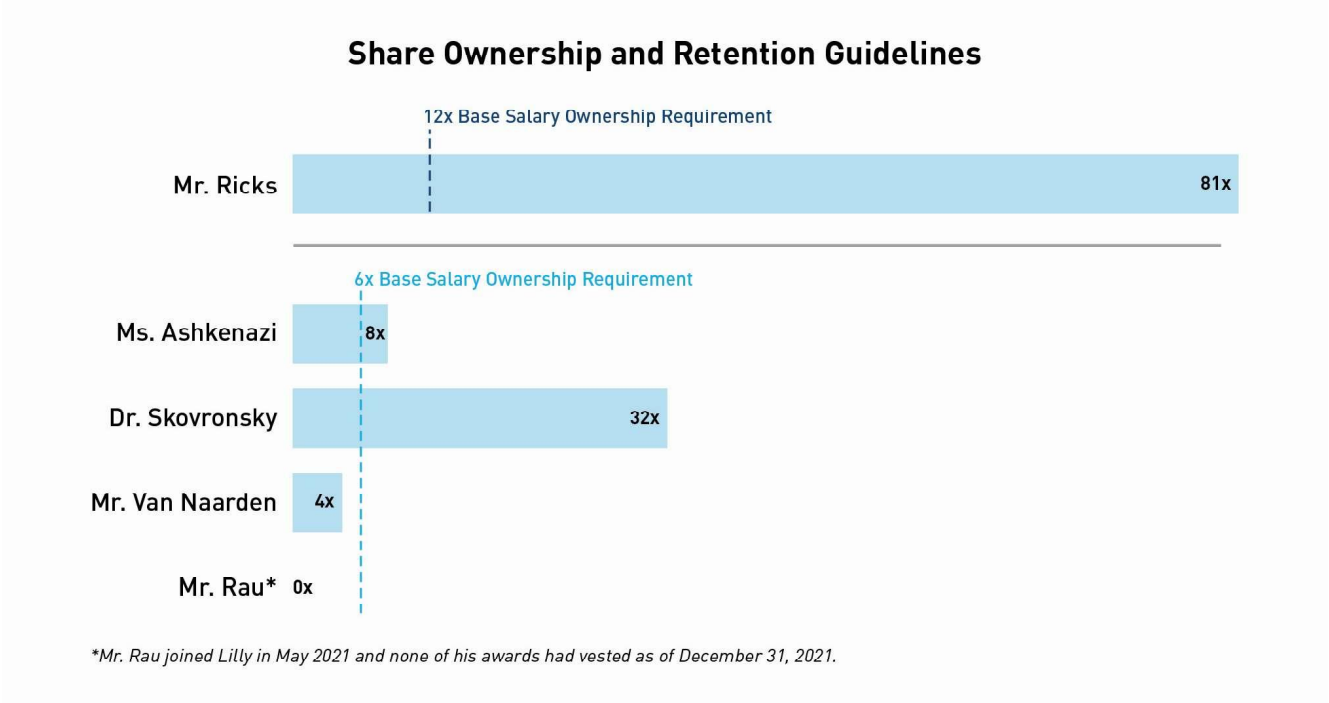
Share Ownership and Retention Guidelines

Share ownership and retention guidelines help create direct alignment of interests between senior management and shareholders over the longer term. Lilly has established a formal share ownership policy under which the CEO and other senior executives are required to acquire and hold Lilly shares in an amount representing a multiple of base salary. During 2021, the Compensation Committee approved an increase to share ownership requirements for the CEO and the other named executive officers as follows:

	Previous Share Ownership Requirement	Current Share Ownership Requirement
CEO	6X Base Salary	12X Base Salary
Other NEOs	4X Base Salary	6X Base Salary

Until ownership of the required number of shares is reached, an executive officer must hold 50 percent of all shares, net of tax, from all equity payouts. Executive officers are also required to hold all shares received from equity program payouts, net of taxes, for at least one year, even once share ownership requirements have been met. For performance awards granted to executive officers, this holding requirement is met by the 13-month service-vesting period after the end of the performance period.

All of the named executive officers are compliant with the share ownership guidelines. The following graphic shows each respective named executive officer's guideline and each named executive officer's holdings as of December 31, 2021, other than Mr. Smiley, who resigned effective as of February 9, 2021.



**Mr. Rau joined Lilly in May 2021 and none of his awards had vested as of December 31, 2021.*

Prohibition on Hedging and Pledging Shares

Non-employee directors and employees, including executive officers, are not permitted to hedge their economic exposures to company stock through short sales or derivative transactions. Non-employee directors and employees, including executive officers, are prohibited from pledging any company stock (i.e., using company stock as collateral for a loan or trading shares on margin).

Executive Compensation Recovery Policy

Pursuant to our executive compensation recovery policy (the Executive Compensation Recovery Policy), all incentive awards are subject to forfeiture upon termination of employment prior to the end of the performance or vesting period or for disciplinary reasons. In addition, the Compensation Committee adopted updates to the Executive Compensation Recovery Policy to be effective January 1, 2022 (the Executive Compensation Recovery Policy, as updated and effective January 1, 2022, the Updated Executive Compensation Recovery Policy) which provides the Compensation Committee broad discretion to claw back non-qualified retirement benefits accrued beginning January 1, 2022, from any member of senior management whose misconduct results in a material violation of law or company policy that causes significant harm to the company or who fails in his or her supervisory responsibility to prevent such misconduct by others.

Pursuant to the Executive Compensation Recovery Policy, the company could recover all or a portion of any incentive compensation and, effective as of January 1, 2022, pursuant to the Updated Executive Compensation Recovery Policy, the company could also recover non-qualified retirement benefits accrued beginning January 1, 2022, from an executive officer in the case of materially inaccurate financial statements or material errors in the performance calculation, whether such inaccuracies or errors result in a restatement and whether or not the executive officer has engaged in wrongful conduct.

The Executive Compensation Recovery Policy covers any incentive compensation awarded or paid to a member of senior management during the last three years and, effective as of January 1, 2022, pursuant to the Updated Executive Compensation Recovery Policy, covers non-qualified retirement benefits accrued beginning January 1, 2022. Subsequent changes in status, including retirement or termination of employment, do not affect the company's rights to recover compensation under the policy.

The company will disclose decisions to take action pursuant to the Updated Executive Compensation Recovery Policy in its proxy materials when required by, and in compliance with, SEC rules and regulations and other applicable laws. In addition, when legally permissible to do so, the company will disclose a decision to take action under this policy when the facts and circumstances of the matter that triggered application of the policy have been publicly disclosed in the company's filings with the SEC and where disclosure can be made without prejudicing the company and its shareholders.

The principles of our robust Updated Executive Compensation Recovery Policy are also incorporated into the terms of our incentive plans and award agreements, which, in the event of misconduct meeting the standards described above, allow the Compensation Committee to reduce or cancel awards or payouts that would otherwise have been earned based on company performance. Action by the Compensation Committee to reduce or cancel awards or payouts can occur during or following the relevant performance period.

Executive Compensation

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) [1]	Non-Equity Incentive Plan Compensation ($) [2]	Change in Pension Value ($) [3]	All Other Compensation ($) [4]	Total Compensation ($)
David A. Ricks	2021	$1,500,000	$0	$14,966,000	$2,475,000	$2,442,235	$126,750	$21,509,985
Chair, President, and Chief Executive Officer	2020	$1,483,333	$0	$13,587,500	$2,625,500	$5,883,924	$128,372	$23,708,629
	2019	$1,400,000	$0	$12,222,000	$2,919,000	$4,658,242	$84,000	$21,283,242
Anat Ashkenazi	2021	$850,432	$0	$2,453,000 [7]	$907,816	$395,335	$51,026	$4,657,609
Senior Vice President and Chief Financial Officer	2020	N/A	N/A	N/A [7]	N/A	N/A	N/A	N/A
	2019	N/A	N/A	N/A [7]	N/A	N/A	N/A	N/A
Daniel M. Skovronsky, M.D., Ph.D.	2021	$1,000,000	$0	$5,024,300	$1,100,000	$342,792	$60,000	$7,527,092
Senior Vice President, Chief Scientific and Medical Officer and President, Lilly Research Laboratories	2020	$983,333	$0	$4,456,700	$1,102,317	$751,223	$58,539	$7,352,112
	2019	$900,000	$0	$4,074,000	$1,188,450	$446,521	$54,000	$6,662,971
Jacob Van Naarden	2021	$745,649 [5]	$218,715 [6]	$4,099,500	$1,029,507	$16,909	$12,462	$6,122,742
Senior Vice President, CEO Loxo Oncology at Lilly and President, Lilly Oncology	2020	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Diogo Rau[7]	2021	$412,308	$250,000 [8]	$4,000,000	$362,831	$44,519	$31,670	$5,101,328
Senior Vice President and Chief Information and Digital Officer	2020	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Joshua L. Smiley	2021	$230,831	$0	$0 [10]	$0 [9]	$0	$13,850	$244,681
Former Senior Vice President and Chief Financial Officer	2020	$983,333	$0	$3,587,100 [10]	$0 [9]	$2,685,276	$58,539	$7,314,248
	2019	$895,833	$0	$3,142,800 [10]	$1,182,948	$2,073,070	$53,750	$7,348,401

[1] This column shows the grant date fair value of performance awards, shareholder value awards and relative value awards for all named executive officers and additional restricted stock unit awards for Mr. Van Naarden and Mr. Rau computed in accordance with FASB ASC Topic 718. See Note 12 of the consolidated financial statements in the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 for additional detail regarding assumptions underlying the valuation of equity awards. All values in the "Stock Awards" column were based upon the probable outcome of performance conditions as of the grant date, which vary year to year.

For purposes of comparison, the supplemental table below shows the total target grant values of stock awards approved by the Compensation Committee:

Name	2019 Total Equity	2020 Total Equity	2021 Total Equity
Mr. Ricks	$10,500,000	$12,500,000	$14,000,000
Ms. Ashkenazi	N/A *	N/A *	$2,200,000
Dr. Skovronsky	$3,500,000	$4,100,000	$4,700,000
Mr. Van Naarden	N/A *	N/A *	$4,099,500 **
Mr. Rau	N/A *	N/A *	$4,000,000 ***
Mr. Smiley	$2,700,000 ****	$3,300,000 ****	$0 ****

*Ms. Ashkenazi, Mr. Van Naarden, and Mr. Rau were not executive officers in 2019 and 2020.

**Mr. Van Naarden's total equity includes $1,300,000 non-executive officer annual equity grant when he held his former role with Loxo Oncology, Inc. and $2,650,000 of restricted stock units ($1,650,000 granted in February 2021 representing transition equity following Lilly's acquisition of Loxo Oncology, Inc. and $1,000,000 granted in December 2021 associated with Mr. Van Naarden's promotion).

***Mr. Rau received a sign-on restricted stock unit to replace a portion of the outstanding equity he forfeited after leaving Apple and the missed opportunity for a 2021 annual equity award from Lilly.

****As a result of Mr. Smiley's resignation as an officer on February 9, 2021, his 2019 and 2020 equity awards were cancelled and he did not receive an equity grant in 2021.

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2021-2023 performance award included in the Summary Compensation Table, which will pay out in February 2024.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,200,000	$7,350,000
Ms. Ashkenazi	$0	$1,100,000	$1,925,000
Dr. Skovronsky	$0	$1,410,000	$2,467,500
Mr. Van Naarden	$0	$650,000	$1,137,500
Mr. Rau*	N/A	N/A	N/A
Mr. Smiley**	N/A	N/A	N/A

*Mr. Rau joined Lilly in May 2021 and did not receive a 2021-2023 performance award grant.

**As a result of Mr. Smiley's resignation as an officer on February 9, 2021, Mr. Smiley did not receive a 2021-2023 performance award grant.

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2021-2023 shareholder value award included in the Summary Compensation Table, which will pay out in February 2024.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,900,000	$8,575,000
Ms. Ashkenazi	$0	$550,000	$962,500
Dr. Skovronsky	$0	$1,645,000	$2,878,750
Mr. Van Naarden	$0	$325,000	$568,750
Mr. Rau*	N/A	N/A	N/A
Mr. Smiley**	N/A	N/A	N/A

*Mr. Rau joined Lilly in May 2021 and did not receive a 2021-2023 shareholder value award grant.

**As a result of Mr. Smiley's resignation as an officer on February 9, 2021, Mr. Smiley did not receive a 2021-2023 shareholder value award grant.

The table below shows the minimum, target, and maximum payouts (valuing the number of shares that would vest at each payout level using the grant date fair value of a share of Lilly common stock on the date of grant) for the 2021-2023 relative value award included in the Summary Compensation Table, which will pay out in February 2024.

Name	Minimum Payout	Target Payout	Maximum Payout
Mr. Ricks	$0	$4,900,000	$8,575,000
Ms. Ashkenazi	$0	$550,000	$962,500
Dr. Skovronsky	$0	$1,645,000	$2,878,750
Mr. Van Naarden	$0	$325,000	$568,750
Mr. Rau*	N/A	N/A	N/A
Mr. Smiley**	N/A	N/A	N/A

*Mr. Rau joined Lilly in May 2021 and did not receive a 2021-2023 relative value award grant.

** As a result of Mr. Smiley's resignation as an officer on February 9, 2021, Mr. Smiley did not receive a 2021-2023 relative value award grant.

[2] Payments under the Bonus Plan for performance in the years represented. For Mr. Van Naarden, the amount in this column reflects payments under the Bonus Plan and the Loxo Bonus Plan for 2021.

[3] The amounts in this column reflect the change in pension value for each individual, calculated by an actuary. The changes in pension values in 2021 were driven by pay changes, an additional year of credited service, offset by changes in actuarial assumptions. The design of the pension benefit plan did not change. See the Pension Benefits in 2021 table below for information about the standard actuarial assumptions used. No named executive officer received preferential or above-market earnings on deferred compensation.

[4] The amounts in this column are company matching contributions into each individual's 401(k) and nonqualified savings plan contributions. For Mr. Ricks, the amount in this column reflects $90,000 of company matching contributions and nonqualified savings plan contributions and $36,750 of aggregate incremental cost for his personal use of the corporate aircraft. The aggregate incremental costs for personal use of our aircraft are calculated based on our variable operating costs, which include crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs, fuel, trip-related maintenance, and other smaller variable costs. Because the vast majority of the use of the corporate aircraft is for business purposes, fixed costs such as aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries are not included. For Mr. Rau, the amount in this column reflects $18,914 of company matching contributions and nonqualified savings plan contributions and $12,756 of moving expense reimbursements. The company does not reimburse executives for taxes outside of the limited circumstance of taxes related to a domestic employee relocation or a prior international assignment.

[5] For Mr. Van Naarden, this column reflects $668,399 in salary payments and $77,250 of unused vacation pay from Loxo Oncology, Inc.

[6] This column includes the amount which represents a one-time cash payment of $218,715 in lieu of compensation and benefits Mr. Van Naarden was no longer eligible to receive following his transition to his new role, including compensation for the difference between the bonus he would have earned under the Loxo Bonus Plan and the Lilly Bonus Plan, and changes in his expected out-of-pocket costs for healthcare expenses.

[7] Mr. Rau joined Lilly in May 2021, and the amount in this column reflects the pro-rated annual incentive paid for the portion of the year for which he was employed.

[8] Mr. Rau received a cash sign-on award of $250,000 to replace a portion of the outstanding equity with near-term vesting provisions that he forfeited after leaving Apple and to cover other incidental expenses associated with his transition to the role with Lilly.
[9] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, he did not receive a bonus payout for 2020 or 2021.
[10] As a result of Mr. Smiley's resignation as an officer on February 9, 2021, his 2019 and 2020 equity awards were cancelled and he did not receive a 2021 equity grant. Mr. Smiley realized $0 from these awards.

Grants of Plan-Based Awards During 2021

The compensation plans under which the grants in the following table were made are described in the CD&A above and consist of the Bonus Plan (a non-equity incentive plan) and the Amended and Restated 2002 Lilly Stock Plan which provides for performance awards, shareholder value awards, relative value awards and restricted stock units, among others.

To receive a payout under the performance award, the shareholder value award and the relative value award issued annually to executive officers, the participant must remain employed with the company through the end of the relevant award period, retire after December 31 of the year in which the award was issued or be subject to termination events outside of the control of the employee (death, disability, plant closing or reduction in workforce). Annual awards issued to executive officers are also generally subject to a one-year non-compete post company exit, other than the award of restricted stock units granted to Mr. Van Naarden on December 28, 2021, which does not include a non-compete covenant. The annual awards issued to executive officers (other than Mr. Van Naarden's award of restricted stock units granted on December 28, 2021) provide that if the former executive officer works for a direct competitor within the one-year restriction period, all annual cycle awards issued during the 2021 annual cycle or later would be forfeited. Awards issued to employees who were not executive officers at the time of grant generally do not include the non-compete or vesting into retirement provisions.

No dividends accrue on either performance awards, shareholder value awards, or relative value awards during the performance period. During the performance award 13-month service-vesting period and restricted stock unit award restriction period, non-preferential dividends accrue and are paid upon vesting.

				Estimated Possible Payouts Under Non-Equity Incentive Plan Awards [1]			Estimated Possible and Future Payouts Under Equity Incentive Plan Awards			All Other Stock or Option Awards: Number of Shares of Stock, Options, or Units	Grant Date Fair Value of Equity Awards
Name	Award	Grant Date[2]	Compensation Committee Action Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (# shares)	Target (# shares)	Maximum (# shares)		
Mr. Ricks		—	—	$562,500	$2,250,000	$4,500,000					
	2021-2023 PA [3]	2/8/2021	12/11/2020				10,576	21,151	37,014		$5,166,000
	2021-2023 SVA [4]	2/8/2021	12/11/2020				11,271	22,541	39,447		$4,900,000
	2021-2023 RVA [5]	2/8/2021	12/11/2020				8,545	17,090	29,908		$4,900,000
										—	
Ms. Ashkenazi		—	—	$206,322	$825,287	$1,650,575					
	2021-2023 PA [3]	2/8/2021	12/11/2020				2,770	5,540	9,695		$1,353,000
	2021-2023 SVA [4]	2/8/2021	12/11/2020				1,176	2,351	4,114		$ 550,000
	2021-2023 RVA [5]	2/8/2021	12/11/2020				959	1,918	3,357		$ 550,000
										—	
Dr. Skovronsky		—	—	$250,000	$1,000,000	$2,000,000					
	2021-2023 PA [3]	2/8/2021	12/11/2020				3,551	7,101	12,427		$1,734,300
	2021-2023 SVA [4]	2/8/2021	12/11/2020				3,784	7,567	13,242		$1,645,000
	2021-2023 RVA [5]	2/8/2021	12/11/2020				2,869	5,738	10,042		$1,645,000
										—	
Mr. Van Naarden		—	—	$111,164	$444,655	$1,429,696					
	2021-2023 PA [3]	2/8/2021	12/11/2020				1,637	3,273	5,728		$ 799,500
	2021-2023 SVA [4]	2/8/2021	12/11/2020				695	1,389	2,431		$ 325,000
	2021-2023 RVA [5]	2/8/2021	12/11/2020				567	1,134	1,985		$ 325,000
	RSU [6]	2/8/2021	10/15/2020							5,461	$1,100,000
	RSU [6]	2/8/2021	10/15/2020							2,785	$ 550,000
	RSU [6]	12/28/2021	12/21/2021							3,618	$1,000,000
Mr. Rau		—	—	$82,462	$329,846	$659,692					
	RSU [7]	6/1/2021	3/10/2021							20,160	$4,000,000

[1] These columns show the threshold, target and maximum payouts for performance under the Bonus Plan. For Mr. Van Naarden, the columns show the threshold, target, and maximum payouts for performance under both the Bonus Plan and the Loxo Bonus, pro-rated for the portion of the year he

was participating in each plan. The Bonus Plan payouts range from 0 to 200 percent of target and the Loxo Bonus payouts range from 0 to 400 percent of target. The Bonus Plan and Loxo Bonus payments for 2021 performance were 110 percent of target and 310 percent of target, respectively. Actual payouts are shown in the Summary Compensation Table in the column titled "Non-Equity Incentive Plan Compensation."

[2] To assure grant timing is not manipulated for employee gain, the annual grant date is established in advance by the Compensation Committee.

[3] This row shows the possible payouts for the 2021-2023 performance awards ranging from 0 to 175 percent of target. This performance award will pay out in February 2024. Ms. Ashkenazi and Mr. Van Naarden were not executive officers at the time of grant and, therefore, their performance awards will not be subject to the 13-month service vesting period and will payout in February 2023.

[4] This row shows the range of payouts for the 2021-2023 shareholder value awards. This shareholder value award will pay out in February 2024, with payouts ranging from 0 to 175 percent of target. We measure the fair value of the shareholder value award on the grant date using a Monte Carlo simulation model.

[5] This row shows the range of payouts for the 2021-2023 relative value awards. This relative value award will pay out in February 2024, with payouts ranging from 0 to 175 percent of target. We measure the fair value of the relative value award on the grant date using a Monte Carlo simulation model.

[6] These grants were made outside of the normal annual cycle in 2021 and 5,461 units will vest on February 16, 2022, 2,785 units will vest on February 16, 2023, and 3,618 units will vest on February 1, 2024.

[7] This grant was made outside of the normal annual cycle in 2021 and 7,560 units will vest on July 1, 2022, 6,300 units will vest on July 1, 2023, and 6,300 units will vest on July 1, 2024.

Outstanding Equity Awards on December 31, 2021

The 2021 closing stock price used to calculate the values in the table below was $276.22.

		Stock Awards			
Name	Award	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Mr. Ricks	2021-2023 SVA			39,447 [1]	$10,896,050
	2020-2022 SVA			59,063 [2]	$16,314,382
	2021-2023 RVA			17,090 [3]	$4,720,600
	2020-2022 RVA			24,319 [4]	$6,717,394
	2021-2023 PA			37,014 [5]	$10,224,007
	2020-2022 PA	47,786 [6]	$13,199,449		
	2019-2021 PA	56,205 [7]	$15,524,945		
Ms. Ashkenazi	2121-2023 SVA			4,114 [1]	$1,136,369
	2020-2022 SVA			2,305 [2]	$636,687
	2021-2023 RVA			1,918 [3]	$529,790
	2020-2022 RVA			1,042 [4]	$287,821
	2021-2023 PA			9,695 [5]	$2,677,953
	RSU	11,499 [8]	$3,176,254		
Dr. Skovronsky	2021-2023 SVA			13,242 [1]	$3,657,705
	2020-2022 SVA			19,373 [2]	$5,351,210
	2021-2023 RVA			5,738 [3]	$3,657,705
	2020-2022 RVA			7,977 [4]	$2,203,407
	2021-2023 PA			12,427 [5]	$3,432,586
	2020-2022 PA	15,675 [6]	$4,329,749		
	2019-2021 PA	18,735 [7]	$5,174,982		
Mr. Van Naarden	2021-2023 SVA			2,431 [1]	$671,491
	2021-2023 RVA			1,134 [3]	$671,491
	2021-2023 PA			5,728 [5]	$1,582,188
	RSU	11,864 [9]	$3,277,074		
Mr. Rau	RSU	20,160 [10]	$5,568,595		
Mr. Smiley		0	$0	0	$0

[1] Shareholder value awards granted for the 2021-2023 performance period will vest on December 31, 2023. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2023 is over $239.03. Actual payouts may vary from 0 to 175 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2021, the payout would have been at 175 percent of target.

[2] Shareholder value awards granted for the 2020-2022 performance period will vest on December 31, 2022. The number of shares reported reflects the maximum payout, which will be made if the average closing stock price in November and December 2022 is over $187.17. Actual payouts may vary

from 0 to 180 percent of target. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2021, the payout would have been 175 percent of target.
[3] Relative value awards granted for the 2021-2023 performance period will vest on December 31, 2023. The number of shares reported reflects the target payout, which will be paid if Lilly's absolute TSR is at or up to 5.9 percentage points above the actual peer median TSR. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2021, the payout would have been 175 percent of target.
[4] Relative value awards granted for the 2020-2022 performance period will vest on December 31, 2022. The number of shares reported reflects the target payout, which will be paid if Lilly's absolute TSR is at or up to 5.9 percentage points above the actual peer median TSR. Net shares from any payout must be held by executive officers for a minimum of one year. Had the performance period ended December 31, 2021, the payout would have been 175 percent of target.
[5] This number represents the maximum value of performance award shares that could pay out for the 2021-2023 performance awards, provided performance goals are met. Once the combined cumulative EPS result and associated payout level are determined at the end of the 2021-2022 performance period, the associated number of shares will be granted as restricted stock units, vesting in February 2024. Actual payouts may vary from 0 to 175 percent of target. The number of shares recorded in the table reflects the payout if the combined cumulative EPS for 2021 and 2022 is at least $18.08 under the 2021-2023 performance award grid (see "Compensation Discussion and Analysis—Performance Goals for 2021 Incentive Programs—2021-2023 Performance Award"). Ms. Ashkenazi and Mr. Van Naarden were not executive officers at the time of grant and, therefore, their 2021-2023 performance awards will not be subject to the 13-month service vesting period and will payout in February 2023.
[6] The performance period ended December 31, 2021, for the 2020-2022 performance award, resulting in the issuance of restricted stock units for 175 percent of target shares for Mr. Ricks and Dr. Skovronsky. These restricted stock units will vest in February 2023.
[7] For Mr. Ricks and Dr. Skovronsky, restricted stock units vested from the 2019-2021 performance award on February 1, 2022.
[8] These grants were made outside of the normal annual cycle in 2020, and 4,600 units will vest on November 1, 2024, and 6,899 units will vest on November 1, 2026.
[9] These grants were made outside of the normal annual cycle in 2021, and 5,461 units will vest on February 16, 2022, 2,785 units will vest on February 16, 2023, and 3,618 units will vest on February 1, 2024.
[10] This grant was made outside of the normal annual cycle in 2021. A total of 7,560 units will vest on July 1, 2022, 6,300 units will vest on July 1, 2023, and 6,300 units will vest on July 1, 2024.

Options Exercised and Stock Vested in 2021

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[1]
Mr. Ricks	0	$0	75,387 [2]	$15,678,234
			123,088 [3]	$29,943,618
Ms. Ashkenazi	0	$0	5,450 [3]	$1,325,822
			4,779 [4]	$1,162,587
Dr. Skovronsky	0	$0	41,029 [3]	$9,981,125
Mr. Van Naarden	0	$0	7,929 [5]	$1,624,573
Mr. Rau[6]	0	$0	0	$0
Mr. Smiley	0	$0	19,266 [2]	$4,006,750

[1] Amounts reflect the market value of Lilly stock on the day value is realized.
[2] Restricted stock units resulting from the 2018-2020 performance award that vested in February 2021.
[3] Payout of the 2019-2021 shareholder value award at 150 percent of target, adjusted by Lilly's three-year cumulative TSR (145.7 percent) relative to its peer companies' median cumulative TSR of 24.6 percent, resulting in a maximum TSR modifier of 20 percent and a final payout of 180 percent of target. Since Ms. Ashkenazi was not an executive officer when the 2019-2021 shareholder value award was granted, her award was not subject to the TSR modifier. As a result, her payout multiple was 150 percent of target.
[4] Payout of the 2020-2022 performance award at 175% of target for Ms. Ashkenazi. She was not an executive officer in 2020 at the time of grant; therefore, no additional 13-month service-vesting period applied.
[5] This grant was made in 2020 before Mr. Van Naarden became an executive officer.
[6] Mr. Rau joined Lilly in 2021 and had no option exercise or stock awards vest during 2021.

Retirement Benefits

We provide retirement income to eligible U.S. employees, including executive officers, through the following plans:

- The 401(k) Plan, a defined contribution plan qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Participants may elect to contribute a portion of their base salary to the plan, and the company provides matching contributions on employees' contributions up to 6 percent of base salary up to IRS limits. The employee contributions, company contributions, and earnings thereon are paid out in accordance with elections made by the participant and the terms of the plan. See the "All Other Compensation" column in the Summary Compensation Table for information about company contributions under the 401(k) Plan for the named executive officers.
- The Retirement Plan, a tax-qualified defined benefit plan that provides monthly benefits to retirees. See the Pension Benefits in 2021 table below for additional information about the value of these pension benefits.

Sections 401 and 415 of the Internal Revenue Code generally limit the amount of annual pension that can be paid from a tax-qualified plan ($230,000 in 2021 and $245,000 in 2022) as well as the amount of annual earnings that can be used to calculate a pension benefit ($290,000 in 2021 and $305,000 in 2022). However, since 1975 the company has maintained a nonqualified pension plan that pays eligible retirees the difference between the amount payable under the Retirement Plan and the

amount they would have received without the Internal Revenue Code limits. The nonqualified pension plan is unfunded and subject to forfeiture in the event of bankruptcy. Likewise, the company maintains a nonqualified savings plan that allows participants to contribute up to 6 percent of base salary exceeding the IRS limit. The company matches these contributions in the same manner as described in the 401(k) Plan. For more information, see footnote 2 to the "Nonqualified Deferred Compensation in 2021" table.

The following table shows benefits that the named executive officers have accrued under the Retirement Plan and the nonqualified pension plan.

Pension Benefits in 2021

Name	Plan	Number of Years of Credited Service	Present Value of Accumulated Benefit ($) [1]	Payments During Last Fiscal Year ($)
Mr. Ricks	retirement plan (pre-2010)	14	$827,458	
	retirement plan (post-2009)	12	$455,777	
	nonqualified plan (pre-2010)	14	$11,555,253	
	nonqualified plan (post-2009)	12	$6,246,306	
	total		$19,084,794	$0
Ms. Ashkenazi	retirement plan (pre-2010)	9	$473,739	
	retirement plan (post-2009)	12	$396,301	
	retirement plan (post-2009)	9	$1,015,918	
	nonqualified plan (post-2009)	12	$856,088	
	total		$2,742,046	$0
Dr. Skovronsky	retirement plan (post-2009)	9	$294,986	
	nonqualified plan (post-2009)	9	$1,676,195	
	total		$1,971,181	$0
Mr. Van Naarden	retirement plan (post-2009)	0.3	$7,555	
	nonqualified plan (post-2009)	0.3	$9,354	
	total		$16,909	$0
Mr. Rau	retirement plan (post-2009)	1	$30,790	
	nonqualified plan (post-2009)	1	$13,729	
	total		$44,519	$0
Mr. Smiley	retirement plan (pre-2010)	14	$877,998	
	retirement plan (post-2009)	12	$408,343	
	retirement plan (post-2009)	14	$4,002,852	
	nonqualified plan (post-2009)	12	$1,832,029	
	total		$7,121,222	$0

[1] The following standard actuarial assumptions were used to calculate the present value of each individual's accumulated pension benefit:

Discount rate:	3.11 percent for the qualified plan and 2.91 percent for nonqualified plan
Mortality (post-retirement decrement only):	Private 2012 white collar table with generational projection using Scale MP-2021
Pre-2010 joint and survivor benefit (% of pension):	50 percent until age 62; 25 percent thereafter
Post-2009 benefit payment form:	Life annuity

The Retirement Plan benefits shown in the table are net present values. The benefits are not payable as a lump sum; they are generally paid as a monthly annuity for the life of the retiree and, if elected, any qualifying survivor. The annual benefit under the Retirement Plan is calculated using years of service and the average of the annual earnings (salary plus bonus) for the highest five out of the last ten calendar years of service (final average earnings).

Post-2009 Plan Information: Following amendment of our Retirement Plan formulas, employees first hired on or after February 1, 2008, have accrued retirement benefits only under the new plan formula. Employees hired before that date have accrued benefits under both the old and new plan formulas. All eligible employees, including those hired on or after February 1, 2008, can currently retire at age 65 with at least five years of service and receive an unreduced benefit. The annual benefit under the new plan formula is equal to 1.2 percent of final average earnings multiplied by years of service. Early retirement benefits under this plan formula are reduced six percent for each year under age 65. Transition benefits were afforded to employees with 50 points (age plus service) or more as of December 31, 2009. These benefits were intended to ease the transition to the new retirement formula for those employees who were closer to retirement or had been with the company longer at the time the plan was changed. For the transition group, early retirement benefits are reduced three percent for each year from age 65 to age 60 and six percent for each year under age 60. Mr. Ricks, Ms. Ashkenazi, and Mr. Smiley are in this transition group.

Pre-2010 Plan Information: Employees hired prior to February 1, 2008 accrued benefits under both plan formulas. For these employees, benefits that accrued before January 1, 2010 were calculated under the old plan formula. The amount of the benefit is calculated using actual years of service through December 31, 2009, while total years of service are used to determine eligibility and early retirement reductions. The benefit amount is increased (but not decreased) proportionately based on final average earnings at termination compared to final average earnings at December 31, 2009. Full retirement benefits are earned by employees with 90 or more points (the sum of his or her age plus years of service). Employees electing early retirement receive reduced benefits as described below:

- The benefit for employees with between 80 and 90 points is reduced by three percent for each year before the earlier of 90 points or age 62.
- The benefit for employees who have fewer than 80 points, but who reached age 55 and have at least ten years of service, is reduced as described above and is further reduced by six percent for each year before the earlier of 80 points or age 65.

Nonqualified Deferred Compensation in 2021

Name	Plan	Executive Contributions in Last Fiscal Year ($)[1]	Registrant Contributions in Last Fiscal Year ($)[2]	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year End ($)[3]
Mr. Ricks	nonqualified savings	$72,600	$72,600	$1,140,638	$0	$3,131,383
	deferred compensation	$0	$0	$0	$0	$0
	total	$72,600	$72,600	$1,140,638	$0	$3,131,383
Ms. Ashkenazi	nonqualified savings	$33,626	$33,626	$20,659	$0	$212,556
	deferred compensation	$0	$0	$0	$0	$0
	total	$33,626	$33,626	$20,659	$0	$212,556
Dr. Skovronsky	nonqualified savings	$42,600	$42,600	$174,864	$0	$920,647
	deferred compensation	$0	$0	$0	$0	$0
	total	$42,600	$42,600	$174,864	$0	$920,647
Mr. Van Naarden	nonqualified savings	$12,462	$12,462	$544	$0	$25,467
	deferred compensation	$0	$0	$0	$0	$0
	total	$12,462	$12,462	$544	$0	$25,467
Mr. Rau	nonqualified savings	$7,339	$7,339	$229	$0	$14,906
	deferred compensation	$0	$0	$0	$0	$0
	total	$7,339	$7,339	$229	$0	$14,906
Mr. Smiley	nonqualified savings	$0	$0	$189,951	$0	$802,988
	deferred compensation	$0	$0	$0	$0	$0
	total	$0	$0	$189,951	$0	$802,988

[1] The amounts in this column are also included in the Summary Compensation Table in the "Salary" column (nonqualified savings) or the "Non-Equity Incentive Plan Compensation" column (deferred compensation).
[2] The amounts in this column are also included in the Summary Compensation Table in the "All Other Compensation" column as a portion of the savings plan match.
[3] Of the totals in this column, the following amounts have previously been reported in the Summary Compensation Table for this year and for previous years:

Name	2021 ($)	Previous Years ($)	Total ($)
Mr. Ricks	$145,200	$547,415	$692,615
Ms. Ashkenazi	$67,252	N/A	$67,252
Dr. Skovronsky	$85,200	$224,777	$309,977
Mr. Van Naarden	$24,923	N/A	$24,923
Mr. Rau	$14,677	N/A	$14,677
Mr. Smiley	$0	$228,777	$228,777

The Nonqualified Deferred Compensation in 2021 table above shows information about two company programs: the nonqualified savings plan and the Deferred Compensation Plan. The nonqualified savings plan is designed to allow each employee to contribute up to 6 percent of his or her base salary and receive a company match, beyond the contribution limits prescribed by the IRS with regards to 401(k) plans. This plan is administered in the same manner as the 401(k) Plan, with the same participation and investment elections. Executive officers and other U.S. executives may also defer receipt of all or part of their cash compensation under the Deferred Compensation Plan. Amounts deferred by executives under this plan are

credited with interest at 120 percent of the applicable federal long-term rate as established the preceding December by the U.S. Treasury Department under Section 1274(d) of the Internal Revenue Code with monthly compounding, which was 1.6 percent for 2021 and is 2.3 percent for 2022. Participants may elect to receive the funds in a lump sum or in up to 10 annual installments following termination of employment but may not make withdrawals while employed by the company, except in the event of hardship as approved by the Compensation Committee. All deferral elections and associated distribution schedules are irrevocable. Both plans are unfunded and subject to forfeiture in the event of company bankruptcy.

Payments upon Termination or Change in Control (as of December 31, 2021)

The following table describes the potential payments and benefits under the company's compensation and benefit plans and arrangements to which the named executive officers would be eligible upon qualifying termination of employment. Except for certain terminations following a change in control of the company, as described below, there are no agreements, arrangements, or plans that entitle named executive officers to severance, perquisites, or other enhanced benefits upon termination of their employment. Any agreement to provide such payments or benefits to a terminating executive officer (other than following a change in control) would be at the discretion of the Compensation Committee.

Name	Cash Severance Payment [1]	Continuation of Medical / Welfare Benefits (present value) [2]	Acceleration and Continuation of Equity Awards as of 12/31/2021	Total Termination Benefits
Mr. Ricks				
• Involuntary retirement or termination	$0	$0	$28,724,256	$28,724,256
• Involuntary or good-reason termination after change in control	$7,500,000	$44,054	$83,838,115	$91,382,169
Ms. Ashkenazi				
• Involuntary retirement or termination	$0	$0	$4,496,378	$4,496,378
• Involuntary or good-reason termination after change in control	$3,600,000	$52,130	$9,766,103	$13,418,233
Dr. Skovronsky				
• Involuntary retirement or termination	$0	$0	$9,504,661	$9,504,661
• Involuntary or good-reason termination after change in control	$4,000,000	$44,242	$27,791,074	$31,835,316
Mr. Van Naarden				
• Involuntary retirement or termination	$0	$0	$3,277,074	$3,277,074
• Involuntary or good-reason termination after change in control	$2,430,000	$51,818	$5,717,146	$8,198,964
Mr. Rau				
• Involuntary retirement or termination	$0	$0	$5,568,595	$5,568,595
• Involuntary or good-reason termination after change in control	$2,412,000	$39,340	$5,568,595	$8,019,935

[1] See "Change-in-Control Severance Pay Plan—Cash Severance Payment" below.
[2] See "Accrued Pay and Regular Retirement Benefits" and "Change-in-Control Severance Pay Plan—Continuation of medical and welfare benefits" below.

Accrued Pay and Regular Retirement Benefits: The amounts shown in the table above do not include certain payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- accrued salary, vacation pay, and, if applicable, equity payouts prorated for time worked in the performance period and adjusted for company performance
- regular pension benefits under the Retirement Plan and the nonqualified pension plan. See "Retirement Benefits" above
- welfare benefits provided to eligible U.S. retirees, including retiree medical and dental insurance. The amounts shown in the table above as "Continuation of Medical/Welfare Benefits" are explained below; and
- distributions of plan balances under the 401(k) Plan, the nonqualified savings plan, and the Deferred Compensation Plan. See the narrative following the Nonqualified Deferred Compensation in 2020 table for information about these plans.

Death and Disability: A termination of employment due to death or disability does not entitle named executive officers to any payments or benefits that are not available to U.S. employees generally.

Termination for Cause: Executives terminated for cause receive no severance or enhanced benefits and forfeit any unvested equity grants.

Change-in-Control Severance Pay Plan: As described in the CD&A under "Other Compensation Practices and Information—Severance Benefits," the company maintains a change-in-control severance pay plan for nearly all employees, including the named executive officers. The change-in-control plan for executive officers defines a change in control specifically, but

generally the terms include the occurrence of one of the following: (i) acquisition by any person of 20 percent or more of the company's stock; (ii) replacement by the shareholders of one-half or more of the board of directors; (iii) consummation of a merger, share exchange, or consolidation of the company (other than a transaction that results in the Lilly shareholders prior to the transaction continuing to hold more than 60 percent of the voting stock of the combined entity); or (iv) complete liquidation of the company or sale or disposition of all or substantially all of its assets. The amounts shown in the table for "involuntary or good-reason termination after change in control" are based on the following assumptions and plan provisions:

- **Covered terminations.** The table assumes a termination of employment that is eligible for severance under the terms of the plan, based on the named executive officer's compensation, benefits, age, and service credit at December 31, 2021. Eligible terminations include an involuntary termination for reasons other than "cause" or a voluntary termination by the executive for "good reason," each as defined in the plan, within two years following the change in control.
  - A termination of an executive officer by the company is for "cause," in general, if it is for any of the following reasons: (i) the employee's willful refusal to perform, without legal cause, his or her material duties, resulting in demonstrable economic harm to the company or participating employers; (ii) any act of fraud, dishonesty, or gross misconduct resulting in significant economic harm or other significant harm to the company or participating employers or to the business reputation of the company or participating employers; or (iii) conviction by a court of competent jurisdiction of any crime (or the entering of a plea of guilty or nolo contendere to a charge of any crime) constituting a felony.
  - A termination by the executive officer is for "good reason," in general, if it results from: (i) a material diminution in the nature or status of the executive's position, title, reporting relationship, duties, responsibilities, or authority, or the assignment to him or her of additional responsibilities that materially increase his or her workload; (ii) any reduction in the executive's then-current base salary; (iii) a material reduction in the executive's opportunities to earn incentive bonuses below those in effect for the year prior to the change in control; (iv) a material reduction in the executive's employee benefits from the benefit levels in effect immediately prior to the change in control; (v) the failure to grant to the executive stock options, stock units, performance shares, or similar incentive rights during each 12-month period following the change in control on the basis of a number of shares or units and all other material terms at least as favorable to the executive as those rights granted to him or her on an annualized average basis for the three-year period immediately prior to the change in control; (vi) relocation of the executive by more than 50 miles from his or her regularly assigned workplace in effect immediately prior to the change in control; or (vii) any failure by a successor entity to the company in connection with a change in control to assume the obligations of the company under the plan, or any attempted amendment, termination or repudiation of the plan by such successor entity.
- **Cash severance payment.** The cash severance payment amounts, in general, to two times the executive officer's annual base salary plus two times the executive officer's bonus target for that year under the Bonus Plan.
- **Continuation of medical and welfare benefits.** This amount represents the present value of the change-in-control plan's provision, following a covered termination, of 18 months of continued coverage equivalent to the company's current active employee medical, dental, group life, company-provided death benefit, and long-term disability insurance. Similar actuarial assumptions to those used to calculate incremental pension benefits apply to the calculation for continuation of medical and welfare benefits, with the addition of actual COBRA rates based on current benefit elections.
- **Acceleration of equity awards.** Upon a covered termination, any unvested equity awards would convert into restricted stock units of the new company, with the number of shares earned under the awards based on accrued performance at the time of the transaction. The restricted stock units will continue to vest and pay out upon the earlier of the completion of the original award period; upon a covered termination; or if the successor entity does not assume, substitute, or otherwise replace the award. The amount in this column represents the value of the acceleration of unvested equity grants had a qualifying termination occurred on December 31, 2021.
- **Excise taxes.** Upon a change in control, employees may be subject to certain excise taxes under Section 280G of the Internal Revenue Code. The company does not reimburse the affected employees for those excise taxes or any income taxes payable by the employee. To reduce the employee's exposure to potential excise taxes, the employee's change-in-control benefit will be decreased to maximize the after-tax benefit to the individual.

Payments upon Change in Control Alone: The change-in-control plan is a "double trigger" plan, meaning payments are made only if the employee suffers a covered termination of employment within two years following the change in control, or in the case of equity awards, if the successor entity does not assume, substitute, or otherwise replace the awards.

Agreement with Former Chief Financial Officer

In connection with Mr. Smiley's resignation, he and the Company entered into a Separation Agreement (the Separation Agreement), which provided that Mr. Smiley immediately resign from his position as senior vice president and chief financial officer of the Company, as well as forfeit or forego compensatory arrangements totaling $20,133,375 (using Lilly's closing share price at the time of such forfeiture or the intended grant date value for such awards that had been previously approved but not yet granted prior to Mr. Smiley's resignation, as applicable), including all of his earned 2020 cash bonus (which would have otherwise been $1,102,317 based on company performance), his target 2021 bonus of $1,000,000, 25 percent of his earned 2018-2020 shareholder value award (representing a forfeiture of $3,100,954 in value based on Lilly's closing share price at the time of such forfeiture), and all other outstanding and previously approved but not yet granted equity incentive

awards totaling $14,930.104. Mr. Smiley also agreed to remain available to the company's chief executive officer and his successor as chief financial officer through July 2021 to facilitate the transition of his responsibilities, at reduced cash compensation of $9,000 every two weeks. The Separation Agreement includes customary provisions regarding confidentiality and a release of claims against the company, as well as a 24-month non-solicitation agreement and an 18-month non-competition agreement.

CEO Pay Ratio

Lilly's compensation and benefits philosophy across the organization is to encourage and reward all employees who contribute to our success. We strive to ensure that the pay of every Lilly employee reflects the level of their job impact and responsibilities and is competitive within our peer group. Lilly's ongoing commitment to pay equity is critical to our success in supporting a diverse workforce with opportunities for all employees to grow, develop, and contribute.

Below is the 2021 annual total compensation of our CEO and our median employee and the ratio of the annual total compensation of our CEO to that of our median employee.

CEO Pay Ratio:	
CEO Annual Total Compensation*	$21,509,985
Median Employee Annual Total Compensation	$97,130
CEO to Median Employee Pay Ratio	221:1

*This annual total compensation is the "Summary Compensation Table" amount.

Methodology:

- Measurement Date: We identified the median employee using our employee population on October 31, 2021. On this date, Lilly employed approximately 37,100 people, with approximately 16,100 members of our workforce located in the U.S. and approximately 21,000 members of our workforce located outside of the U.S.
- Identification of Median Employee: In a manner consistent with SEC rules, we identified the median employee by use of a "consistently applied compensation measure," or CACM. Specifically, we identified the median employee by looking at annual base pay, bonus opportunity at target, and the grant date value for standard equity awards. We did not adjust the compensation paid to part-time employees to calculate what they would have been paid on a full-time basis.
- De Minimis Exception: Lilly has employees in 70 countries. In identifying the median employee, we excluded 386 workers in the following 10 countries, which represent approximately one percent of our workforce: Bahrain, Ecuador, Egypt, Greece, Indonesia, Kuwait, Pakistan, Panama, Qatar, and United Arab Emirates. We excluded these employees because they are affiliated with joint ventures or third-party distributors, and Lilly does not set their compensation philosophy.
- Calculated CEO Pay Ratio: After applying our CACM and excluding the employees listed above, we identified the median employee. Once the median employee was identified, we calculated the median employee's total annual compensation in accordance with the requirements of the Summary Compensation Table.

Audit Matters

Item 3. Ratification of the Appointment of the Independent Auditor

Audit Committee Oversight of the Independent Auditor

The Audit Committee is responsible for the appointment, compensation, retention, and oversight of the independent auditor and oversees the process for reviewing and evaluating the lead audit partner. Further information regarding the committee's oversight of the independent auditor can be found in the Audit Committee charter, available online at lilly.com/leadership/governance.

In connection with the decision regarding whether to reappoint the independent auditor each year (subject to shareholder ratification), the committee assesses the independent auditor's performance. This assessment examines three primary criteria: (1) the independent auditor's qualifications and experience; (2) the communication and interactions with the auditor over the course of the year; and (3) the auditor's independence, objectivity, and professional skepticism. These criteria are assessed against an internal and an external scorecard and are discussed with management during a private session as well as in executive session. The committee also periodically considers whether a rotation of the company's independent auditor is advisable.

Ernst & Young LLP (EY) has served as the independent auditor for the company since 1940. Based on the Audit Committee's assessment of EY's performance during 2021, the Audit Committee believes that the continued retention of EY to serve as the company's independent auditor is in the best interests of the company and its shareholders and has therefore reappointed EY as the company's independent auditor for 2022. In addition to this year's favorable assessment of EY's performance, we recognize that there are several benefits of retaining a longer-tenured independent auditor. EY has gained

institutional knowledge and expertise regarding the company's global operations, accounting policies and practices, and internal controls over financial reporting. Audit and other fees are also competitive with peer companies because of EY's familiarity with the company and its operations. In accordance with the bylaws, this appointment is being submitted to the shareholders for ratification.

Representatives of EY are expected to participate in the Annual Meeting and will be available to respond to questions. Those representatives will have the opportunity to make a statement if they wish to do so.

Board Recommendation on Item 3

The board recommends that you vote **FOR** ratifying the appointment of EY as the independent auditor for 2022.

Audit Committee Report

The Audit Committee reviews the company's financial reporting process on behalf of the board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls and disclosure controls. In this context, the Audit Committee has met and held discussions with management and the independent auditor. Management represented to the Audit Committee that the company's consolidated financial statements for the year ended December 31, 2021, were prepared in accordance with GAAP, and the Audit Committee has reviewed and discussed the audited financial statements and related disclosures with management and the independent auditor, including a review of the significant management judgments underlying the financial statements and disclosures.

The independent auditor reports directly to the Audit Committee, which has sole authority to appoint and to replace the independent auditor (subject to shareholder ratification).

The Audit Committee has discussed with the independent auditor the matters required to be discussed with the Audit Committee by the standards of the Public Company Accounting Oversight Board (PCAOB), the SEC, and the NYSE, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. In addition, the Audit Committee has received the written disclosures and the letter from the independent auditor required by applicable PCAOB rules regarding communications with the Audit Committee concerning independence and has discussed with the independent auditor the auditor's independence from the company and its management. In concluding that the auditor is independent, the Audit Committee determined, among other things, that the non-audit services provided by EY (as described below) were compatible with its independence. Consistent with the requirements of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the Audit Committee has adopted policies to ensure the independence of the independent auditor, such as prior committee approval of non-audit services and required audit partner rotation.

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

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the board (and the board subsequently approved the recommendation) that the audited consolidated financial statements be included in the company's Annual Report on Form 10-K for the year ended December 31, 2021, for filing with the SEC. The Audit Committee has also appointed EY as the company's independent auditor, subject to shareholder ratification, for 2022.

Audit Committee

Jamere Jackson, Chair
Ralph Alvarez
Michael L. Eskew
Gabrielle Sulzberger
Jackson P. Tai
Karen Walker

Services Performed by the Independent Auditor

The Audit Committee pre-approves all services performed by the independent auditor, in part to assess whether the provision of such services might impair the auditor's independence. The Audit Committee's policy and procedures are as follows:

- **Audit services:** The Audit Committee approves the annual audit services engagement and, if necessary, any changes in terms, conditions, and fees resulting from changes in audit scope, company structure, or other matters. Audit services include internal controls attestation work under Section 404 of the Sarbanes-Oxley Act. The Audit Committee may also pre-approve other audit services, which are those services that only the independent auditor reasonably can provide.
- **Audit-related services:** Audit-related services are assurance and related services that are reasonably related to the performance of the audit or reviews of the financial statements, and that are traditionally performed by the independent

auditor. The Audit Committee believes that the provision of these services does not impair the independence of the auditor.

- **Tax services:** The Audit Committee believes that, in appropriate cases, the independent auditor can provide tax compliance services, tax planning, and tax advice without impairing the auditor's independence.
- **Other services:** The Audit Committee may approve other services to be provided by the independent auditor if (i) the services are permissible under SEC and PCAOB rules, (ii) the Audit Committee believes the provision of the services would not impair the independence of the auditor, and (iii) management believes that the auditor is the best choice to provide the services.
- **Approval process:** At the beginning of each audit year, management requests pre-approval from the Audit Committee of the annual audit, statutory audits, and quarterly reviews for the upcoming audit year as well as any other services known at that time. Management will also present at that time an estimate of all fees for the upcoming audit year and known services. As specific engagements are identified thereafter that were not initially approved, they are brought forward to the Audit Committee for approval. To the extent approvals are required between regularly scheduled Audit Committee meetings, pre-approval authority is delegated to the committee chair.

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

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

Independent Auditor Fees

The following table shows the fees incurred for services rendered on a worldwide basis by EY in 2021 and 2020. All such services were pre-approved by the Audit Committee in accordance with the pre-approval policy.

		2021 ($ millions)*	2020 ($ millions)*
Audit Fees	Annual audit of consolidated and subsidiary financial statements, including Sarbanes-Oxley 404 attestation Reviews of quarterly financial statements	$13.9	$13.7
Audit-Related Fees	Primarily related to assurance and related services reasonably related to the performance of the audit or reviews of the financial statements primarily related to employee benefit plan and other ancillary audits, and due diligence services on potential acquisitions	$0.7	$0.9
Tax Fees	Tax compliance services, tax planning, tax advice Primarily related to consulting and compliance services	$2.1	$2.7
Total		$16.7	$17.3

* Numbers may not add due to rounding

Management Proposals

Item 4. Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure

The company's articles of incorporation provide that the board is divided into three classes, with each class elected every three years. The board, after review by its Directors and Corporate Governance Committee, has approved, and recommends that the shareholders approve, amendments to eliminate the classified board structure in order to provide for the annual election of all directors (the Declassification Amendments). From 2010 through 2012 and again from 2018 through 2021, the board submitted this management proposal to shareholders seeking approval to eliminate the company's classified board structure; however, under the company's articles of incorporation the proposal requires the vote of 80 percent of the outstanding shares to be approved and on each prior occasion failed to receive the required vote.

If approved, the Declassification Amendments would become effective following the Annual Meeting upon the company making the required filings of the Declassification Amendments with the Secretary of State of Indiana. Directors elected prior to the effectiveness of the Declassification Amendments would serve the remainder of their respective three-year terms and each director elected after the Annual Meeting would serve a one-year term, ending at the next annual meeting of shareholders. Thereafter, the company's classified board structure would be fully eliminated starting with the 2025 annual meeting of shareholders. In the case of any vacancy on the board occurring after the Annual Meeting created by an increase in the number of directors, the vacancy would be filled through an appointment by the board, with the new director to serve a term ending at the next annual meeting of shareholders. Vacancies created by resignation, removal or death would be filled

by appointment by the board of a new director to serve until the end of the term of the director being replaced. This proposal would not change the present number of directors or the board's authority to change that number and to fill any vacancies or newly created directorships.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, taking into account the input of the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the classified board structure. The board considered the view of certain shareholders who believe that classified boards have the effect of reducing the accountability of directors to shareholders because shareholders are unable to evaluate and consider all directors for election on an annual basis. The board gave considerable weight to the favorable votes of a strong majority of the outstanding shares for management's proposals in prior years.

The board also considered the benefits of retaining the classified board structure. A classified structure may promote shareholder value by providing continuity and stability in the management of the business and affairs of the company, as a majority of the board always has prior experience as directors of the company. In addition, under certain circumstances, classified boards may protect shareholder value by forcing an entity seeking control of the company to initiate discussions at arm's-length with the board of the company, because the entity cannot replace the majority of the board in a single election. The board also considered that even without a classified board (and without the supermajority voting requirements, which the board also recommends eliminating), the company would have appropriate safeguards to protect the interests of all shareholders and discourage a would-be acquirer from proceeding with a proposal that undervalues the company or is opportunistic. These include other provisions of the company's articles of incorporation and bylaws, as well as certain provisions of Indiana corporation law.

After balancing these interests, the board has decided to resubmit this proposal to eliminate the classified board structure.

Text of the Amendments

Article 9(b) of the company's articles of incorporation contains the provisions that will be affected if this proposal is adopted. This article, set forth in Appendix B to this proxy statement, shows the proposed changes, with deletions indicated by strikeouts and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon, and subject to, the effectiveness of the amendments to the articles of incorporation.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to approve this proposal. Unless such vote is received, the present classification of the board will continue.

Board Recommendation on Item 4

The board recommends that you vote **FOR** amending the company's articles of incorporation to eliminate the classified board structure.

Item 5. Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions

The company's articles of incorporation provide that nearly all matters submitted to a vote of shareholders can be adopted by a majority of the votes cast. However, the company's articles of incorporation require certain fundamental corporate actions to be approved by the holders of 80 percent of the outstanding shares of common stock. Those actions are:

- amending certain provisions of the articles of incorporation that relate to the number and terms of office of directors:
    - the company's classified board structure (as described under Item 4)
    - a provision that the number of directors shall be specified solely by resolution of the board
- removing directors prior to the end of their elected term
- entering into mergers, consolidations, recapitalizations, or certain other business combinations with a "related person"—a party who has acquired at least five percent of the company's stock (other than the Endowment or a company benefit plan) — without the prior approval of such action or transaction by the directors not affiliated with such shareholder
- modifying or eliminating any of the above supermajority voting requirements.

The board, after review by the Directors and Corporate Governance Committee, has approved, and recommends that the shareholders approve, amendments to eliminate the supermajority voting requirements (the Supermajority Voting Amendments). From 2010 through 2012 and again from 2018 through 2021, the board submitted this management proposal

to shareholders seeking approval to eliminate these supermajority voting requirements; however, under the company's articles of incorporation the proposal requires the vote of 80 percent of the outstanding shares to be approved and on each prior occasion failed to receive the required vote.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, taking into account the input of the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the supermajority voting requirements. The board considered the potential adverse consequences of maintaining the supermajority voting requirements. The board believes it is important to maintain shareholder confidence by demonstrating that the board is responsive and accountable to shareholders and committed to strong corporate governance. This requires the board to carefully balance sometimes competing interests. In this regard, the board gave considerable weight to the favorable votes of a strong majority of the outstanding shares for management's proposal in the previous four years. Many shareholders believe that supermajority voting requirements impede accountability to shareholders and contribute to board and management entrenchment. The board also considered that, even without the supermajority vote (and without the classified board, which the board also recommends eliminating), the company has appropriate safeguards to protect the interests of all shareholders and to discourage a would-be acquirer from proceeding with a proposal that undervalues the company or is opportunistic and to assist the board in responding to such proposals. These include other provisions of the company's articles of incorporation and bylaws as well as certain provisions of Indiana corporation law.

The board also considered that under certain circumstances, supermajority voting requirements can provide benefits to the company and all its shareholders by making it more difficult for one or a few large shareholders to facilitate a takeover of the company or implement certain significant changes to the company without more widespread shareholder support.

After balancing these interests, the board has decided to resubmit this proposal to eliminate the supermajority voting requirements.

Text of Amendments

Articles 9(c), 9(d), and 13 of the company's articles of incorporation contain the provisions that will be affected if this proposal is adopted. These articles, set forth in Appendix B to this proxy statement, show the proposed changes with deletions indicated by strikeouts and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon, and subject to, the effectiveness of the amendments to the articles of incorporation.

Vote Required

The affirmative vote of at least 80 percent of the outstanding shares of common stock is needed to approve this proposal. Unless such vote is received, the supermajority voting requirements will continue to be in effect.

Board Recommendation on Item 5

The board recommends that you vote **FOR** amending the company's articles of incorporation to eliminate supermajority voting requirements.

Item 6. Proposal to Amend the Company's Articles of Incorporation to Give Shareholders the Ability to Amend the Company's Bylaws

The company's articles of incorporation do not allow shareholders to amend the company's bylaws. This position reflects the default under Indiana law, which reserves the exclusive authority to amend bylaws to the board. The board, after review by the Directors and Corporate Governance Committee, has approved, and recommends that the shareholders approve, amendments to the articles of incorporation to allow shareholders to amend the company's bylaws. Pursuant to Indiana law, approval of the proposal requires that the votes cast in favor of the proposal exceed the votes cast against the proposal.

Background of Proposal

As part of its ongoing review of corporate governance matters, the board, taking into account the input of the Directors and Corporate Governance Committee, considered the advantages and disadvantages of maintaining the Indiana default position that reserves the exclusive right to amend the bylaws to the board. The board considered the potential adverse consequences of maintaining the Indiana default position that does not allow shareholders to amend the bylaws. The board believes it is important to maintain shareholder confidence by demonstrating that the board is responsive and accountable to shareholders and committed to strong corporate governance. This requires the board to carefully balance sometimes competing interests. In this regard, the board gave considerable weight to shareholder feedback supporting the ability of shareholders to amend the bylaws. The board also considered that even if shareholders have the authority to amend the bylaws, the company has appropriate safeguards to protect the interests of all shareholders and discourage a would-be

acquirer from proceeding with a proposal that undervalues the company or is opportunistic. These include other provisions of the company's articles of incorporation and bylaws, as well as certain provisions of Indiana corporation law.

The board also considered that under certain circumstances, allowing the bylaws to be amended by shareholders would not be in the best long-term interests of the company because of the potential risk of abuse by a single shareholder or special interest group of shareholders with no fiduciary duties to other shareholders, and accordingly, the board, which is accountable to all shareholders, may be better positioned to ensure that bylaw amendments are appropriate.

After balancing these interests, the board has decided to submit this proposal to allow shareholders holding a majority of the company's issued and outstanding common stock to amend the company's bylaws.

Proposed amendments to the bylaws:

Article 10 of the company's articles of incorporation contains the provisions that will be affected if this proposal is adopted. This article, set forth in Appendix C to this proxy statement, shows the proposed changes, with deletions indicated by strike-outs and additions indicated by underlining. The board has also adopted conforming amendments to the company's bylaws, to be effective immediately upon, and subject to, the effectiveness of the amendments to the articles of incorporation.

Vote Required

To approve this proposal, the votes cast in favor of this proposal must exceed the votes cast against this proposal. Unless such vote is received, the present prohibitions against shareholders amending the company's bylaws will continue.

Board Recommendation on Item 6

The board recommends that you vote **FOR** amending the company's articles of incorporation to allow shareholders to amend the company's bylaws.

Shareholder Proposals

Item 7. Proposal to Amend the Bylaws to Require an Independent Board Chair

Legal & General Investment Management America, Inc. ("LGIM America"), 71 South Wacker Drive, Suite 800, Chicago, Illinois 60606, beneficial owner of 212,515 shares of our common stock as of November 9, 2021, has submitted the following proposal:

RESOLVED, Eli Lilly and Company ("Lilly" or the "Company") shareholders request the Board of Directors adopt as policy (the "Policy"), and amend the bylaws as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, be an independent member of the board. The Policy shall apply prospectively so as not to violate any contractual obligations. If the board determines that a Chair who was independent when selected is no longer independent, the board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair. This policy would be phased in for the next CEO transition.

Supporting Statement

The board is responsible for overseeing the actions of management. They are expected to act as a counter-power and constructively challenge the executive directors. Conflicts of interest may arise when one person holds both the Chair and CEO positions. In our view, shareholders, as well as the company, are best served by an independent board Chair who can provide a balance of power between the CEO and the board.

While the CEO's insights and communication can and should be shared with an independently led board, the difference, should the shareholder proposal be implemented, is that those insights will then be subjected to review and oversight by a board led by an independent chair, rather than by a board led by the same person whose insights are being considered. We believe that Lilly's board should adopt best practice governance policies, including having an independent board chair.

In 2019 PricewaterhouseCoopers surveyed over 700 directors, 57% of directors who sat on a board with a combined Chair/CEO stated that it was difficult to voice dissent - a 37% higher result than on boards with an independent Chair.

Pharmaceutical companies are particularly in need of effective and unconflicted oversight because of the industry's high legal and regulatory risks related to product safety and the industry's commercial practices. Eli Lilly is not immune to litigation and regulatory attention. Only in 2021, the company has been repeatedly cited in a US Senate report on significant insulin price increase; the Mississippi Attorney General launched a lawsuit against Lilly, and others, alleging collusion to keep insulin prices high; and the City of Miami, Florida initiated litigation asserting antitrust and other claims against the company.

The risk of lawsuits, sustained public controversy and regulatory intervention, whether ultimately found to be justified or not, are strong arguments for the need for continuous, effective and unconflicted board oversight of corporate management.

In order to ensure that our board can provide rigorous oversight for our Company and management with greater independence and accountability, we urge a vote FOR this shareholder proposal.

Statement in Opposition to the Shareholder Proposal to Amend the Bylaws to Require an Independent Board Chair

The board, after review by its Directors and Corporate Governance Committee, recommends a vote against this proposal.

If implemented, the proposal would lock in a mandatory board leadership structure that eliminates our board's flexibility to evaluate and adopt what it believes to be the most effective leadership structure for Lilly under the relevant facts and circumstances at any given point in time. Unlike the proponent, the board believes, whether in the present or after the next CEO transition, that there is no "one-size-fits-all" approach to board leadership and recognizes that two of its key responsibilities are to evaluate and implement the leadership structure best suited to achieve the company's objectives and to promote the long-term interests of its shareholders with due regard for all our stakeholders. In 2021, the board again undertook an assessment of its leadership structure in the context of our business, long-term strategy and industry environment, and developments in corporate governance, and believes that a combined chair and CEO, coupled with a strong lead independent director position, continues to be in the best interest of the company and our shareholders.

Lilly's board leadership structure is consistent with market practice and our flexible approach was strongly endorsed by Lilly's shareholders last year.

There is no singular approach to independent board leadership across S&P 500 companies. Notably, as of December 31, 2021, only 36% of companies in the S&P 500 have independent chairs and, like Lilly, 57% of companies in the S&P 500 instead have lead independent directors,[1] and six of the eight U.S.-incorporated companies from our peer group (see "Compensation Discussion and Analysis—Compensation Committee's Processes and Analyses—Competitive Pay Assessment" for a list of our peer group companies)[2] have a combined board chair and CEO. In addition, Lilly's shareholders decidedly rejected similar proposals seeking to mandate an independent board chair at both our 2020 and 2021 annual

meetings of shareholders, with nearly two-thirds of the votes cast against the proposal, thus endorsing our flexible approach.

Lilly's current board leadership structure and corporate governance practices provide effective, independent oversight of management.

Lilly has a strong independent board that operates under sound principles of corporate governance. See "Governance—Highlights of the Company's Corporate Governance—Leadership Structure; Oversight of Chair, CEO, and Senior Management" for a description of the board's governance principles. Although the chair and CEO roles are combined, we ensure independent oversight of the company through a counterbalancing governance structure, which we have had since 2006 through either a lead independent director or presiding director. Further bolstering independent oversight, each of our current board members other than the CEO is independent (12 out of 13 directors), and all standing board committees are made up solely of independent directors and led by independent committee chairs.

Lilly's lead independent director is elected annually by and from among the independent directors of the board. Our strong lead independent director is empowered with clearly defined responsibilities including:

- leading the board's processes for selecting the CEO;
- overseeing the independent directors' annual performance evaluation of the chair and CEO;
- serving as a liaison between the chair and the independent directors;
- presiding at all meetings of the board at which the chair is not present;
- presiding at executive sessions of the independent directors;
- calling meetings of the independent directors, as appropriate;
- approving meeting agendas and schedules and reviewing information to be provided to the board;
- being available for consultation and direct communication with shareholders, as appropriate;
- together with the chair and the chair of the Directors and Corporate Governance Committee, conducting the annual board assessment process;
- together with the Directors and Corporate Governance Committee, leading the director succession planning process; and
- retaining advisors for the independent directors, as appropriate.

Furthermore, the board has instituted a number of governance best practices to ensure effective independent oversight, including:

- executive sessions of the independent directors held after every regular board meeting that are presided over by our lead independent director;
- an annual performance evaluation of the chair and CEO conducted by the independent directors, the results of which are reviewed with the CEO and considered by the Compensation Committee and independent directors in establishing the CEO's compensation for the next year;
- an annual performance evaluation of the lead independent director by the board as part of the annual board assessment process;
- independent director access to management whenever deemed necessary by the independent directors; and
- the ability of independent directors and all committees to retain their own independent advisors, at the company's expense, whenever they deem it desirable to do so.

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[1] Source: EY Center for Board Matters, Corporate Governance by the Numbers. December 31, 2021.

[2] Biogen has an independent board chair and Merck's former CEO and Chair retired as CEO in 2021 and remains on Merck's board of directors as executive chair.

Lilly's current governance structure provides effective, independent oversight over key matters that are important to our stakeholders, including drug pricing and access.

Our independent directors are deeply engaged in key matters important to Lilly and our stakeholders, including the oversight over the company's approach to drug pricing and access. Guided by this active oversight, Lilly already has taken numerous steps to promote drug affordability and access. For example, Lilly introduced two additional lower-priced versions of Humalog in January 2020 and added the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which now enables customers with commercial insurance or no insurance to purchase their monthly prescription of all Lilly insulins for $35. In addition, in September 2021, Lilly announced that it would lower the list price of all Lilly's non-branded insulins, including Insulin Lispro Injection, by an additional 40% in the U.S. That price reduction took effect January 1, 2022, effectively reducing the list price to 2008 levels. These examples, among others, demonstrate Lilly's commitment to providing effective oversight over drug pricing and access.

Our board of directors believes that our shareholders are best served by preserving the flexibility to determine the appropriate leadership structure for the company in light of the circumstances at the relevant time.

We believe the proposal would unnecessarily restrict the board's ability to exercise its fiduciary duty to determine the board leadership structure most appropriate for the company given the specific circumstances and leadership needs at any particular point in time. The company's robust governance framework ensures that board leadership is balanced with independent participation given the extensive involvement and approval authority of the lead independent director and his oversight. Our independent directors also collectively bring to the board vast leadership experience, industry expertise, and other critical skills, and individually have demonstrated the willingness to think and act independently on behalf of shareholders. Therefore, adopting a proposal that would limit the board's ability to exercise decision-making on the appropriate leadership is not in shareholders' best interests.

We believe independence is essential to strong corporate governance. The combination of a chair who is also the CEO and a lead independent director assigned specific duties and empowered with robust authority achieves the delivery of multiple balanced inputs to the board. Having one individual serve as both chair and CEO provides the board with deep insights to drive long-term strategy and execution and allows consistent communication throughout the company. This is vital to our innovative research and development business with prolonged product development cycles. Further, the lead independent director, currently a sitting CEO, drives an "outside in" analysis of company decisions and performance, maintains frequent contact with our chair and CEO to ensure a productive partnership between our independent directors and management and leads our independent directors in their important oversight function. This leadership structure has served our shareholders well.

Our current governance structure enables us to be responsive to shareholders' preferences—for example, this year we are submitting a management proposal to allow shareholders to amend the company's bylaws.

Our current governance structure enables us to be responsive and accountable to shareholders. For example, this year we have submitted a management proposal to amend our articles of incorporation to give shareholders the ability to amend the company's bylaws (see Item 6) with a majority vote standard. In addition, as we have done each of the past four years, we are also resubmitting management proposals to eliminate the classified board structure and supermajority voting requirements (see Items 4 and 5), which reflects our continued commitment to the interests of our shareholders.

Our current governance structure appropriately balances the company's need for continuity in its leadership with independent and effective oversight.

Lilly's independent directors have determined that Mr. Ricks is eminently qualified to serve as both chair and CEO, and the board believes that having him fill that combined role, complemented by Mr. Luciano, a strong lead independent director, strikes an appropriate balance between consistent leadership and independent and effective oversight that is optimal for the company and our shareholders. For additional information on the particular qualities of Mr. Ricks and why he is best suited to serve as chair at this time, as well as information on the leadership provided by Mr. Luciano, the lead independent director, please see "Governance—Highlights of the Company's Corporate Governance—Leadership Structure; Oversight of Chair, CEO, and Senior Management."

For these reasons, we believe a policy requiring an independent board chair is not necessary and not in the best interests of the company and its shareholders.

Board Recommendation on Item 7

The board recommends that you vote **AGAINST** this proposal.

Item 8. Proposal to Publish an Annual Report Disclosing Lobbying Activities

SEIU Master Trust, 1800 Massachusetts Ave. NW, Suite 301, Washington, D.C. 20036-1202, beneficial owner of shares of our common stock having a market value in excess of $2000, has submitted the following proposal:

Whereas, we believe in full disclosure of Eli Lilly and Company's ("Lilly's") direct and indirect lobbying activities and expenditures to assess whether its lobbying is consistent with its expressed goals and in the best interests of shareholders.

Resolved, shareholders of Lilly request the preparation of a report, updated annually, disclosing:

1. Company policies and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
2. Payments by Lilly used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
3. Lilly's membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of management's and the Board's decision-making process and oversight for making payments described in sections 2 and 3 above.

For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which Lilly is a member.

Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the territory, local, state and federal levels.

The report shall be presented to the Public Policy and Compliance Committee and posted on Lilly's website.

Supporting Statement

Drugmakers spend more to lobby Washington than any other industry.[1] Lilly spent $88,362,000 from 2010 - 2020 on federal lobbying. Lilly lobbies extensively at the state level where disclosure is uneven or absent, with at least 144 lobbyists in 44 states in 2020 (followthemoney.org). Lilly lobbies abroad, spending between €700,000-799,000 on lobbying in Europe.

Lilly fails to disclose its third-party payments to trade associations and social welfare organizations, or the amounts used for lobbying, to shareholders. Companies can give unlimited amounts to third party groups that spend millions on lobbying and often undisclosed grassroots activity, and these groups may be spending "at least double what's publicly reported."[2] For example, Pharmaceutical Research and Manufacturers of America (PhRMA) has given millions to controversial "dark money" social welfare groups like the American Action Network.[3]

Lilly chairs the board of PhRMA and belongs to the U.S. Chamber of Commerce, which together have spent over $2.1 billion on lobbying since 1998, and supports social welfare organizations that lobby, like the Alliance for Patient Access, "which claims to be pro-consumer but consistently advocates against policies to lower drug prices."[4]

We are concerned Lilly's lack of disclosure presents reputational risk when its lobbying contradicts company public positions. For example, Lilly states it supports more affordable medicines, yet funds PhRMA's opposition to lower prescription drug prices.[5] And while Lilly opposed Indiana voter restrictions, groups have asked Lilly to cut ties with the American Legislative Exchange Council "because of its voter restriction efforts."[6]

Statement in Opposition to the Shareholder Proposal to Publish an Annual Report Disclosing Lobbying Activities

The board, after review by its Directors and Corporate Governance Committee, recommends a vote against this proposal.

The proposal calls for the board to publish an annual report to shareholders disclosing the company's direct and indirect lobbying activities and expenditures to assess whether its lobbying is consistent with its expressed goals and in the best interest of shareholders.

The report requested by the proposal is unnecessary because Lilly already provides shareholders with extensive disclosures regarding the company's direct and indirect lobbying activities and expenditures, and information necessary to assess the consistency of the company's lobbying activities with its expressed goals through existing disclosures. Given the focus of our stakeholders on this topic, in November 2021, we substantially enhanced our disclosures with respect to Lilly's direct and indirect lobbying activities, for example, disclosures regarding:

- our board's oversight of political expenditures and lobbying activities;
- Lilly's political contributions to candidates for public office (directly from Lilly and through the company's exclusively employee-led political action committee (the "LillyPAC"));
- recipients of Lilly's political contributions;

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[1] https://www.opensecrets.org/news/2021/04/vaccine-access-pharma-lobbying-fight/.

[2] https://theintercept.com/2019/08/06/business-group-spending-on-lobbying-in-washington-is-at-least-double-whats-publicly-reported/.

[3] https://www.opensecrets.org/news/2019/11/big-phanna-bankrolled-conservative-groups-tax-retums-show/.

[4] https://prospect.org/power/astroturf-campaign-attacks-discount-drug-program-for-poor/.

[5] https://www.opensecrets.org/news/2021/09/phannaceutical-industrv-backs-democratic-holdouts-on-drug-pricing-plan/.

[6] https://www.thenation.com/article/politics/alec-corporations-democracv/.

- Lilly's federal and state lobbying activities; and
- Lilly's trade association memberships to which Lilly pays annual membership dues of $50,000 or more (including those trade associations where Lilly has a board seat).

These extensive disclosures already enable shareholders to assess whether the company's lobbying activities are consistent with its expressed goals and in the best interest of shareholders.

In addition, the company already directs its public policy engagement toward offering Lilly's perspective in a manner that supports access to innovative medicines and advocates for improvements to the U.S. healthcare system and, accordingly, Lilly's policies and procedures relating to its engagement in political activities already seek to align the company's lobbying activities with its expressed goals. Moreover, contrary to the proposal's assertions, Lilly does not fund opposition to lowering prescription drug prices. Lilly does, however, oppose legislative policies that would hinder medical discovery for patients. For example, we opposed H.R. 3 because it would not only stifle innovation but there are better policy solutions to help patients with their out of pockets costs such as Medicare Part D modernization and not requiring deductibles for insulin coverage. Similarly, we have opposed the drug pricing aspects of the Build Back Better Act that would also have negative consequences to drug discovery without directly helping patients—such as Medicare negotiation. Our political expenditures, however, cover the political spectrum and reflect our approach to engaging stakeholders on various complex issues to help preserve incentives and ensure an environment conducive to finding new treatments.

Lilly already publicly discloses the information requested by the proposal regarding the company's policies and procedures governing direct and indirect lobbying activities.

In this proxy statement, the political participation page of Lilly's website (the "Political Participation Website"), and Lilly's corporate governance guidelines, the company discloses its extensive policies and procedures governing direct and indirect lobbying activities. For example, the Political Participation Website discloses:

- Lilly's commitment, through public policy engagement, to provide a way for all our locations globally to offer Lilly's perspective on the political environment in a manner that supports access to innovative medicines, as well as to look for ways to engage on issues specific to local business environments;
- that Lilly employees must comply with our global policies, core values and legal obligations, which are outlined in our written code of business conduct, The Red Book;
- that when engaging in lobbying activities Lilly complies with the laws that govern such activities, Lilly's vice president, U.S. government affairs is responsible for overseeing these activities and the company's general counsel and chief financial officer, or their designees, also approve all corporate political contributions before they are made; and
- that, where permitted, Lilly makes lawful political contributions in the United States to political candidate committees, political parties, political action committees, ballot measure committees, associations and other political organizations operating under section 527 of the Internal Revenue Code.

Lilly already publicly discloses the information requested by the proposal regarding our direct and indirect lobbying expenditures.

Lilly makes extensive disclosures regarding its direct and indirect lobbying expenditures in its Political Participation Website, proxy materials, the environmental, social and governance ("ESG") page of its website, and through other publicly available disclosures regarding its political activities. The trade associations through which Lilly conducts its indirect lobbying activities (which are evaluated annually by the Company's U.S. government affairs leaders) also publicly disclose their lobbying expenditures. As noted in the bullet points above, in November 2021, Lilly substantially enhanced its disclosures related to its direct and indirect lobbying activities, including lobbying expenditures. Lilly voluntarily discloses its corporate political contributions and expenditures on an annual basis on the Political Participation Website. The proposal also requests we disclose our grassroots lobbying communications, however, Lilly does not engage in grassroots lobbying communications to the general public. The proposal also notes that groups have asked Lilly to cut ties with the American Legislative Exchange Council ("ALEC"). Lilly is no longer a member of ALEC. Additional details regarding the company's corporate contributions, LillyPAC's contributions (which are also voluntarily disclosed on an annual basis), contribution data, and the company's direct lobbying expenses are also already made available to the public from numerous public sources.

Lilly already publicly discloses the information requested by the proposal regarding our membership in, and payments to, any tax-exempt organizations that writes and endorses model legislation.

As noted above, Lilly's Political Participation Website also contains information regarding the company's U.S. trade association memberships for which the company pays annual dues of $50,000 or more and information regarding the percentage of dues collected by such trade associations utilized for federal and state lobbying and political expenditures. In the Political Participation Website, Lilly already discloses Lilly's memberships in organizations that report lobbying activity to the U.S. federal government, including the Pharmaceutical Research and Manufacturers of America, the National Association of Manufacturers, the Biotechnology Innovation Organization, the U.S. Chamber of Commerce and the Business Roundtable.

Lilly already publicly discloses the information requested by the proposal regarding its decision-making process and the board's oversight over direct and indirect lobbying activities.

In this proxy statement and the Political Participation Website, Lilly already discloses its decision-making process and the board's oversight over the company's political expenditures and direct and indirect lobbying activities to ensure the company fulfills its commitment to stewardship of corporate funds and risk minimization with respect to such activities.

For example, the board receives regular updates from the senior vice president, corporate affairs, and communications regarding public policy issues and the company's direct and indirect lobbying activities and receives semi-annual updates on direct and indirect lobbying activities and trade association memberships. See "Governance—Highlights of the Company's Corporate Governance—Political and Policy Participation" for additional information.

Requiring Lilly to prepare a separate report with this information would place an undue administrative burden on the company and would not provide meaningful additional information to shareholders.

We do not believe the additional disclosures contemplated by the proposal would provide meaningful additional information to shareholders to merit the resources required to provide the requested report. For these reasons, we believe the proposal is not in the best interests of the company and its shareholders.

Board Recommendation on Item 8

The board recommends that you vote **AGAINST** this proposal.

Item 9. Proposal to Disclose Lobbying Activities and Alignment with Public Policy Positions and Statements

CommonSpirit Health, 444 West Lake Street, Chicago, IL 60606, beneficial owner of shares of our common stock having a market value in excess of $2000, has submitted the following proposal:

Resolved: Shareholders request that the Board of Directors commission and publish a third party review within the next year (at reasonable cost, omitting proprietary information) of whether Eli Lilly and Company's ("Lilly's") lobbying activities (direct and through trade associations) align with Lilly's public policy position and public statements, particularly supporting "making medicines more accessible and affordable to patients" and "fairness and transparency in the biopharma industry."[1] The report should discuss how Lilly addresses the risks presented by any misaligned lobbying and its plans, if any, to mitigate these risks.

Supporting Statement:

Lilly's commitment to Health Above All is in opposition to its lobbying efforts. Lilly says, "We're dedicated to making our medicines more equitable, accessible and affordable," and clearly states, "no one should have to ration their insulin."[2] Yet, Lilly is among three insulin manufacturers explicitly called out for price collusion in a 2017 class action lawsuit.[3]

Lilly states, "Now more than ever, it's vitally important that we demonstrate accountability and trustworthiness so we can continue to earn the confidence of patients, healthcare providers and other customers, as well as society as a whole." However, Lilly has directly lobbied against drug pricing reform that advances affordability,[4] hiring three lobbyists in March 2021, to defeat Democratic drug pricing proposals even while Lilly was under intense scrutiny for insulin price hikes.[5]

Lilly's CEO Dave Ricks is now the Board Chair for Pharmaceutical Research and Manufacturers of America ("PhRMA"), which raised nearly $527 million in 2020 and spent roughly $506 million, including donating millions to numerous other organizations for use in opposing congressional drug pricing reform efforts.[6] PhRMA also sits on the board of the American Legislative Exchange Council, which has actively opposed H.R. 3 and its moderate counterpart S. 2534 (both 116th Congress) - bills to lower the costs of pharmaceuticals.[7]

Lilly is the fourth largest lobbying spender ($166.2M) and the third highest campaign contributor ($13.3M) between 1999 and 2018. Lilly was among several pharmaceutical companies that gave $1.6M to lawmakers in the first half of 2021, targeting legislators who were likely to oppose drug pricing reforms in the Build Back Better Act.[8]

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[1] https://www.lilly.com/policies-reports/public-policy.
[2] https://www.lilly.com/who-we-are/health-above-all.
[3] https://www.fiercepharma.com/pharma/novo-faces-new-shareholder-suit-for-alleged-collusive-price-fixing.
[4] https://www.wfyi.org/news/articles/eli-lilly-says-legislation-to-address-drug-prices-would-hurt-its-current-future-operations.
[5] https://www.opensecrets.org/news/2021/04/vaccine-access-pharma-lobbying-fight/.
[6] https://www.opensecrets.org/news/2020/12/pharma-lobby-poured-millions-into-darkmoney-groups/.
[7] https://www.alecaction.org/update/20-alec-lawmakers-say-no-to-importing-price-controls-and-socialized-medicine-to-america.
[8] https://www.tampabay.com/news/health/2021/10/27/big-pharma-spends-big-to-block-attempts-to-control-drug-prices/.

The positions Lilly adopts should not be undermined by lobbying efforts undertaken by organizations the Company supports financially. A company may not support every position taken by the trade associations to which it belongs, but proper risk management requires that the board be aware of inconsistencies and evaluate salient risks that would require mitigation.

Given Lilly's extensive direct and indirect lobbying against measures that would make drugs more affordable, we are concerned that the misalignment between Lilly's lobbying and its stated position with regard to equity, access and affordability creates reputational risk.[9]

For these reasons, we urge shareholders to support the proposal.

Statement in Opposition to the Shareholder Proposal to Publish an Annual Report Disclosing Lobbying Activities

The board, after review by its Directors and Corporate Governance Committee, recommends a vote against this proposal.

The proposal calls for the board to publish a report to shareholders disclosing whether the company's lobbying activities align with its public policy positions and statements, particularly regarding Lilly's goals of promoting access and affordability of medicines and fairness and transparency in the biopharmaceutical industry.

The report requested by the proposal is unnecessary because Lilly already provides shareholders with sufficient information to assess the alignment of the company's lobbying activities with its public positions and statements through existing disclosures. Given the focus of our stakeholders on this topic, in November 2021, we substantially enhanced our disclosures with respect to Lilly's direct and indirect lobbying activities, including, without limitation, disclosures regarding:

- our board's oversight of political expenditures and lobbying activities;
- Lilly's political contributions to candidates for public office (directly from Lilly and through the company's exclusively employee-led political action committee (the "LillyPAC"));
- recipients of Lilly's political contributions;
- Lilly's federal and state lobbying activities; and
- Lilly's trade association memberships to which Lilly pays annual membership dues of $50,000 or more (including those trade associations where Lilly has a board seat).

These extensive disclosures already enable shareholders to assess whether the company's lobbying activities align with its public policy positions and statements, as well as to assess the risks presented by any potential misalignment.

In addition, the company already directs its public policy engagement toward offering Lilly's perspective in a manner that supports access to innovative medicines and advocates for improvements to the U.S. healthcare system and, accordingly, Lilly's policies and procedures relating to its engagement in political activities already seek to align the company's lobbying activities with its expressed goals. Moreover, contrary to the proposal's assertions, Lilly does not fund opposition to lowering prescription drug prices. Lilly does, however, oppose legislative policies that would hinder medical discovery for patients. For example, we opposed H.R. 3 because it would not only stifle innovation but there are better policy solutions to help patients with their out of pockets costs such as Medicare Part D modernization and not requiring deductibles for insulin coverage. Similarly, we have opposed the drug pricing aspects of the Build Back Better Act that would also have negative consequences to drug discovery without directly helping patients—such as Medicare negotiation. Our political expenditures, however, cover the political spectrum and reflect our approach to engaging stakeholders on various complex issues to help preserve incentives and ensure an environment conducive to finding new treatments.

Lilly already publicly discloses the information requested by the proposal regarding the company's lobbying activities.

Lilly makes extensive disclosures regarding its lobbying activities in the political participation page of its website (the "Political Participation Website"), proxy materials, the environmental, social and governance ("ESG") page of its website, and through other publicly available disclosures regarding its political activities. As noted in the bullet points above, in November 2021, Lilly substantially enhanced its disclosures related to its lobbying activities. In addition, Lilly voluntarily discloses its corporate political contributions on an annual basis. In addition to the public disclosures of lobbying expenditures by trade associations through which Lilly conducts its indirect lobbying activities (which are evaluated annually by the company's U.S. government affairs leaders), Lilly's Political Participation Website also contains information regarding the company's trade association memberships for which the company pays annual dues of $50,000 or more, as well as information regarding the percentage of dues collected by such trade associations utilized for federal and state lobbying and political expenditures. Additional details regarding the company's corporate contributions, LillyPAC's contributions (which are also voluntarily disclosed on an annual basis), contribution data, and the company's direct lobbying expenses are also already made available to the public from numerous public sources.

[9] https://www.opensecrets.org/orgs/eli-lilly-co/lobbying?id=d000000166

Lilly already publicly discloses the information requested by the proposal regarding its public policy positions and statements with regard to accessibility and affordability and fairness and transparency.

In this proxy statement, the Political Participation Website and Lilly's public policy website, the company discloses its public policy positions regarding accessibility and affordability as well as fairness and transparency in the biopharmaceutical industry. These disclosures include Lilly's commitment to advocate for improvements to the U.S. health care system that align with the company's core principles of: (1) encouraging and protecting innovation; (2) fairness and transparency in the biopharmaceutical industry and all of health care; and (3) lowering costs at the pharmacy counter for patients who use our medicine. Lilly's lobbying activities are aligned with these public policy positions and our actions also clearly demonstrate this alignment. For example, Lilly advocates for insurers to pass through its negotiated rebates directly to consumers at the pharmacy counter and is supportive of efforts to exempt health care services for chronic conditions from a health insurance plan's deductible. On the ESG page of its website, Lilly also discloses its support for various transparency initiatives globally, and the company seeks to collaborate with policy makers, industry colleagues and key stakeholders to align on approaches that achieve these objectives. As demonstrations of delivering on its commitment to its public policy positions regarding drug pricing and access, Lilly introduced two additional lower-priced versions of Humalog in January 2020 and added the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which now enables customers with commercial insurance or no insurance to purchase their monthly prescription of all Lilly insulins for $35. In addition, in September 2021, Lilly announced that it would lower the list price of all Lilly's non-branded insulins, including Insulin Lispro Injection, by an additional 40% in the U.S. That price reduction took effect January 1, 2022, effectively reducing the list price to 2008 levels. These examples, among others, demonstrate Lilly's commitment to providing effective oversight over drug pricing and access.

Lilly already publicly discloses the information requested by the proposal regarding its oversight and plans to mitigate alleged risks presented by any misaligned lobbying activities.

In this proxy statement and the Political Participation Website, Lilly already discloses its governance and risk mitigation procedures that are in place to avoid and address any misalignment between Lilly's lobbying activities and its public policy positions and statements.

For example, the board exercises oversight of Lilly's political expenditures and lobbying activities to ensure the company fulfills its commitment to stewardship of corporate funds and risk minimization with respect to such activities. The board receives regular updates from the senior vice president, corporate affairs, and communications regarding public policy issues and the company's direct and indirect lobbying activities and receives semi-annual updates on direct and indirect lobbying activities and trade association memberships.

Therefore, the board already takes steps to oversee and mitigate the potential risks of misalignment between Lilly's lobbying activities and public policy positions and statements.

Requiring Lilly to prepare a separate report with this information would place an undue administrative burden on the company and would not provide meaningful additional information to shareholders.

We do not believe the additional disclosures contemplated by the proposal would provide meaningful additional information to shareholders to merit the resources required to provide the requested report. For these reasons, we believe the proposal is not in the best interests of the company and its shareholders.

Board Recommendation on Item 9

The board recommends that you vote **AGAINST** this proposal.

Item 10. Proposal to Report Oversight of Risks Related to Anticompetitive Pricing Strategies

Trinity Health, 766 Brady Avenue, Apt. #635, Bronx, New York 10462, beneficial owner of shares of our common stock having a market value in excess of $2000, has submitted the following proposal:

RESOLVED that shareholders of Eli Lilly and Company ("Eli Lilly") ask the board of directors to report to shareholders on how it oversees risks related to anticompetitive practices, including whether the full board or board committee has oversight responsibility, whether and how consideration of such risks is incorporated into board deliberations regarding strategy, and the board's role in Eli Lilly' s public policy activities related to such risks. The report should be prepared at reasonable expense and should omit confidential or proprietary information, as well as information about existing litigation and claims of which Eli Lilly has notice.

SUPPORTING STATEMENT

The anticompetitive practices of companies within the pharmaceutical supply chain, including insulin manufacturers such as Eli Lilly, are receiving increasing scrutiny from the public, regulators, and enforcers. The criticism of Eli Lilly has focused on the company's insulin pricing strategy, which has resulted in massive price hikes for everyday consumers.[1]

In response, regulators and legislators have increasingly focused on the pricing strategies of insulin manufacturers. In early 2021, the Senate Finance Committee issued a Staff Report on the rising cost of insulin, noting that Eli Lilly's Humalog 50-50 Kwikpen had seen a 64% price increase between 2013 and 2017, and that insulin manufacturers had "aggressively raised the [wholesale acquisition cost] of their insulin products absent significant advances in the efficacy of the drugs."[2] Additionally, in response to high insulin prices, eight states (CO, IL, ME, NM, NY, UT, WA, WV) have capped the price of insulin within their jurisdiction and others are considering adopting similar policies.[3]

Separately, the company is facing a multitude of lawsuits around the pricing of its insulin products, including claims from various state attorney generals, class action lawsuits, and other market participants.[4] The allegations include claims that Eli Lilly violated both state and federal RICO statutes, was unjustly enriched, and violated various state level consumer protection laws.[5] The number and magnitude of lawsuits continues to mount, with the Mississippi Attorney General recently filing a lawsuit against Eli Lilly, alleging that the company colluded with other insulin manufacturers and pharmacy benefit managers to artificially keep insulin prices high:[6]

Eli Lilly's pricing strategies and the resulting mounting pressure on the company increase the likelihood of new regulation, increase risk for investors, and have a substantial impact on the public at large. Given the widespread concern and rapidly changing environment the company finds itself in, we believe that robust board oversight would improve Eli Lilly's management of the risks related to its anticompetitive practices and that shareholders would benefit from more information about the board's role.

Therefore, we urge Eli Lilly shareholders to vote FOR this proposal.

Statement in Opposition to the Shareholder Proposal to Report Oversight of Risks Related to Anticompetitive Pricing Strategies

The board, after review by its Directors and Corporate Governance Committee, recommends a vote against this proposal.

The proposal calls for the board to produce a report on how it oversees risks from alleged anticompetitive practices. The supporting statement makes reference to, among other things, competition-related lawsuits and regulatory investigations that relate to the pricing of insulin from several years ago.

The proposal is unnecessary because Lilly already provides shareholders information that can be used to assess the board's oversight over risks from alleged anticompetitive practices, including relating to the pricing of its medicines. This proxy statement and the company's environmental, social and governance ("ESG") page of its website include extensive disclosures describing how the board actively oversees and approves Lilly's strategy, approves significant management initiatives, and structures its board and board committee agendas to engage directors in informed reviews of strategic and forward-looking issues, and Lilly's independent directors are deeply engaged in overseeing Lilly's approach to drug pricing and access.

These materials disclose that under the active oversight from the board and its committees, Lilly devotes substantial time and resources to implementing industry-leading initiatives in furtherance of insulin affordability. While the proposal attempts to articulate alleged anticompetitive risks by relying on "wholesale acquisition cost" data from 2017, the fact is that through numerous affordability solutions, combined with insurance coverage, Lilly has lowered the average monthly out-of-pocket cost for a prescription of Lilly insulin (regardless of the number of vials or pens) by 42% since 2017, to $22.59. Today, with various affordability options now available, anyone is eligible to purchase their monthly prescription of Lilly insulin for $35, whether they are uninsured, use commercial insurance, or are enrolled in a participating Medicare Part D plan.

In the 2021 10-K, this proxy statement and board committee charters, we already publicly disclose risks regarding regulatory and pricing strategy and the mechanisms by which the board and its committees actively oversee such risks.

In our 2021 10-K, we already disclose that there continues to be considerable public and government scrutiny of pharmaceutical pricing, and that measures to address the perceived high cost of pharmaceuticals are being considered at

various levels of state and federal government. Our risk factors address drug pricing risk, noting that public and private payers continue to take steps to control expenditures for pharmaceuticals by placing restrictions on pricing and reimbursement for, and patient access to, our medications.

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[1] https://www.finance.senate.gov/imo/media/doc/Grassley-Wyden%20Insulin%20Report%20(FINAL%201).pdf.

[2] *Id.*

[3] https://www.nbcnews.com/news/us-news/states-are-trying-cap-price-insulin-pharmaceutical-companies-are-pushing-n1236766

[4] See Eli Lilly and Company 2020 Form 10-K, at 108-109 (https://investor.lilly.com/static-files/e724cf2c-3a2e-4180-beaf-944ecd588323).

[5] *Id.*

[6] https://seekingalpha.com/news/3706905-eli-lilly-sanofi-and-novo-nordisk-sued-over-insulin-prices

We already disclose to shareholders the mechanisms by which the board oversees such risks in this proxy statement and in our committee charters, which we make publicly available on our website. This proxy statement includes extensive information about how our independent directors are deeply engaged in key matters important to Lilly and our stakeholders, including oversight over the company's approach to drug pricing and access. For example, the full board oversees the state of our compliance program and reviews key enterprise-level risks, and the Audit Committee oversees enterprise risk management processes and procedures.

The Audit Committee charter charges the Audit Committee with monitoring legal and regulatory requirements, Lilly's compliance with legal and regulatory requirements and processes and procedures to identify and mitigate enterprise-level risks. The Ethics and Compliance Committee charter charges the Ethics and Compliance Committee with reviewing, identifying and, when appropriate, bringing to the board's attention legal and regulatory trends and issues. The Ethics and Compliance Committee meets at least four times a year, including semi-annual private sessions with the company's chief ethics and compliance officer, general auditor, and senior vice president, global quality. On an annual basis, the full board reviews the company's overall state of compliance and the Ethics and Compliance Committee receives an update on compliance at each meeting. In addition, the Audit Committee and the Ethics and Compliance Committee meet jointly at least annually to review significant legal or regulatory compliance exposure and material reports or inquiries from regulators. Guided by this active oversight and as described in the next section, Lilly provides sufficient information to shareholders to assess that the company has already taken numerous industry-leading initiatives to promote drug affordability and access.

In this proxy statement and on the ESG page of our website, we already disclose how the board incorporates pricing decisions into its strategic considerations designed in furtherance of medicine accessibility.

This proxy statement discloses that the board actively oversees our corporate strategy and provides that each year the board and executive management closely examine the company's strategy, including key risks and decisions facing the company.

The ESG page of our website describes that Lilly aims to strike a balance between access and affordability for patients while sustaining investments in life-changing treatments for some of today's most serious diseases. When making pricing decisions, we use a value-based approach, taking into account the following:

- **Customer perspective** – The unmet needs that medicines can fulfill for patients and caregivers and how people can affordably access the treatment;
- **Company considerations** – The costs of research, development, manufacturing and support services for customers; business trends and other economic factors; as well as the medicine's potential market size, patent life and place within our larger portfolio of medicines;
- **Competitive landscape** – The benefits of our medicine compared to alternative medicines, where our medicine fits in treating conditions and existing contracts between payers and our competitors;
- **Other external factors** – Such as health system changes and policy guidelines.

As described in this proxy statement, under the active oversight of the board, we have taken substantial actions to address drug pricing and access concerns. For example, Lilly introduced two additional lower-priced versions of Humalog in January 2020 and added the Lilly Insulin Value Program to Lilly's comprehensive suite of insulin affordability solutions in September 2020, which now enables customers with commercial insurance or no insurance to purchase their monthly prescription of all Lilly insulins for $35. In addition, in September 2021, Lilly announced that it would lower the list price of all Lilly's non-branded insulins, including Insulin Lispro Injection, by an additional 40% in the U.S. That price reduction took effect January 1, 2022, effectively reducing the list price to 2008 levels. These examples, among others, demonstrate Lilly's commitment to providing effective oversight over drug pricing and access.

In addition, for the last five years Lilly has published on the company's website U.S. list price increases and net price decreases for certain Lilly products, as well as specific additional data for Humalog and Insulin Lispro. Our board approved this measure five years ago and Lilly was among the first companies to provide this information. In addition to other actions that actually lower the price of our drugs, such as those referenced above, we routinely disclose our drug price changes, in some cases several months in advance, to stakeholders and multiple state and federal agencies.

The board's role in public policy assessments is disclosed on the Political Participation Website, stating our approach to overseeing current and emerging environmental, social, political and governance trends and public policy issues that may affect business operations, including overseeing political activities.

As noted in this proxy statement and the Political Participation Website, as a biopharmaceutical company that develops treatments for serious diseases, we believe it is important for our company to be a responsible participant in global political and public policy debates. Our engagement in the political arena helps ensure that patients have access to needed medicines. Through public policy engagement, we provide a way for all our locations globally to offer Lilly's perspective on the political environment in a manner that supports access to innovative medicines and a way to engage on issues specific to local business environments.

The Political Participation Website describes that the board exercises governance oversight of our political expenditures and lobbying activities ensuring our commitment to stewardship of corporate funds and risk minimization with respect to such activities. As discussed in the Political Participation Website, the board receives regular updates from our senior vice president, corporate affairs and communications regarding public policy issues and the company's direct and indirect

lobbying activities and receives semi-annual updates on political engagement, including information on the contributions made by our exclusively employee-led political action committee (LillyPAC) and the company, as well as trade association memberships. Lilly's vice president, U.S. government affairs reviews and approves all corporate political contributions to ensure these contributions are consistent with the company's guidelines and in accordance with applicable laws. Our general counsel and our chief financial officer, or their designees, also approve all corporate political contributions before they are made.

Therefore, the board already takes steps to oversee and mitigate the potential risks of public policy issues that may affect our business operations, including overseeing political activities.

Requiring Lilly to prepare a separate report with this information would place an undue administrative burden on the company and would not provide meaningful additional information to shareholders.

We do not believe the additional disclosures contemplated by the proposal would provide meaningful additional information to shareholders to merit the resources required to provide the requested report. For these reasons, we believe the proposal is not in the best interests of the company and its shareholders.

Board Recommendation on Item 10

The board recommends that you vote **AGAINST** this proposal.

Other Information

Meeting and Voting Logistics

Additional Items of Business

We do not expect any items of business to be submitted to shareholders at the Annual Meeting other than the proposals referred to in this proxy statement. Nonetheless, if necessary, the persons named on the proxy have discretionary authority to vote the shares represented thereby with respect to any other matters that might be brought before the meeting. Those persons intend to vote on any such matters in accordance with their best judgment.

Voting

Shareholders as of the close of business on February 22, 2022 (the record date), may vote or have their shares voted at the Annual Meeting. You have one vote for each share of common stock you held on the record date, including shares:

- held directly in your name as the shareholder of record;
- held for you in an account with a broker, bank, or other nominee; and
- attributed to your account in the company's 401(k) Plan.

We encourage you to vote by mail, by telephone, or online even if you plan to attend the Annual Meeting. Shareholders who hold their shares in the 401(k) Plan must vote by April 27, 2022, so the plan trustee can vote their shares accordingly. See "—Voting Shares Held in the Company 401(k) Plan" for more information.

Required Vote

Below are the vote requirements for the various proposals:

- The three nominees for director will be elected if the votes cast for the nominee exceed the votes cast against the nominee. Abstentions and broker non-votes will not count as votes cast either for or against a nominee.
- The following items of business will be approved if the votes cast for the proposal exceed the votes cast against the proposal:
    - an advisory approval of compensation paid to the named executive officers presented in this proxy statement;
    - ratification of the appointment of the independent auditor;
    - the proposal to amend the company's articles of incorporation to give shareholders the ability to amend the bylaws; and
    - four shareholder proposals.

Abstentions and broker non-votes will not be counted as votes cast either for or against these proposals. As discussed below in "Meeting and Voting Logistics—Voting Shares Held by a Broker," broker non-votes are not expected in connection with the ratification of the appointment of the independent auditor.

The proposals to amend the articles of incorporation to eliminate the classified board structure and to eliminate supermajority voting provisions require the vote of 80 percent of the outstanding shares of our common stock. For these items, abstentions and broker non-votes have the same effect as a vote against the proposals.

Quorum

A majority of the outstanding shares entitled to vote, present or represented by proxy, constitutes a quorum for the Annual Meeting. As of February 22, 2022, 952,347,126 shares of company common stock were issued and outstanding.

Voting by Shareholders of Record

If you are a shareholder of record, you may vote by any one of the following methods:



Online. You may vote online at ProxyVote.com. Follow the instructions on your proxy card or notice. If you received these materials electronically, follow the instructions in the email message that notified you of their availability.



By telephone. Call 1-800-690-6903 using a touch-tone phone and follow the instructions provided.



By mail. If you received or requested paper copies of your proxy materials, sign, date, and return each proxy card you receive in the prepaid envelope. Sign your name exactly as it appears. If you are signing in a representative capacity (for example, as an attorney-in-fact, executor, administrator, guardian, trustee, or the officer or agent of a corporation or partnership), please indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners. If you return your signed proxy but do not indicate your voting preferences, the proxy holder will vote on your behalf based upon the board's recommendations.

You may vote your shares prior to the Annual Meeting until 11:59 p.m. EDT on May 1, 2022, online or by telephone. If you are voting by mail, your marked, signed, and dated proxy card must be received by May 1, 2022. Shareholders of record may also opt to vote at the Annual Meeting, which will be held online via live webcast at virtualshareholdermeeting.com/LLY2022. See "—Attending the Annual Meeting" for more information on attending the Annual Meeting.

You have the right to change your vote or revoke your proxy before it is voted at the Annual Meeting by (i) timely notifying the General Counsel and Secretary in writing, (ii) timely delivering a later-dated proxy by mail, or (iii) timely casting a new vote online or by telephone. Shareholders of record may also revoke their proxies by voting at the Annual Meeting.

Voting Shares Held by a Broker

If your shares are held by a broker, the broker will ask you how you want your shares to be voted. You may instruct your broker or other nominee to vote your shares by following instructions that the broker or nominee provides to you. Most brokers offer voting by mail, by telephone, and online. You may submit new voting instructions by contacting your broker or other nominee or by voting at the Annual Meeting.

If you give the broker instructions, your shares will be voted as you direct. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a "broker non-vote." In these cases, the broker can register your shares as being present at the Annual Meeting for purposes of determining the presence of a quorum but will not be able to vote on those matters for which specific authorization is required under NYSE rules. If you are a beneficial owner whose shares are held of record by a broker, your broker has discretionary voting authority under NYSE rules to vote your shares on the ratification of EY as the independent auditor for 2022, even if the broker does not receive voting instructions from you. However, your broker does not have discretionary authority to vote on the election of directors, the advisory approval of executive compensation, or the shareholder or management proposals without instructions from you, in which case a broker non-vote will occur, and your shares will not be voted on these matters.

Voting Shares Held in the Company 401(k) Plan

You may instruct the plan trustee on how to vote your shares in the 401(k) Plan online, by mail, or by telephone as described above in "Meeting and Voting Logistics—Voting by Shareholders of Record," except that if you vote by mail, the card you use will be a voting instruction form rather than a proxy card.

In addition, unless you decline, your vote will apply to a proportionate number of other shares held by participants in the 401(k) Plan for which voting directions are not received (except for a small number of shares from a prior stock ownership plan, which can be voted only on the directions of the participants to whose accounts the shares are credited).

All participants are named fiduciaries under the terms of the 401(k) Plan and under the Employee Retirement Income Security Act (ERISA) for the limited purpose of voting shares credited to their accounts and the portion of undirected shares to which their vote applies. Under ERISA, fiduciaries are required to act prudently in making voting decisions.

If you do not want to have your vote applied to the undirected shares, you must so indicate when you vote. Otherwise, the trustee will automatically apply your voting preferences to the undirected shares proportionally with all other participants who elected to have their votes applied in this manner.

If you do not vote online or by telephone by 11:59 p.m. EDT on April 27, 2022, or if your mailed ballot is not received by April 27, 2022, your shares will be voted in accordance with instructions received from other plan participants who have elected to have their voting preferences applied proportionally to all shares for which voting instructions are not otherwise received. You will not be able to vote your shares personally at the Annual Meeting.

Multiple Notices, Proxy Materials, or Emails

If you received more than one notice, full set of proxy materials, or email related to proxy materials, you hold shares in more than one account. You will need to cast a vote for each notice, full set of proxy materials, or email you receive. If you do not receive a proxy card, you may have elected to receive your proxy statement electronically, in which case you should have received an email with directions on how to access this proxy statement and how to vote your shares. If you wish to request a paper copy of these materials and a proxy card, please call 1-800-579-1639 on or before April 18, 2022, to facilitate timely delivery.

Vote Tabulation

Votes are tabulated by an independent inspector of election, Broadridge Financial Solutions, Inc.

Attending the Annual Meeting

The Annual Meeting will be held on Monday, May 2, 2022, at 11:00 a.m. EDT, and all shareholders as of close of business on February 22, 2022, are entitled to participate.

The Annual Meeting will be held virtually via live webcast.

Although you will not be able to attend the Annual Meeting at a physical location, we have designed the Annual Meeting live webcast to provide shareholders the opportunity to participate virtually to facilitate shareholder attendance and provide a consistent experience to all shareholders, regardless of location.

The live webcast of the Annual Meeting can be accessed by shareholders on the day of the meeting at virtualshareholdermeeting.com/LLY2022 and will begin promptly at 11:00 a.m. EDT. To attend the Annual Meeting, you will need to log in to virtualshareholdermeeting.com/LLY2022 using the 16-digit control number found on the proxy card, voting instruction form, or notice you previously received. This website can be accessed on a computer, tablet, or phone with internet connection. Online access to the webcast will open 15 minutes prior to the start of the Annual Meeting to allow time to log in and test your device's audio system. We encourage you to access the meeting in advance of the designated start time.

To submit questions in advance of the Annual Meeting, visit ProxyVote.com before May 2, 2022, and enter your 16-digit control number. During the meeting, if you wish to submit a question, log into the virtual meeting website at virtualshareholdermeeting.com/LLY2022, click on "Q&A," type your question into the "Submit a Question" field, and click "Submit." In order to provide an opportunity to as many shareholders as possible who wish to ask a question, each shareholder will be limited to one question. Shareholders may ask a second question if all other shareholders have had an opportunity to ask a question and if time allows. The Annual Meeting is scheduled to begin at 11:00 a.m. EDT and end at 11:45 a.m. EDT, and time remaining after agenda items are addressed will be available for shareholder questions. We will endeavor to answer as many questions submitted by shareholders as time permits. We reserve the right to edit profanity or other inappropriate language and to exclude questions regarding topics that are not pertinent to meeting matters or company business. If we receive substantially similar questions, we may group such questions together and provide a single response to avoid repetition. Responses to questions relevant to meeting matters that we do not have time to respond to during the meeting will be posted to our website following the meeting. Questions regarding topics that are not pertinent to meeting matters or company business will not be answered.

Support staff will be available should you experience any technical difficulties in accessing the virtual meeting. Instructions for requesting technical assistance will be available at virtualshareholdermeeting.com/LLY2022.

List of Shareholders of Record

A list of the names of shareholders entitled to vote at the Annual Meeting will be available to shareholders for five business days prior to the Annual Meeting for any purpose germane to the Annual Meeting. Please contact us at shareholderproposals@lilly.com if you wish to examine the list prior to the Annual Meeting. The shareholder list will also be available during the virtual Annual Meeting for examination by shareholders who access the Annual Meeting using their 16-digit control number at virtualshareholdermeeting.com/LLY2022.

The 2023 Annual Meeting

The company's 2023 annual meeting of shareholders is currently scheduled for May 1, 2023.

Other Matters

Notice and Access

We distribute proxy materials to many shareholders via the internet under the SEC's "Notice and Access" rules to reduce production and mailing costs and to help preserve environmental resources. Using this method of distribution, on or about March 18, 2022, we mailed the Notice Regarding the Availability of Proxy Materials that contains basic information about the Annual Meeting and instructions on how to view all proxy materials and vote. If you receive the notice and prefer to receive proxy materials by regular mail or email, follow the instructions in the notice for making this request, and the materials will be sent promptly to you via the preferred method. If you prefer to vote by phone rather than online, the website listed on the notice (ProxyVote.com) has instructions for voting by phone.

Householding

We have adopted a procedure approved by the SEC called "householding." Under the householding procedure, certain shareholders, whether they own registered shares or shares in street name, who have the same address and who receive either notices or paper copies of the proxy materials in the mail will receive only one copy of our proxy materials, or a single notice, for all shareholders at that address, unless one or more of the shareholders at that address has previously notified us that they want to receive separate copies. Each 401(k) Plan participant will continue to receive a copy of all of the proxy materials. Regardless of how you own your shares, if you received a single set of proxy materials as a result of householding, and one or more shareholders at your address would like to have separate copies of these materials with respect to the Annual Meeting or in the future, or if you would like to request that only a single set of proxy materials be sent to the household, please contact Broadridge Financial Solutions, Inc., at 1-866-540-7095 or 51 Mercedes Way, Edgewood, NY 11717.

Other Information Regarding the Company's Proxy Solicitation

The board is soliciting proxies for the Annual Meeting. We will pay all expenses in connection with our solicitation of proxies. We will pay brokers, nominees, fiduciaries, or other custodians their reasonable expenses for sending proxy material to and obtaining instructions from persons for whom they hold stock of the company. We expect to solicit proxies primarily by mail and email, but directors, officers, and other employees of the company may also solicit in person or by telephone, fax, or email. We have retained Georgeson LLC to assist in the distribution and solicitation of proxies. Georgeson may solicit proxies by personal interview, telephone, fax, mail, and email. We expect that the fee for those services will not exceed $17,500 plus reimbursement of customary out-of-pocket expenses.

Corporate Governance Materials

The company's main corporate website address is lilly.com. We also make available through our investor relations website, free of charge, our company filings with the SEC as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The reports we make available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to those documents. The website link to our SEC filings is investor.lilly.com/sec.cfm. This proxy statement and the annual report to shareholders are also available at ProxyVote.com as well as on our website at lilly.com/policies-reports/annual-report, and the articles of incorporation, bylaws, and all committee charters are available online at lilly.com/leadership/governance. Certain documents and information referenced in this proxy statement are available on our website. However, except as otherwise expressly provided in this proxy statement, we are not including the information contained on our website, or any information that may be accessed by links on our website, as part of, or incorporating it by reference into, this proxy statement.

By order of the Board of Directors,

Ms. Anat Hakim
Senior Vice President, General Counsel, and Secretary
March 18, 2022

Appendix A - Summary of Adjustments Related to the Annual Cash Bonus and Performance Award

Consistent with past practice, the Compensation Committee adjusted the reported financial results on which the 2021 annual cash bonus and the 2020-2022 performance awards were determined to eliminate the distorting effect of certain unusual items on incentive compensation performance measures. The adjustments are intended to:

- align award payments with the underlying performance of the core business
- avoid volatile, artificial inflation or deflation of awards due to unusual items during any year in the performance period, and, where relevant, the previous (comparator) year
- eliminate certain counterproductive short-term incentives—for example, incentives to refrain from acquiring new technologies, to defer disposing of underutilized assets, or to defer settling legacy legal proceedings to protect current bonus payments
- facilitate comparisons with peer companies.

To ensure the integrity of the adjustments, the Compensation Committee establishes adjustment guidelines in the first 90 days of the performance period. These guidelines are generally consistent with the company guidelines for reporting non-GAAP financial measures to the investment community, which are reviewed by the Audit Committee. The adjustments apply equally to income and expense items. The Compensation Committee reviews all adjustments and retains downward discretion, i.e., discretion to reduce compensation below the amounts that are yielded by the adjustment guidelines.

Adjustments for 2021 Bonus Plan

For 2021 bonus calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our external reporting of non-GAAP financial measures:

- Eliminated the impact of the charges recognized for acquired in-process research and development
- Eliminated the impact of amortization of intangible assets
- Eliminated the impact of a charge related to the repurchase of higher-cost debt
- Eliminated the impact of asset impairments, restructuring, and other special charges
- Eliminated the impact of COVID-19 antibodies inventory charges that were recognized primarily due to changes in forecasted demand from U.S. and international governments
- Eliminated the impact of net gains on investments in equity securities

In addition to the adjustments consistent with our reporting of non-GAAP financial measures, the Compensation Committee made the following adjustment:

- When the Compensation Committee set 2021 bonus targets, the revenue and EPS goal did not contemplate estimated savings from certain discrete and unplanned performance items. The Compensation Committee reduced revenue and non-GAAP EPS for the purposes of the bonus calculation to exclude the savings from these items.

A reconciliation of adjustments to our reported revenue is below:

	2021
Revenue as reported	$28,318.4
Adjustment for estimated savings from certain discrete and unplanned performance items	(180.8)
Adjusted revenue	$28,137.6

A reconciliation of adjustments to our reported EPS is below:

	2021
EPS as reported	$6.12
Acquired in-process research and development charges	0.77
Amortization of intangible assets	0.53
Charge related to repurchase of higher-cost debt	0.35
Asset impairments, restructuring, and other special charges	0.28
COVID-19 antibodies inventory charges	0.25
Net gains on investments in equity securities	(0.16)
Non-GAAP EPS	$8.16
Adjustment for estimated savings from certain discrete and unplanned performance items	(0.16)
Adjusted Non-GAAP EPS	$8.00

*Numbers may not add due to rounding

Adjustments for 2020-2022 Performance Award

For the 2020-2022 performance award payout calculations, the Compensation Committee made the following adjustments to reported EPS consistent with our reporting of non-GAAP financial measures:

- 2019: Eliminated Elanco discontinued operations
- 2021, 2020, and 2019: Eliminated the impact of charges recognized for acquired in-process research and development
- 2021, 2020, and 2019: Eliminated the impact of amortization of intangible assets
- 2021 and 2019: Eliminated the impact of charges related to the repurchase of debt
- 2021, 2020, and 2019: Eliminated the impact of asset impairments, restructuring, and other special charges
- 2021: Eliminated the impact of COVID-19 antibodies inventory charges that were recognized primarily due to changes in forecasted demand from U.S. and international governments
- 2021, 2020, and 2019: Eliminated the impact of net gains on investments in equity securities
- 2019: Eliminated the impact of the gain on sale of the China antibiotics business
- 2019: Eliminated the impact of Lartruvo charges
- 2019: Eliminated the impact of reduced shares outstanding from the Elanco exchange offer
- 2019: Eliminated the impact of certain income tax items

A reconciliation of adjustments to our reported EPS is below:

	2021	2020	% Growth 2021 vs. 2020	2019	% Growth 2020 vs. 2019
EPS as reported	$6.12	$6.79	(9.9)%	$8.89	(23.6)%
Elanco discontinued operations	—	—		(3.93)	
EPS as reported from continuing operations	6.12	6.79		4.96	
Acquired in-process research and development charges	0.77	0.64		0.21	
Amortization of intangible assets	0.53	0.36		0.18	
Charge related to repurchase of debt	0.35	—		0.22	
Asset impairment, restructuring, and other special charges	0.28	0.14		0.58	
COVID-19 antibodies inventory charges	0.25	—		—	
Net gains on investments in equity securities[a]	(0.16)	(1.15)		(0.31)	
Gain on sale of China antibiotics business	—	—		(0.26)	
Lartruvo charges	—	—		0.14	
Impact of reduced shares outstanding for non-GAAP reporting[b]	—	—		0.07	
Impact of certain tax items[c]	—	—		(0.05)	
Non-GAAP EPS	$8.16	$6.78	20.4 %	$5.73	18.3 %

*Numbers may not add due to rounding

[a] In 2021, the company began excluding gains and losses on investments in equity securities from non-GAAP measures. Prior to 2021, the Compensation Committee made a $0.98 adjustment to 2020 non-GAAP EPS to offset the impact of the net gains on investments in equity securities on EPS results in an amount that significantly exceeded the expected net gains on investments originally included in the EPS plan during 2020. For the 2020-2021 performance award, the Compensation Committee adjusted the 2019 base-year results to which the expected industry growth rates are applied to derive the two-year cumulative EPS goals and recast 2020 non-GAAP EPS to be consistent with the 2021 non-GAAP EPS treatment of gains and losses on investments in equity securities. Those adjusted 2020 and 2019 results are presented in this table for comparability.

[b] Non-GAAP EPS assume that the disposition of Elanco occurred at the beginning of 2019 and, therefore, exclude the approximately 65.0 million shares of Lilly common stock retired in the Elanco exchange offer.

[c] Amount relates to a tax benefit from a capital loss on the disposition of subsidiary stock.

Appendix B - Proposed Amendments to the Company's Articles of Incorporation

Proposed changes to the company's articles of incorporation are shown below related to Items 4 and 5, "Items of Business." The changes shown to Article 9(b) will be effective if Item 4, "Proposal to Amend the Company's Articles of Incorporation to Eliminate the Classified Board Structure," receives the vote of at least 80 percent of the outstanding shares. The changes to Articles 9(c), 9(d), and 13 will be effective if Item 5, "Proposal to Amend the Company's Articles of Incorporation to Eliminate Supermajority Voting Provisions," receives the vote of at least 80 percent of the outstanding shares. Additions are indicated by underlining and deletions are indicated by strike-outs. The full text of the company's Articles of Incorporation can be found on our website at lilly.com/leadership/governance.

9. The following provisions are inserted for the management of the business and for the conduct of the affairs of the Corporation, and it is expressly provided that the same are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(a) The number of directors of the Corporation, exclusive of directors who may be elected by the holders of any one or more series of Preferred Stock pursuant to Article 7(b) (the "Preferred Stock Directors"), shall not be less than nine, the exact number to be fixed from time to time solely by resolution of the Board of Directors, acting by not less than a majority of the directors then in office.

(b) Prior to the 2023 annual meeting of directors, T~~t~~he Board of Directors (exclusive of Preferred Stock Directors) shall be divided into three classes, with the term of office of one class expiring each year. ~~At the annual meeting of shareholders in 1985, five directors of the first class shall be elected to hold office for a term expiring at the 1986 annual meeting, five directors of the second class shall be elected to hold office for a term expiring at the 1987 annual meeting, and six directors of the third class shall be elected to hold office for a term expiring at the 1988 annual meeting.~~ Commencing with the annual meeting of shareholders in ~~1986~~2023, each class of directors whose term shall then expire shall be elected to hold office for a ~~three~~one-year term expiring at the next annual meeting of shareholders. In the case of any vacancy on the Board ~~of Directors, including a vacancy created by an increase in the number~~ of Ddirectors, the vacancy shall be filled by election of the Board of Directors with the director so elected to serve for the remainder of the term of the director being replaced or, in the case of an additional director, ~~for the remainder of the term of the class to which the director has been assigned~~ until the next annual meeting of shareholders. All directors shall continue in office until the election and qualification of their respective successors in office. ~~When the number of directors is changed, any newly created directorships or any decrease in directorships shall be so assigned among the classes by a majority of the directors then in office, though less than a quorum, as to make all classes as nearly equal in number as possible.~~ No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Election of directors need not be by written ballot unless the By-laws so provide.

(c) Any director or directors (exclusive of Preferred Stock Directors) may be removed from office at any time, but only for cause and only by the affirmative vote of at least ~~80%~~a majority of the votes ~~entitled to be~~ cast ~~by~~ by holders of all the outstanding shares of Voting Stock (as defined in Article 13 hereof), voting together as a single class.

~~(d) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article 9.~~

13. In addition to all other requirements imposed by law and these Amended Articles and except as otherwise expressly provided in paragraph (c) of this Article 13, none of the actions or transactions listed below shall be effected by the Corporation, or approved by the Corporation as a shareholder of any majority-owned subsidiary of the Corporation if, as of the record date for the determination of the shareholders entitled to vote thereon, any Related Person (as hereinafter defined) exists, unless the applicable requirements of paragraphs (b), (c), (d), (e), and (f) of this Article 13 are satisfied.

(a) The actions or transactions within the scope of this Article 13 are as follows:

(i) any merger or consolidation of ~~the Corporation or~~ any of ~~its~~ the Corporation's subsidiaries into or with such Related Person;

(ii) any sale, lease, exchange, or other disposition of all or any substantial part of the assets of ~~the Corporation~~ or any of ~~its~~the Corporation's majority-owned subsidiaries to or with such Related Person;

(iii) the issuance or delivery of any Voting Stock (as hereinafter defined) or of voting securities of any of the Corporation's majority-owned subsidiaries to such Related Person in exchange for cash, other assets or securities, or a combination thereof;

~~(iv) any voluntary dissolution or liquidation of the Corporation;~~

(iv) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its subsidiaries, or any other transaction (whether or not with or otherwise involving a Related Person) that has the effect, directly or indirectly, of increasing the proportionate share of any class or series of capital stock of the Corporation, or any securities convertible into capital stock of the Corporation or into equity securities of any subsidiary, that is beneficially owned by any Related Person; or

(v~~i~~) any agreement, contract, or other arrangement providing for any one or more of the actions specified in the foregoing clauses (i) through (iv).

(b) The actions and transactions described in paragraph (a) of this Article 13 shall have been authorized by the affirmative vote of ~~at least 80% of all~~ a majority of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class.

(c) Notwithstanding paragraph (b) of this Article 13, the ~~80% voting~~ special shareholder approval requirement set forth in paragraph (b) shall not be applicable if any action or transaction specified in paragraph (a) is approved by the Corporation's Board of Directors and by a majority of the Continuing Directors (as hereinafter defined).

(d) Unless approved by a majority of the Continuing Directors, after becoming a Related Person and prior to consummation of such action or transaction.:

(i) the Related Person shall not have acquired from the Corporation or any of its subsidiaries any newly issued or treasury shares of capital stock or any newly issued securities convertible into capital stock of the Corporation or any of its majority-owned subsidiaries, directly or indirectly (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata stock dividend or stock split or other distribution of stock to all shareholders pro rata);

(ii) such Related Person shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges, or other financial assistance or tax credits provided by the Corporation or any of its majority-owned subsidiaries, or made any major changes in the Corporation's or any of its majority-owned subsidiaries' businesses or capital structures or reduced the current rate of dividends payable on the Corporation's capital stock below the rate in effect immediately prior to the time such Related Person became a Related Person; and

(iii) such Related Person shall have taken all required actions within its power to ensure that the Corporation's Board of Directors included representation by Continuing Directors at least proportionate to the voting power of the shareholdings of Voting Stock of the Corporation's Remaining Public Shareholders (as hereinafter defined), with a Continuing Director to occupy an additional Board position if a fractional right to a director results and, in any event, with at least one Continuing Director to serve on the Board so long as there are any Remaining Public Shareholders.

(e) A proxy statement responsive to the requirements of the Securities Exchange Act of 1934, as amended, whether or not the Corporation is then subject to such requirements, shall be mailed to the shareholders of the Corporation for the purpose of soliciting shareholder approval of such action or transaction and shall contain at the front thereof, in a prominent place, any recommendations as to the advisability or inadvisability of the action or transaction which the Continuing Directors may choose to state and, if deemed advisable by a majority of the Continuing Directors, the opinion of an investment banking firm selected by a majority of the Continuing Directors as to the fairness (or not) of the terms of the action or transaction from a financial point of view to the Remaining Public Shareholders, such investment banking firm to be paid a reasonable fee for its services by the Corporation. The requirements of this paragraph (e) shall not apply to any such action or transaction which is approved by a majority of the Continuing Directors.

(f) For the purpose of this Article 13:

(i) the term "Related Person" shall mean any other corporation, person, or entity which beneficially owns or controls, directly or indirectly, 5% or more of the outstanding shares of Voting Stock, and any Affiliate or Associate (as those terms are defined in the General Rules and Regulations under the Securities Exchange Act of 1934) of a Related Person; provided, however, that the term Related Person shall not include (a) the Corporation or any of its subsidiaries, (b) any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any subsidiary of the Corporation or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or (c) Lilly Endowment, Inc.; and further provided, that no corporation, person, or entity shall be deemed to be a Related Person solely by reason of being an Affiliate or Associate of Lilly Endowment, Inc.;

(ii) a Related Person shall be deemed to own or control, directly or indirectly, any outstanding shares of Voting Stock owned by it or any Affiliate or Associate of record or beneficially, including, without limitation, shares

a. which it has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants, or options, or otherwise; or

b. which are beneficially owned, directly or indirectly (including shares deemed owned through application of clause a. above), by any other corporation, person, or other entity with which it or its Affiliate or Associate has any agreement, arrangement, or understanding for the purpose of acquiring, holding, voting, or disposing of Voting Stock, or which is its Affiliate (other than the Corporation) or Associate (other than the Corporation);

(iii) the term "Voting Stock" shall mean all shares of any class of capital stock of the Corporation which are entitled to vote generally in the election of directors;

(iv) the term "Continuing Director" shall mean a director who is not an Affiliate or Associate or representative of a Related Person and who was a member of the Board of Directors of the Corporation immediately prior to the time that any Related Person involved in the proposed action or transaction became a Related Person or a director who is not an Affiliate or Associate or representative of a Related Person and who was nominated by a majority of the remaining Continuing Directors; and

(v) the term "Remaining Public Shareholders" shall mean the holders of the Corporation's capital stock other than the Related Person.

(g) A majority of the Continuing Directors of the Corporation shall have the power and duty to determine for the purposes of this Article 13, on the basis of information then known to the Continuing Directors, whether (i) any Related Person exists or is an Affiliate or an Associate of another and (ii) any proposed sale, lease, exchange, or other disposition of part of the assets of the Corporation or any majority-owned subsidiary involves a substantial part of the assets of the Corporation or any of its subsidiaries. Any such determination by the Continuing Directors shall be conclusive and binding for all purposes.

(h) Nothing contained in this Article 13 shall be construed to relieve any Related Person or any Affiliate or Associate of any Related Person from any fiduciary obligation imposed by law.

(i) The fact that any action or transaction complies with the provisions of this Article 13 shall not be construed to waive or satisfy any other requirement of law or these Amended Articles of Incorporation or to impose any fiduciary duty, obligation, or responsibility on the Board of Directors or any member thereof, to approve such action or transaction or recommend its adoption or approval to the shareholders of the Corporation, nor shall such compliance limit, prohibit, or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such action or transaction. The Board of Directors of the Corporation, when evaluating any actions or transactions described in paragraph (a) of this Article 13, shall, in connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders, give due consideration to all relevant factors, including, without limitation, the social and economic effects on the employees, customers, suppliers, and other constituents of the Corporation and its subsidiaries and on the communities in which the Corporation and its subsidiaries operate or are located.

~~(j) Notwithstanding any other provision of these Amended Articles of Incorporation or of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class of Voting Stock required by law or these Amended Articles of Incorporation, the affirmative vote of the holders of at least 80% of the votes entitled to be cast by holders of all the outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend, or repeal this Article 13~~.

Appendix C - Proposed Amendments to the Company's Articles of Incorporation

Proposed changes to the company's articles of incorporation are shown below related to Item 6, "Items of Business." The changes shown to Article 10 will be effective if the votes cast in favor of Item 6, "Proposal to Amend the Company's Articles of Incorporation to Give Shareholders the Ability to Amend the Company's Bylaws," exceeds the votes cast against this proposal. Additions are indicated by underlining and deletions are indicated by strike-outs. The full text of the company's Articles of Incorporation can be found on our website at lilly.com/leadership/governance.

10. ~~The Board of Directors~~ Subject to any express provision of the Indiana Business Corporation ~~is exclusively authorized (a) to adopt, repeal, alter or amend~~Law, the By-laws of the Corporation may be adopted, repealed, altered or amended by either (i) the Board of Directors of the Corporation by the vote of a majority of the entire Board of Directors ~~and~~, or (~~b~~ii) ~~to adopt any By-laws which the Board of Directors may deem necessary or desirable for the efficient conduct of the affairs of the Corporation, including, without limitation, provisions governing the conduct of, and the matters which may properly be brought before, meetings of the shareholders and provisions specifying the manner and extent to which prior notice shall be given~~the affirmative vote of at least a majority of the votes entitled to be cast by holders of all the ~~submission of proposals to be submitted at any~~outstanding shares of Voting Stock, voting together as a single class at a duly called and constituted meeting of shareholders ~~or of nominations of elections of directors to be held at any such meeting~~.

CORPORATE INFORMATION

ANNUAL MEETING

The 2022 annual meeting of shareholders will be held **virtually via live webcast at: virtualshareholdermeeting.com/LLY2022 on Monday May 2, 2022, at 11:00 a.m. EDT.**

10-K AND 10-Q REPORTS

Paper copies of the company's annual report on Form 10-K and quarterly reports on Form 10-Q that are filed with the Securities and Exchange Commission are available without charge upon written request to:

ELI LILLY AND COMPANY
C/O General Counsel and Secretary
Lilly Corporate Center
Indianapolis, Indiana 46285

To access these reports more quickly, you can find all our SEC filings online at: **investor.lilly.com/sec.cfm.**

STOCK LISTING

Eli Lilly and Company common stock is listed on the New York Stock Exchange under the ticker symbol: LLY.

TRANSFER AGENT AND REGISTRAR

EQ SHAREOWNER SERVICES
Mailing Address:

EQ SHAREOWNER SERVICES
P.O. Box 64854
St. Paul, Minnesota 55164-0854

Overnight Address:

EQ SHAREOWNER SERVICES
1110 Centre Pointe Curve, Suite 101
Mendota Heights, Minnesota 55120-4100

Telephone: 1-800-833-8699

Email: stocktransfer@equiniti.com

Internet: www.shareowneronline.com

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

EQ Shareowner Services administers the Shareowner Service Plus Plan, which allows registered shareholders to purchase additional shares of Eli Lilly and Company common stock through the automatic investment of dividends. The plan also allows registered shareholders and new investors to purchase shares with cash payments, either by check or by automatic deductions from checking or savings accounts.

The minimum initial investment for new investors is $1,000. Subsequent investments must be at least $50. The maximum cash investment during any calendar year is $150,000. Please direct inquiries concerning the Shareowner Service Plus Plan to:

EQ SHAREOWNER SERVICES
P.O. Box 64856
St. Paul, Minnesota 55164-0856
Telephone: 1-800-833-8699

ONLINE DELIVERY OF PROXY MATERIALS

Shareholders who receive paper copies of our annual reports and proxy materials by mail may elect to receive these materials online via email. This reduces paper mailed to the shareholder's home and saves the company printing and mailing costs. To enroll, go to **investor.lilly.com/services.cfm** and follow the directions provided.

FSC www.fsc.org
MIX
Paper from responsible sources
FSC® C127009

To view our Annual Report,
visit lilly.com/policies-reports/annual-report
or scan the QR code.

ELI LILLY AND COMPANY

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