

## Items of Business to Be Acted Upon at the Meeting

### Item 1. Election of Directors

Under the company's 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 elected this year will expire at the annual meeting of shareholders held in 2009. Each of the nominees listed below has agreed to serve that term. If any director is unable to stand for election, the board may, by resolution, provide for a lesser number of directors or designate a substitute. In the latter event, shares represented by proxies may be voted for a substitute director.

**The board recommends that you vote FOR each of the following nominees:**

- Martin S. Feldstein, Ph.D.
- J. Erik Fyrwald
- Ellen R. Marram
- Sidney Taurel

Biographical information about these nominees can be found on pages 7-8 of this proxy statement.

### Item 2. Proposal to Ratify the Appointment of Principal Independent Auditors

The audit committee has appointed the firm of Ernst & Young LLP as principal independent auditors for the company for the year 2006. In accordance with the bylaws, this appointment is being submitted to the shareholders for ratification. Ernst & Young served as the principal independent auditors for the company in 2005. Representatives of Ernst & Young are expected to be present at the annual meeting and will be available to respond to appropriate questions. Those representatives will have the opportunity to make a statement if they wish to do so.

**The board recommends that you vote FOR ratifying the appointment of Ernst & Young LLP as principal independent auditors for 2006.**

### Item 3. Shareholder Proposal Regarding Care and Use of Animals

Meredith Page, on behalf of People for the Ethical Treatment of Animals (PETA), 501 Front Street, Norfolk, Virginia 23510, beneficial owner of approximately 100 shares, has submitted the following proposal.

**The board recommends that you vote AGAINST this proposal.**

WHEREAS, the Company conducts tests on animals as part of its product research and development; and WHEREAS, the Company also retains independent laboratories to conduct tests on animals as part of product research and development; and

WHEREAS, Covance Inc. is an independent laboratory testing facility that the Company has retained to perform animal-based testing; and

WHEREAS, abuses of animals at Covance have been recently revealed and disclosed by the media; and

WHEREAS, the Company has an Animal Care and Use Policy posted on its website;

NOW THEREFORE,

BE IT RESOLVED, that the shareholders request that the Board issue a report to shareholders on the feasibility of amending the Company's Animal Care and Use Policy to ensure (a) that it extends to all contract laboratories and is reviewed with such outside laboratories on a regular basis, and (b) superior standards of care for animals who continue to be used for these purposes, both by the Company itself and by all independently retained laboratories, including provisions to ensure that animals' psychological, social and behavioral needs are met. Further, the shareholders request that the Board issue an annual report to shareholders on the extent to which in-house and contract laboratories are adhering to this policy, including the implementation of the psychological enrichment measures.

**Statement of Support:** A number of pharmaceutical companies have adopted and prominently published animal welfare policies on their websites relating to the care of animals used in product research and development. Eli Lilly as an industry leader is commended for its recognition of an "ethical and scientific obligation to ensure the appropriate treatment of animals used in research ..." <sup>1</sup>

However, the recent disclosure of atrocities recorded at Covance, Inc. has made the need for a formalized, publicly available animal welfare policy that extends to all outside contractors all the more relevant, indeed urgent. Filmed footage showed primates being subjected to such gross physical abuses and psychological torments that Covance sued to stop PETA Europe from publicizing it. The Honorable Judge Peter Langan, in the United Kingdom, who denied Covance's petition, stated in his decision that the video was "highly disturbing" and that just two aspects of it, namely the "rough manner in which animals are handled and the bleakness of the surroundings in which they are kept... even to a viewer with no particular interest in animal welfare, at least cry out for explanation."<sup>2</sup>

Shareholders cannot monitor what goes on behind the closed doors of animal testing laboratories, so the Company must. Accordingly, we urge the Board to commit to ensuring that basic animal welfare measures are an integral part of our Company's corporate stewardship.

We urge shareholders to support this Resolution.

### **Statement in Opposition to Animal Care and Use Proposal**

Lilly's public policy and compliance committee of the board has reviewed this proposal and believes that the additional reporting is an unnecessary use of the company's resources. The use of animals in clinical research is critical to advance drug discovery without endangering human life and to verify product safety prior to administering investigational drugs and biologics to human beings. We are committed to treating animals with appropriate care, and this commitment also extends to the third parties we work with.

Regulation and bioethics require us to carefully and thoroughly evaluate our products using the best scientific technologies available. Meeting this commitment requires the use of animals. We recognize that, in doing so, we have an ethical, scientific, and legal obligation to ensure the appropriate treatment of animals used in research, to minimize the number of animals involved, and to pursue the development of alternative test systems.

Where animals must be used, measures are taken to assure that discomfort and distress are minimized; living conditions of animals are appropriate for their species and contribute to their health and comfort; and all animals at the company are cared for under the close supervision of veterinarians and trained animal caretakers. The company's animal use care policies and guidelines are published on our website ([www.lilly.com/about/policies](http://www.lilly.com/about/policies)).

Lilly complies with local, state, and federal laws, regulations and guidelines on the use of animals in clinical research, which are enforced through unannounced site inspections by the U.S. Department of Agriculture or local authorities. Other institutions engaged in animal research are subject to the same requirements, which include preparing and submitting formal reports to the U.S. Government detailing the type of research conducted and the use of animals in that research.

All institutions engaged in animal research must have an Institutional Animal Care and Use Committee (including an independent, third-party member), which approves and oversees animal research activities and care programs.

We select and maintain relationships with suppliers based on the merit and value of their products and services. When contracting with third parties to do research involving animal studies, we seek to do business with companies that share our commitment to best practices in animal welfare. We expect our suppliers to operate in full compliance with applicable laws and consistently with high standards of social, environmental, and economic performance.

### **Item 4. Shareholder Proposal Regarding Separating the Roles of Chairman and Chief Executive Officer**

The Adrian Dominican Sisters, 1257 East Siena Heights Drive, Adrian, Michigan 49221-1793, beneficial owners of approximately 700 shares, have notified the company that they intend to present the following proposal at the annual meeting.

**The board recommends that you vote AGAINST this proposal.**

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<sup>1</sup> <http://www.lilly.com/about/policies/#animal>

<sup>2</sup> The case captioned Covance Laboratories Limited v. PETA Europe Limited was filed in the High Court of Justice, Chancery Division, Leeds District Registry, Claim No. 5C-00295. In addition to ruling in PETA's favor, the Court ordered Covance to pay PETA £50,000 in costs and fees.