
Eli Lilly and Company

Second Quarter Financial Review

July 22nd, 2010

The Lilly logo is written in a red, cursive script font.

Answers That Matter.

Agenda

Opening Remarks, Recent Events and European Update

- Phil Johnson, Vice President, Investor Relations

Financial Overview and Guidance

- Derica Rice, Executive Vice President, Global Services and Chief Financial Officer

Pipeline Update

- Ronika Pletcher, Director, Investor Relations

Question and Answer Session

Closing Remarks

Safe Harbor Provision

This presentation contains forward-looking statements that are based on management's current expectations, but actual results may differ materially due to various factors. The company's results may be affected by such factors as the risks and uncertainties in pharmaceutical research and development; competitive developments; regulatory actions; litigation and investigations; business development transactions; economic conditions; and changes in laws and regulations, including health care reform. For additional information about the factors that affect the company's business, please see the company's latest Form 10-K filed February 2010 and 10-Q filed May 2010.

The company undertakes no duty to update forward-looking statements.

Beyond the Quarterly Financial Results

Key events since the last earnings call

Business Development:

- Acquired Alnara Pharmaceuticals; liprotamase under FDA review for treatment of exocrine pancreatic insufficiency
- Entered into a development and exclusive license agreement for Marcadia Biotech's short-acting glucagon program

Regulatory:

- The FDA notified Lilly that an Advisory Committee will be held to discuss the Cymbalta sNDA submission for the management of chronic pain on August 19, 2010
- Submitted response to the Bydureon Complete Response Letter; new PDUFA goal date of October 22, 2010
- Received a positive final appraisal from UK's NICE for use of Alimta as a maintenance therapy for patients with nonsquamous NSCLC

Commercial:

- Launched Livalo in the United States
- Announced an agreement with Walmart to make Humulin® available across the U.S. under the dual-branded name Humulin® ReliOn®
- Various European governments announced measures to reduce pharmaceutical expenditures

European Pricing Update

- Germany
 - Temporary measures effective August 1st through the end of 2013:
 - Increase in rebate from 6% to 16%
 - Additional rebate to restore prices to August 1st, 2009 level
- Spain
 - 7.5% rebate on public sector purchases from June 1st; only 4% on orphan drugs but 25% for generics
- Greece
 - Temporary price reduction up to 27% from May 1st through August 31st
 - Expected to be replaced with reference pricing by August 31st
- Romania
 - 10% rebate retroactive to January 1st
- Italy
 - No price cuts on patented products; 12.5% reduction for generics

Despite increased pricing pressures, European business still fundamentally sound

Comparison Measures

Results shown two ways to aid analysis

“Reported” results

- Include all financial results as reported in accordance with GAAP

“Non-GAAP” results

- Start with “Reported” results
- Include adjustments for items such as:
 - Restructuring charges, asset impairments and special charges
 - In process R&D charges from business development activities

2010 Income Statement (Non-GAAP)

Millions; except per share data

	<u>Q2 2010</u>	<u>Q2 2009</u>	<u>Growth</u>
Total Revenue	5,749	5,293	9%
Gross Margin	82.2%	82.1%	0.1pp
Total Operating Expense*	2,943	2,749	7%
Operating Income	1,782	1,597	12%
Other Income / (Deductions)	(18)	(24)	(24)%
<i>Effective Tax Rate</i>	<i>22.5%</i>	<i>22.0%</i>	<i>0.5pp</i>
Net Income	<u>\$1,367</u>	<u>\$1,227</u>	11%
Diluted EPS	\$1.24	\$1.12	11%

For notes to the 2010 non-GAAP income statement, please see slide 8.

* Includes Research and Development expense and Selling, Marketing and Administrative expense.

2010 Income Statement (Reported)

Millions; except per share data

	<u>Q2 2010</u>	<u>Q2 2009</u>	<u>Growth</u>
Total Revenue	5,749	5,293	9%
Gross Margin	82.2%	82.1%	0.1pp
Total Operating Expense*	2,970	2,854	4%
Operating Income	1,755	1,492	18%
Other Income / (Deductions)	(18)	(24)	(24)%
<i>Effective Tax Rate</i>	<i>22.3%</i>	<i>21.1%</i>	<i>1.2pp</i>
Net Income	<u>\$1,349</u>	<u>\$1,159</u>	16%
Diluted EPS	\$1.22	\$1.06	15%

Notes:

The second-quarter 2010 results include restructuring charges of \$27.3 million (pretax), or \$0.02 per share (after-tax). These charges are primarily related to severance costs from previously announced strategic actions that the company is taking to reduce its cost structure and global workforce. The second quarter 2009 results include a special pretax charge of \$105.0 million, or \$0.06 per share (after-tax), in connection with several states' litigation claims involving Zyprexa.

* Includes Research and Development expense, Selling, Marketing and Administrative expense and other charges.

EPS Reconciliation

	<u>Q2 2010</u>	<u>Q2 2009</u>	<u>Growth</u>
EPS (reported)	\$1.22	\$1.06	15%
Charge related to Zyprexa litigation		0.06	
Restructuring charges	0.02		
EPS (non-GAAP)	<u>\$1.24</u>	<u>\$1.12</u>	11%

Note: Numbers may not add due to rounding.

Effect of Price/Rate/Volume on Revenue

	Q2 2010 Amount	Q2 2010 vs. Q2 2009			
		Price	FX Rate	Volume	Total
Pharmaceuticals					
U.S.	\$2,956.8	6%	-	3%	9%
Europe	1,182.0	(3)%	(2)%	4%	(1)%
Japan	376.2	(1)%	6%	33%	38%
ROW	750.1	(2)%	9%	7%	14%
Total Pharma	5,265.1	2%	1%	5%	9%
Animal Health	324.2	(2)%	2%	18%	18%
Net Product Sales	5,589.3	2%	1%	6%	9%
Collab/Other Revenue	159.4	-	-	(11)%	(11)%
Total Revenue	\$5,748.7	2%	1%	5%	9%

Note: Numbers may not add due to rounding.

Effect of Foreign Exchange on 2010 Results

(Non-GAAP)

Year-on-Year Growth

	Q2 2010		YTD 2010	
	With FX	w/o FX	With FX	w/o FX
Total Revenue	9%	7%	9%	7%
Cost of Sales	8%	8%	22%	4%
Gross Margin	9%	7%	6%	7%
Operating Expense <i>(R&D plus SG&A)</i>	7%	6%	7%	6%
Operating Income	12%	9%	4%	9%
EPS	11%	8%	4%	9%

Strong underlying financial performance,
excluding the effect of foreign exchange

Effect of Foreign Exchange on 2010 Results

(Reported)

Year-on-Year Growth

	Q2 2010		YTD 2010	
	With FX	w/o FX	With FX	w/o FX
Total Revenue	9%	7%	9%	7%
Cost of Sales	8%	8%	22%	4%
Gross Margin	9%	7%	6%	7%
Operating Expense <i>(R&D, SG&A and other items)</i>	4%	3%	7%	6%
Operating Income	18%	15%	4%	9%
EPS	15%	13%	4%	9%

2010 Guidance

Millions, except per share amounts

 Changes

Total Revenue	Mid-single digits
Gross Margin % of Revenue	Flat to increasing
Mktg, Selling & Admin.	Low-single digits
Research & Development	Low-double digits
Other Income/(Expense)	\$(50) - \$(100)
Tax Rate	Approximately 23%
EPS (non-GAAP)	\$4.50 - \$4.65
Reconciling Items <i>(excludes any potential future items)</i>	\$0.06
EPS (reported)	\$4.44 - \$4.59
Capital Expenditures	Less than \$900

For complete reconciliation to reported guidance, please see slide 14 of this presentation and our earnings press release dated July 22, 2010.

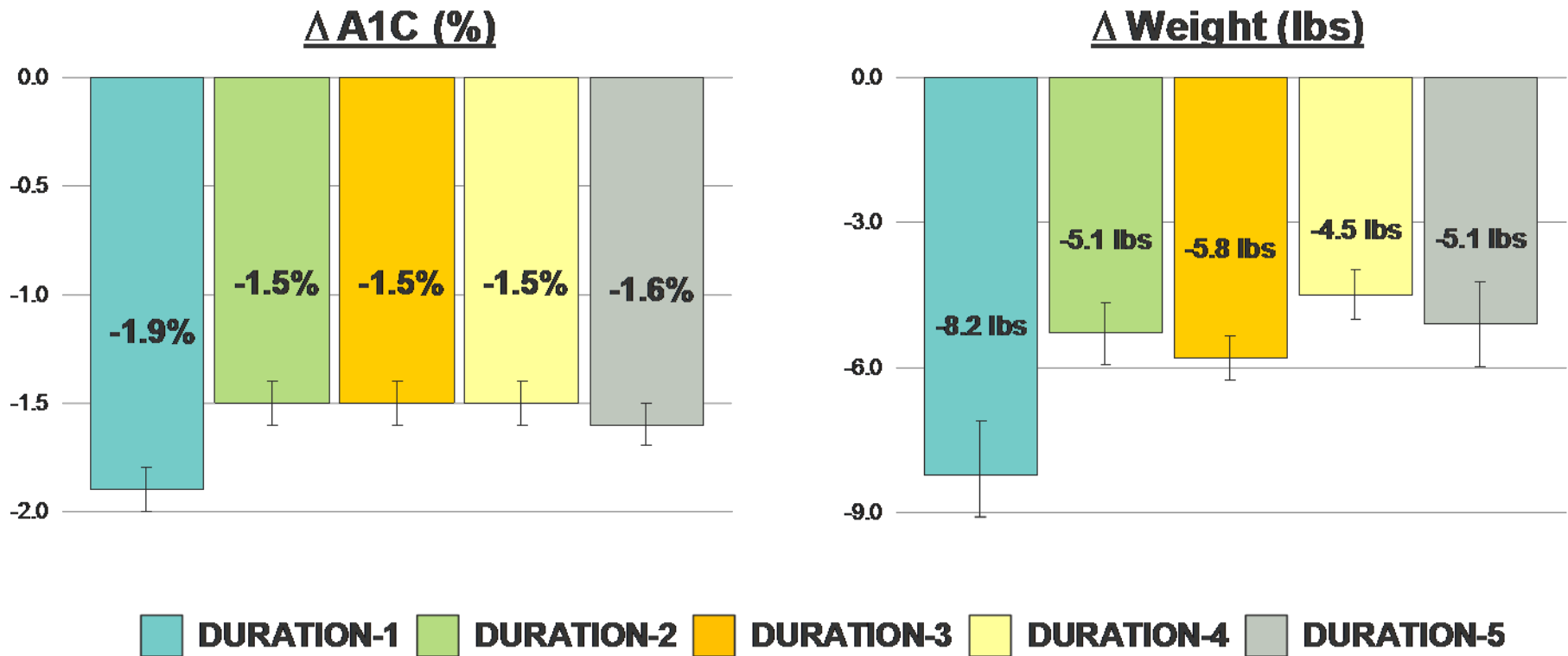
Earnings per Share Expectations

	<u>2010</u>	<u>2009</u>	<u>Growth</u>
Earnings per share (reported)	\$4.44-\$4.59	\$3.94	13%-16%
Charges related to Zyprexa litigation	-	0.13	
Asset impairments and restructuring charges	0.03	0.29	
In-process research and development charges associated with the Acrux (2010) and Incyte (2009) licensing agreements	0.03	0.05	
EPS (non-GAAP)	<u><u>\$4.50-\$4.65</u></u>	<u><u>\$4.42</u></u>	2%-5%

Note: Numbers may not add due to rounding.

Bydureon Results from DURATION Studies

Consistently demonstrated reductions in HbA1c and weight



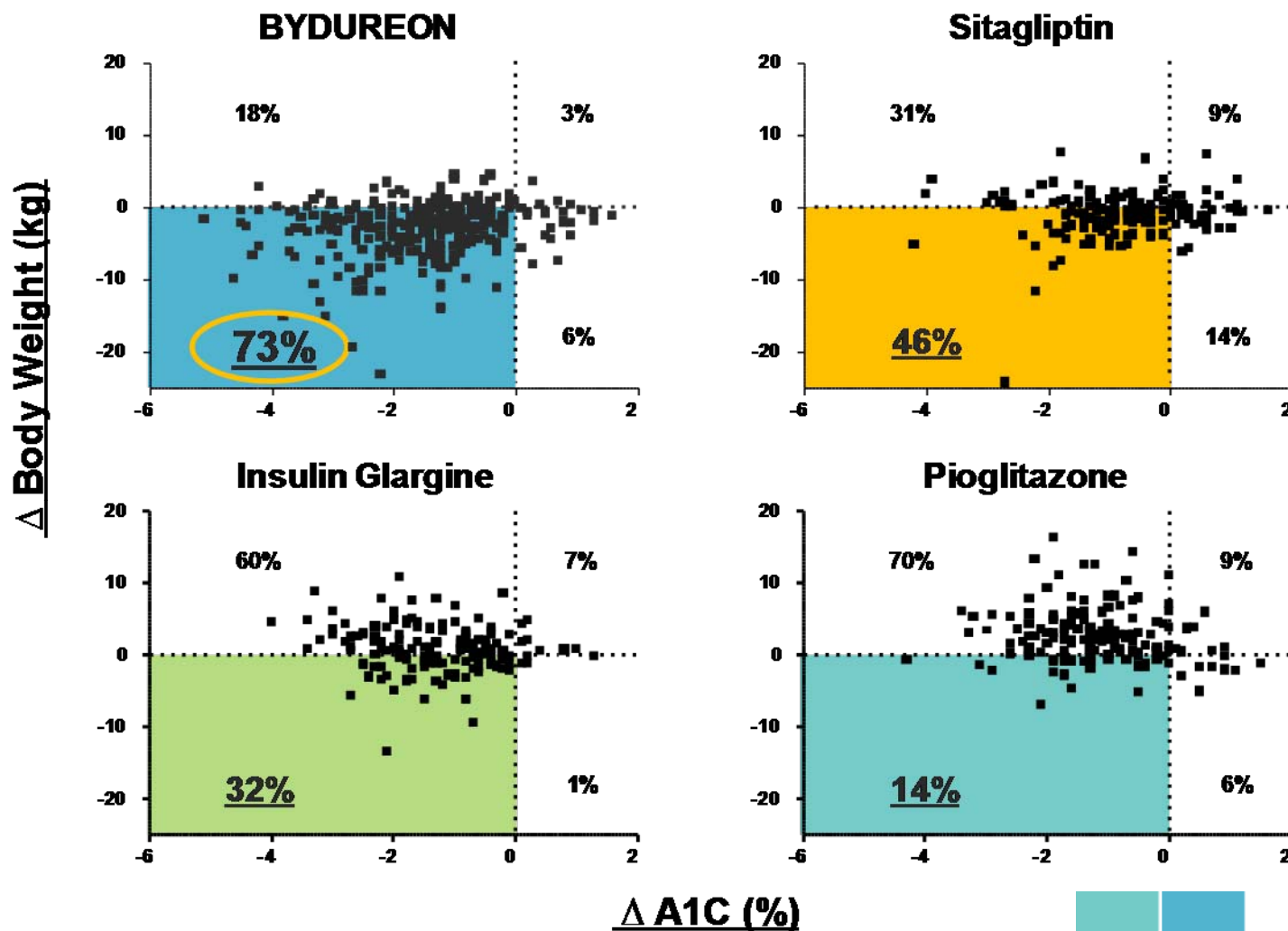
All Data from ITT Analyses

Common treatment-emergent adverse events with Bydureon have included injection-site pruritis, nausea, vomiting, diarrhea and constipation.



Changes in HbA1c and Weight

Pooled analysis from DURATION-1, -2 and -3 studies



ITT Population receiving metformin background therapy

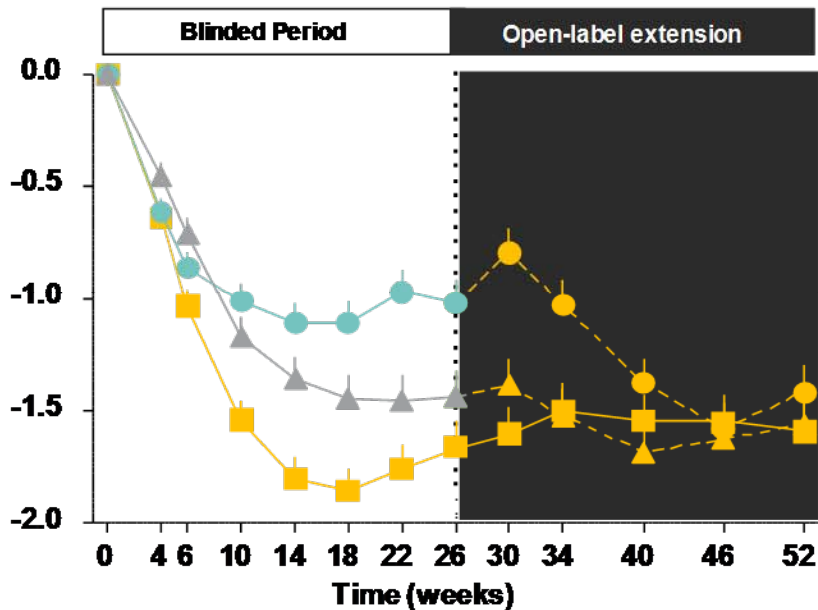
Horton et al. Monday June 28th, 12-2 PM Poster Session



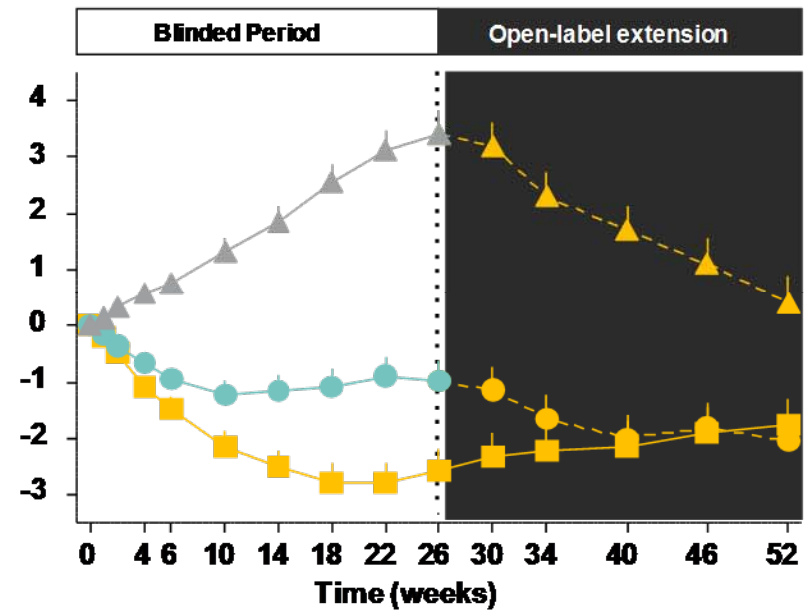
DURATION-2 52-week Extension Data

> Extension of 26-week double-blind, double dummy study of BYDUREON compared to sitagliptin and pioglitazone (N=364)

Δ A1C (%)



Δ Body Weight (kg)



● Sitagliptin ▲ Pioglitazone ■ BYDUREON

Wysham et al. Monday June 28th, 12-2 PM Poster Session



Lilly NME Pipeline

July 20, 2010

New Chemical Entity (NCE)
New Biotech Entity (NBE)


Alzheimer's		
cancer	cancer	depression
<i>cancer</i>	cancer	diabetes
<i>cancer</i>	cancer	diabetes
<i>cancer</i>	cancer	diabetes
<i>cancer</i>	Gem prodrug cancer	<i>diabetes</i>
<i>anemia</i>	TGF β inhibitor cancer	migraine prev
alcohol depend	<i>IMC-18F1 cancer</i>	obesity
alcohol depend	<i>IMC-EB10 cancer</i>	obesity
<i>bone healing</i>	<i>cancer</i>	osteoarthritis
cancer	<i>cancer</i>	<i>osteoporosis</i>
cancer	<i>eIF-4E ASO cancer</i>	pain
cancer	<i>TGF β antibody CRD, cancer</i>	uterine fibroids

Phase 1

 atherosclerosis | pain

agitation in Alz's	
atherosclerosis	LY2599506 diabetes
BPH	iGluR5 antag pain
cancer	LY2624803 insomnia
Eg5 inhibitor cancer	mGlu2/3 pro II schizophrenia
<i>IMC-3G3 cancer</i>	NERI depression
<i>Cixutumumab cancer</i>	OpRA alcohol depend
<i>CD20 antibody NHL</i>	JAK-1/JAK-2 RA
diabetes	<i>IL-17 antibody RA</i>
<i>Basal insulin diabetes</i>	<i>BAFF antibody RA</i>
<i>IL-1 β antibody diabetes</i>	<i>Survivin ASO cancer</i>




Phase 2

 *GLP-1 PEG diabetes*
 obesity | *IL-23 antibody psoriasis*


Enzastaurin DLBCL
<i>GLP-1 Fc diabetes</i>
<i>Necitumumab NSCLC</i>
<i>Ramucirumab breast /gastric</i>
Semagacestat Alzheimer's
<i>Solanezumab Alzheimer's</i>
Tasisulam melanoma
<i>Teplizumab diabetes</i>

Phase 3

Movement since Apr 2010 update

-  Achieved milestone
-  Attrition
-  New molecule

Livalo lipidemia 

 *Liprotamase EPI*
 Arxxant DR
 Axiron testosterone def.

Reg Review

Advancing the Pipeline

JAK-1/JAK-2:

- Disclosed top-line, 3-month Phase 2a data in early May
- Plan to present detailed 3-month data and 6-month data at ACR in November
- Plan to initiate Phase 2b study later this year

BAFF Antibody:

- Completed two Phase 2 trials for rheumatoid arthritis; plan to present at ACR
- Expect to start Phase 3 trials by early 2011

Additional Phase 2 Trial Completions:

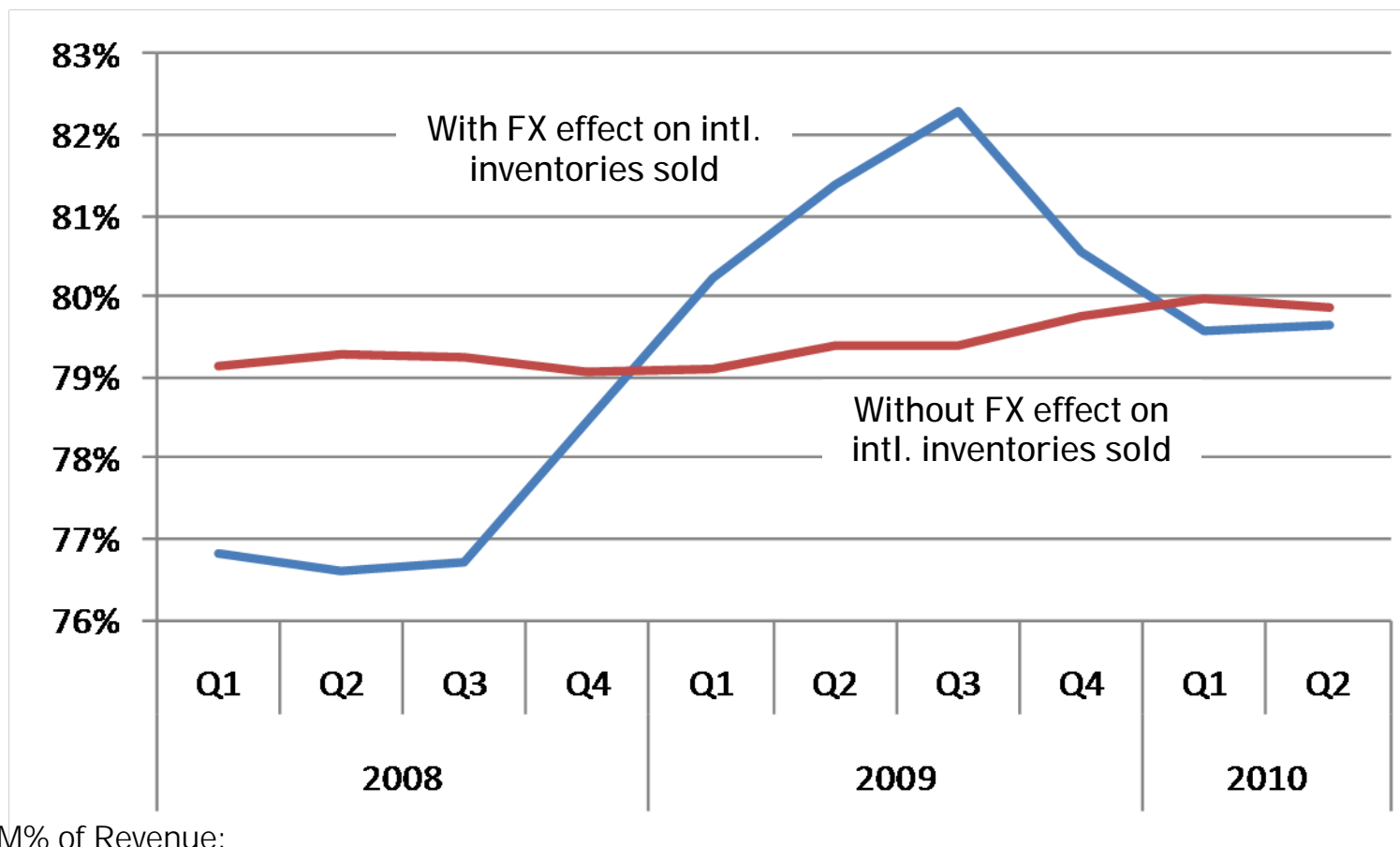
- NERI for depression
- OpRA for alcohol dependence
- LY2624803 for insomnia

On track to have 10 molecules in Phase 3 by late 2011 and launch two novel molecules per year beginning in 2013

Supplementary Slides

Gross Margin % - Moving Annual Total

Pro-forma non-GAAP



Individual quarter GM% of Revenue:

with FX effect on intl inv sold	76.5%	77.5%	77.4%	82.3%	83.8%	82.1%	81.1%	75.9%	79.5%	82.2%
w/o FX effect on intl inv sold	79.3%	80.6%	78.8%	77.7%	79.4%	81.7%	78.8%	79.2%	80.4%	81.0%

Note: The lines in the graph are moving annual totals (i.e. trailing 4 quarters) while the two rows of numbers are from specific quarters.

Comparative EPS Summary 2009/2010

	1Q09	2Q09	3Q09	4Q09	2009	1Q10	2Q10	3Q10	4Q10	2010
Non-GAAP	1.20	1.12	1.20	.91	4.42	1.18	1.24			
Reported	1.20	1.06	.86	.83	3.94	1.13	1.22			

Note: Numbers may not add due to rounding.

For complete reconciliation to reported earnings, please see slide 9 of this presentation and our earnings press release dated July 22, 2010.

Q2 Other Income/(Deductions)

Millions

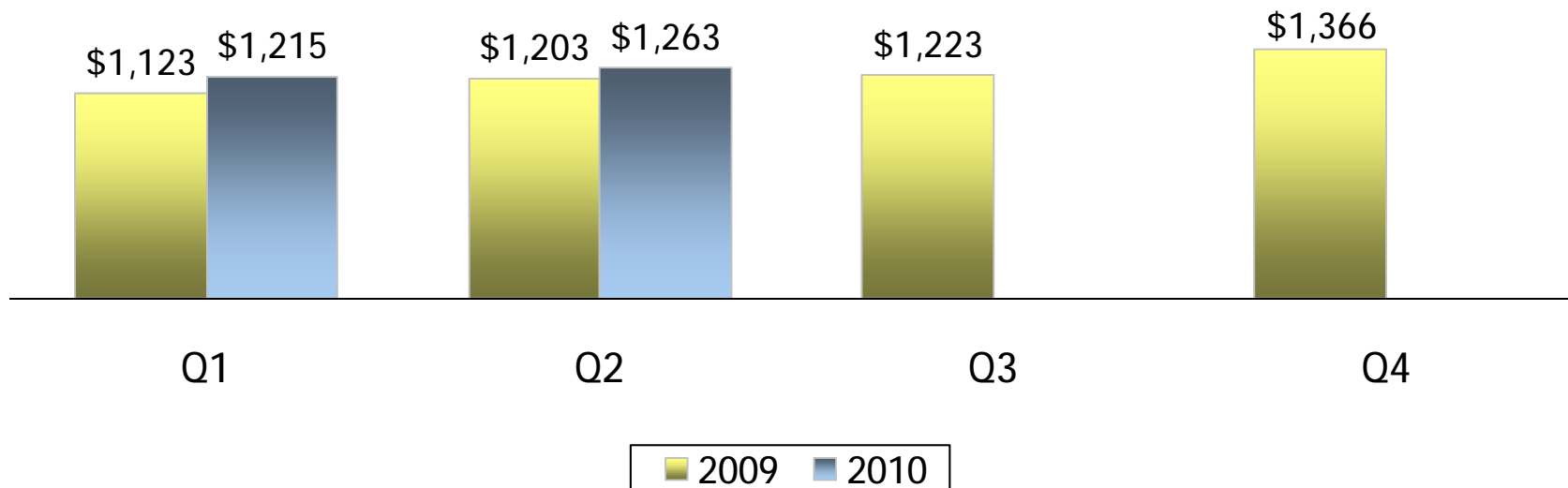
	<u>Q2 10</u>	<u>Q2 09</u>
- Interest Expense	(\$47.5)	(\$64.3)
- Interest Income	11.0	18.8
Interest, net	<u>(36.5)</u>	<u>(45.5)</u>
- Outlicense of Marketed Products	-	4.8
- Outlicense of Development Stage Products	1.6	-
- Miscellaneous Income / (Loss)	16.5	16.6
Other Income, net	<u>18.1</u>	<u>21.4</u>
Net Other Income (Loss)	<u><u>\$(18.4)</u></u>	<u><u>(\$24.1)</u></u>

Note: Numbers may not add due to rounding.

Q2 Zyprexa[®] Sales Increased 5%

Millions

U.S. sales increased 10%
International sales increased 1%

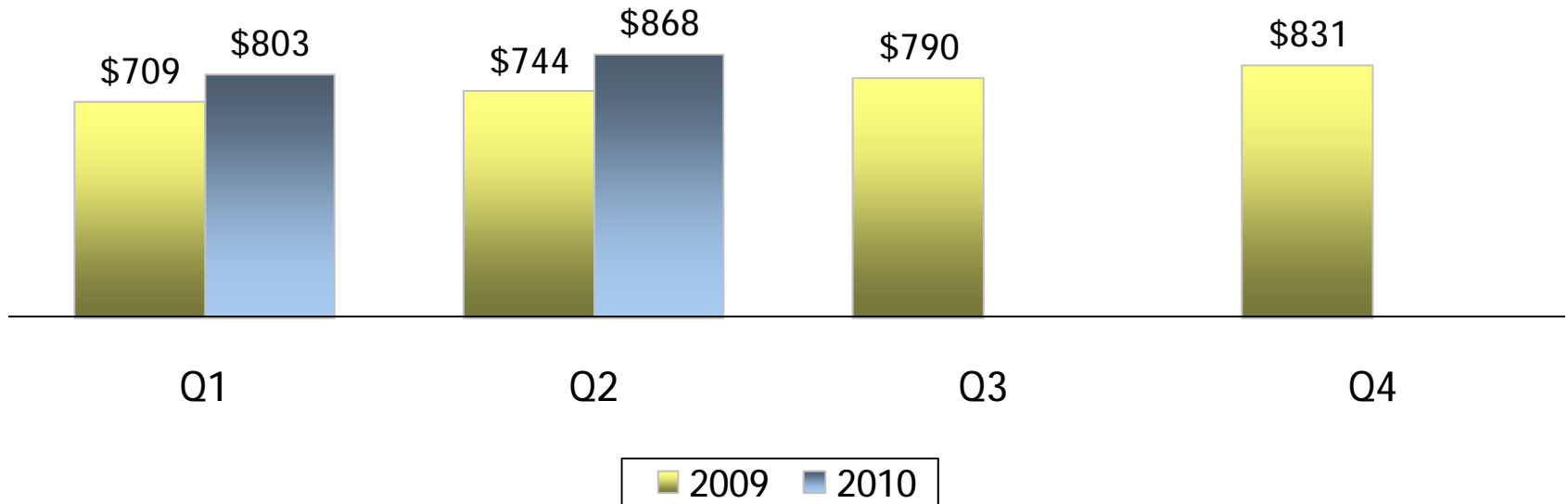


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Cymbalta[®] Sales Increased 17%

Millions

U.S. sales increased 14%
International sales increased 30%

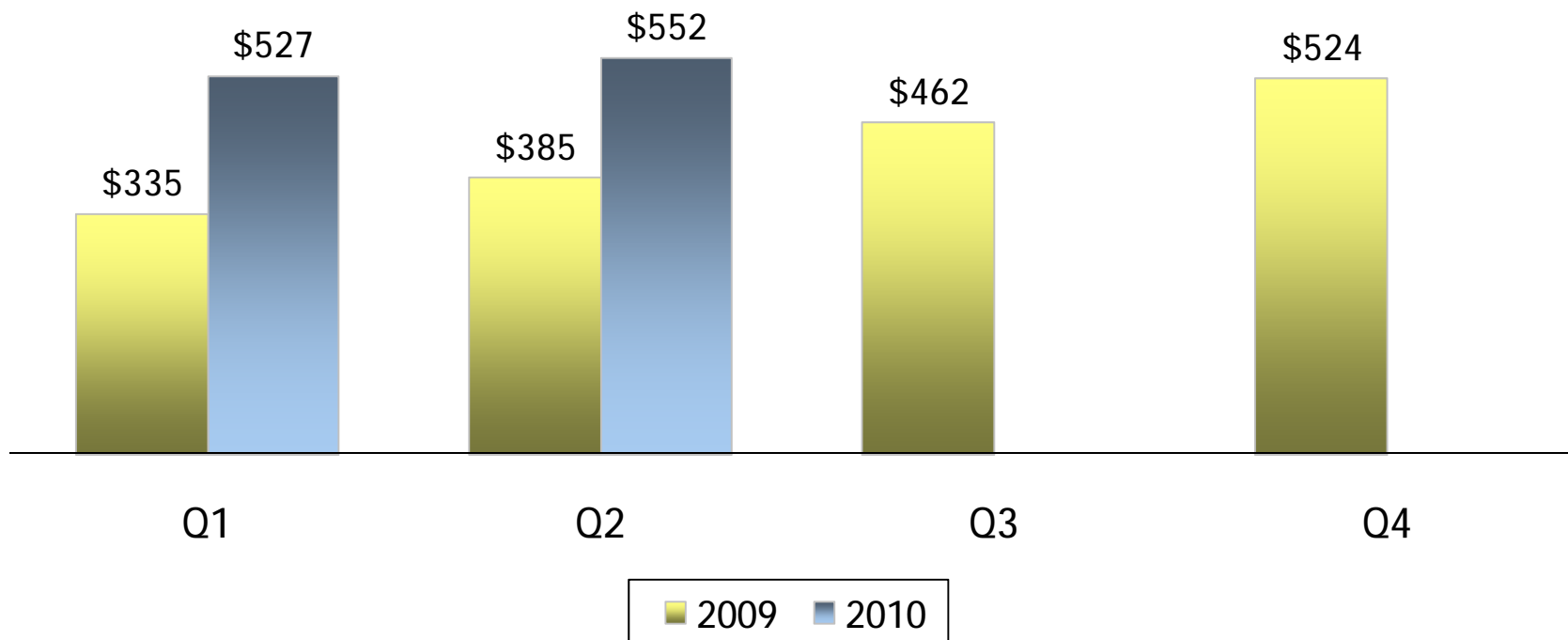


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Alimta[®] Sales Increased 43%

Millions

U.S. sales increased 28%
International sales increased 60%

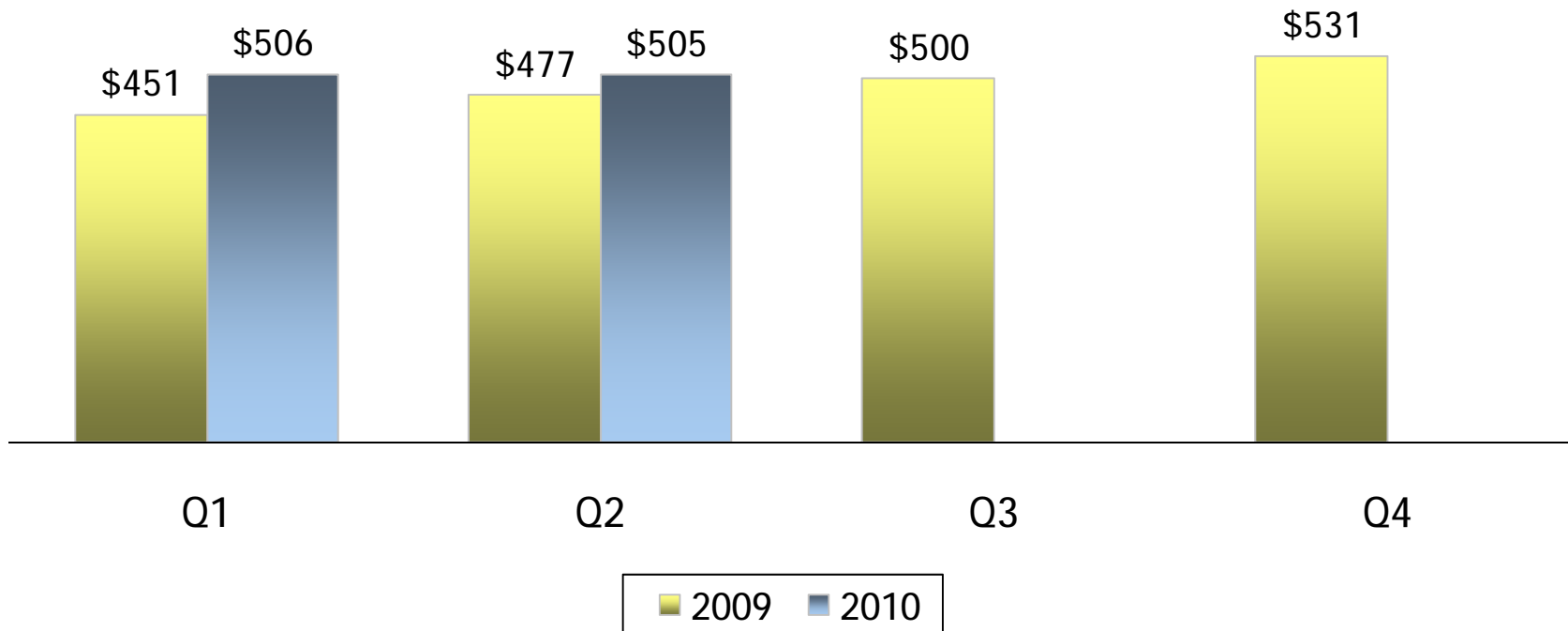


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Humalog[®] Sales Increased 6%

Millions

U.S. sales increased 3%
International sales increased 10%

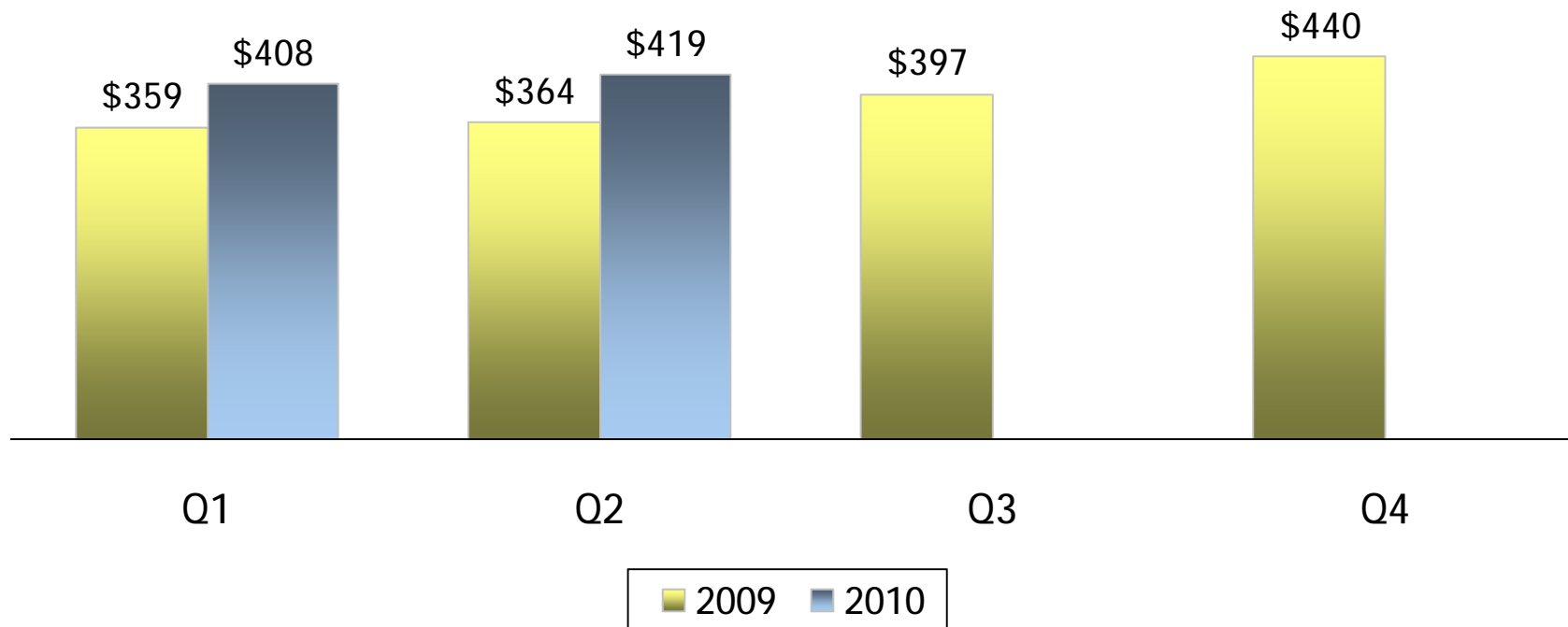


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Cialis[®] Sales Increased 15%

Millions

U.S. sales increased 11%
International sales increased 18%

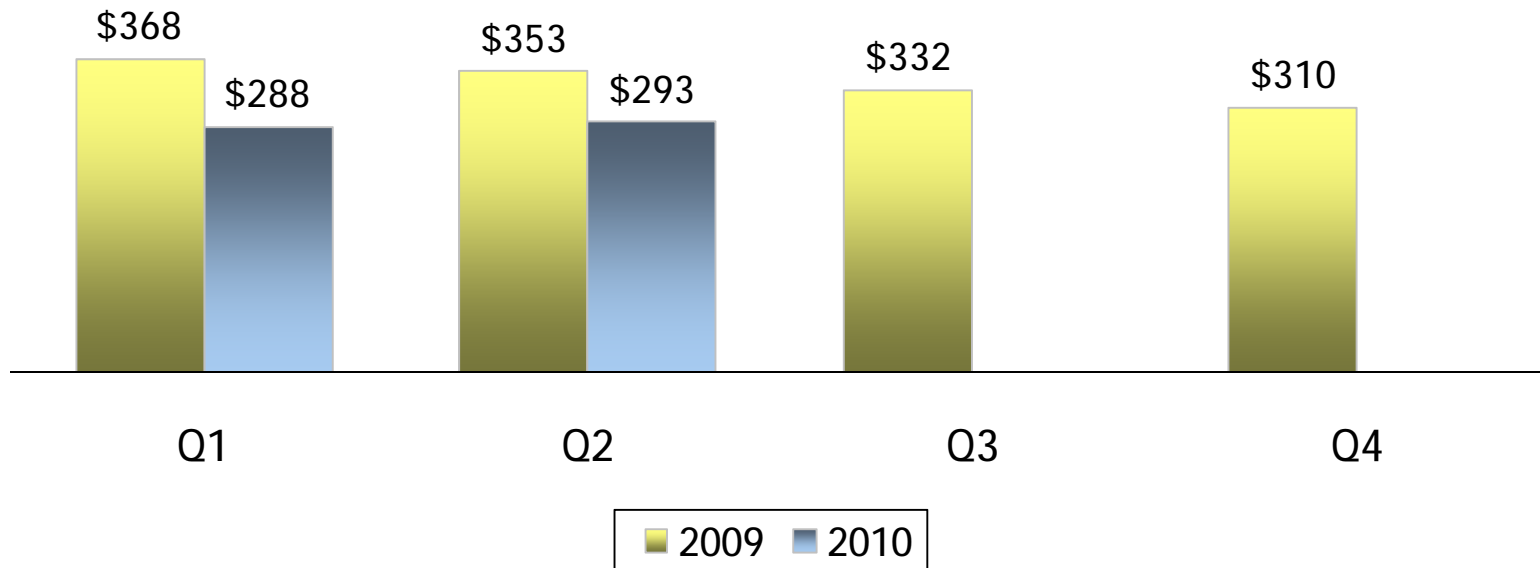


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Gemzar[®] Sales Decreased 17%

Millions

U.S. sales decreased 3%
International sales decreased 34%

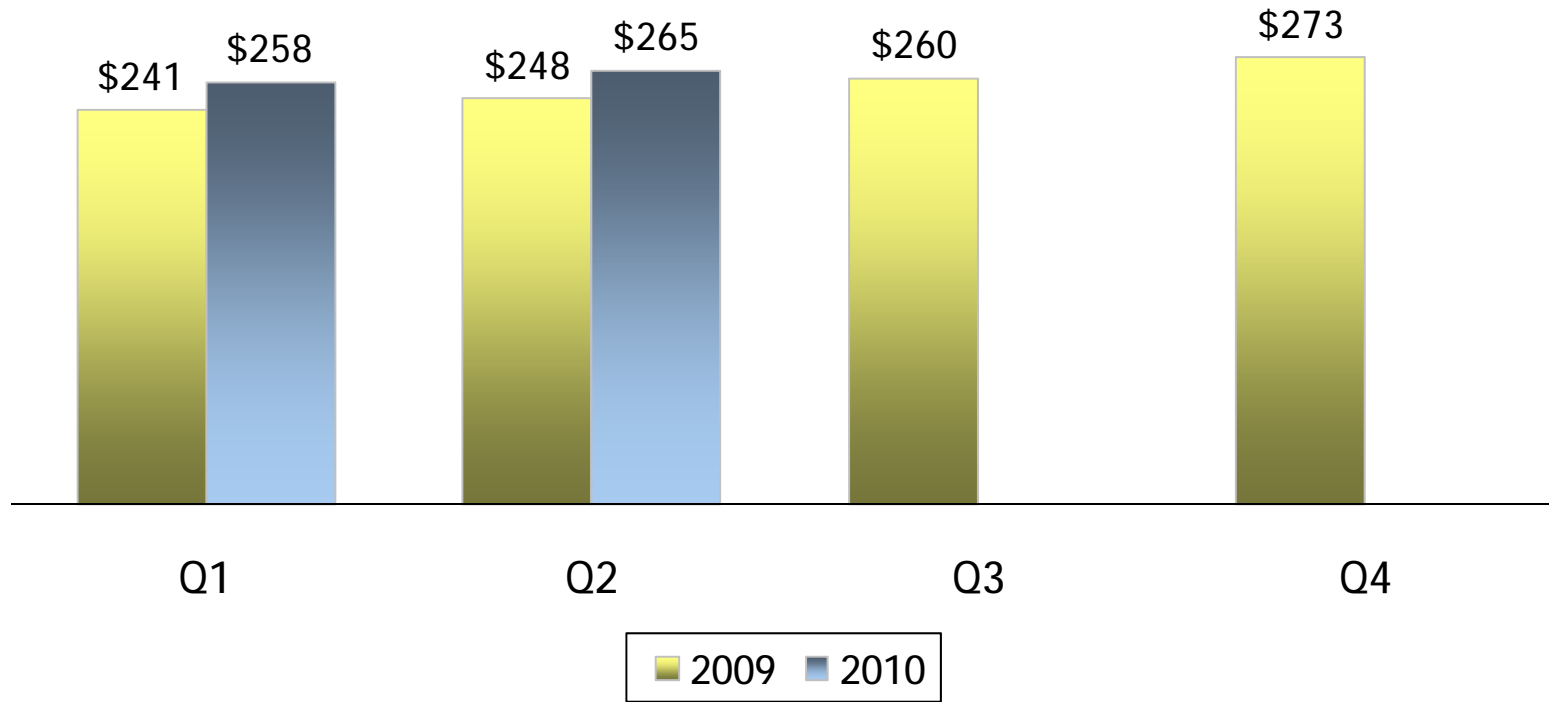


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Humulin[®] Sales Increased 7%

Millions

U.S. sales increased 21%
International sales decreased 2%

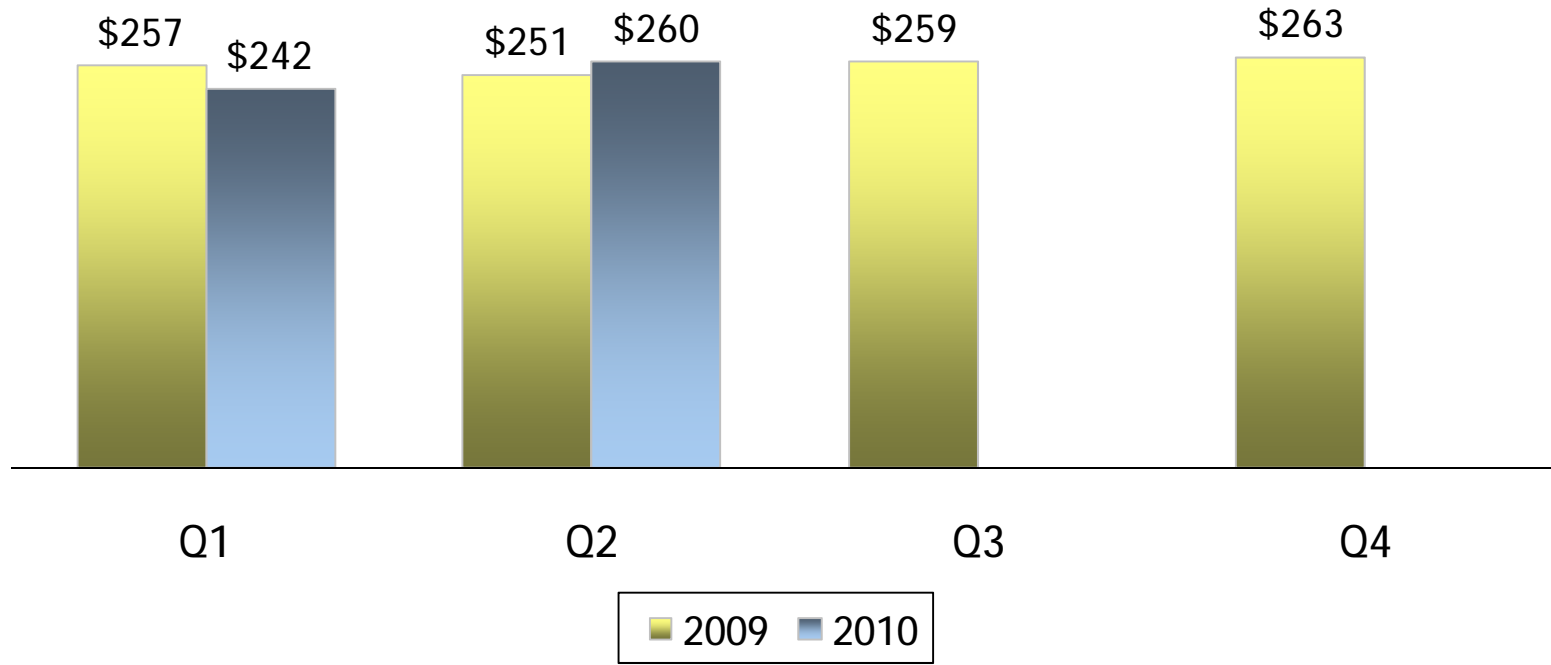


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Evista[®] Sales Increased 3%

Millions

U.S. sales increased 4%
International sales increased 1%

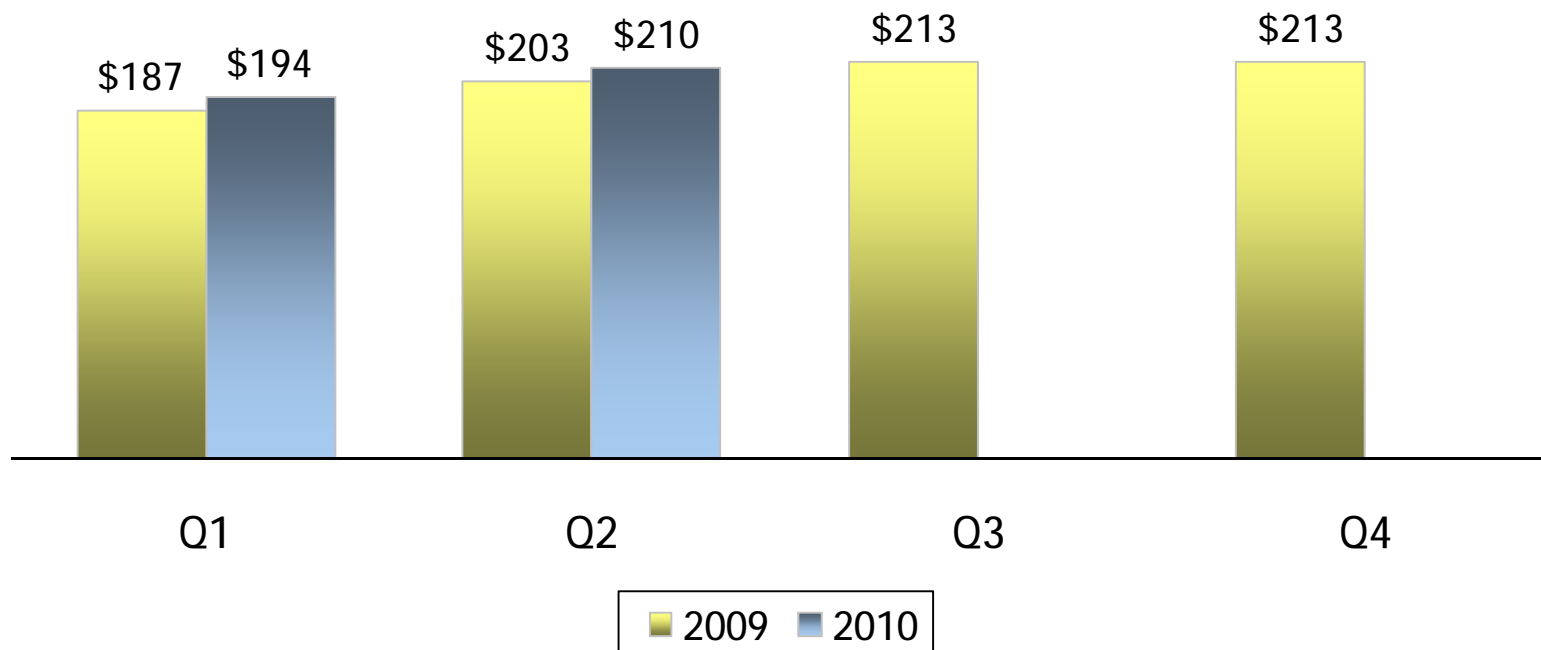


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Forteo[®] Sales Increased 3%

Millions

U.S. sales flat
International sales increased 10%

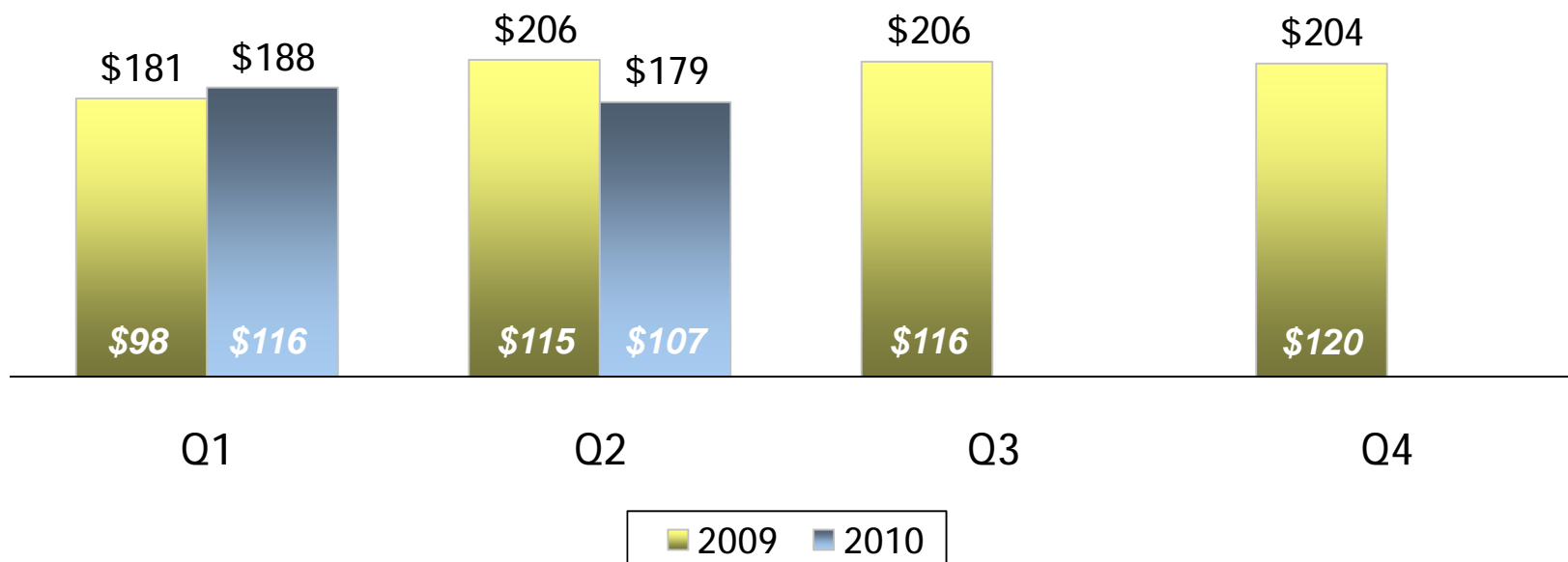


Note: Quarterly numbers may not add to year-to-date totals due to rounding.

Q2 Byetta[®] Worldwide Sales \$178.8 Million

Millions

Worldwide sales decreased 13%
Lilly revenue decreased 7%



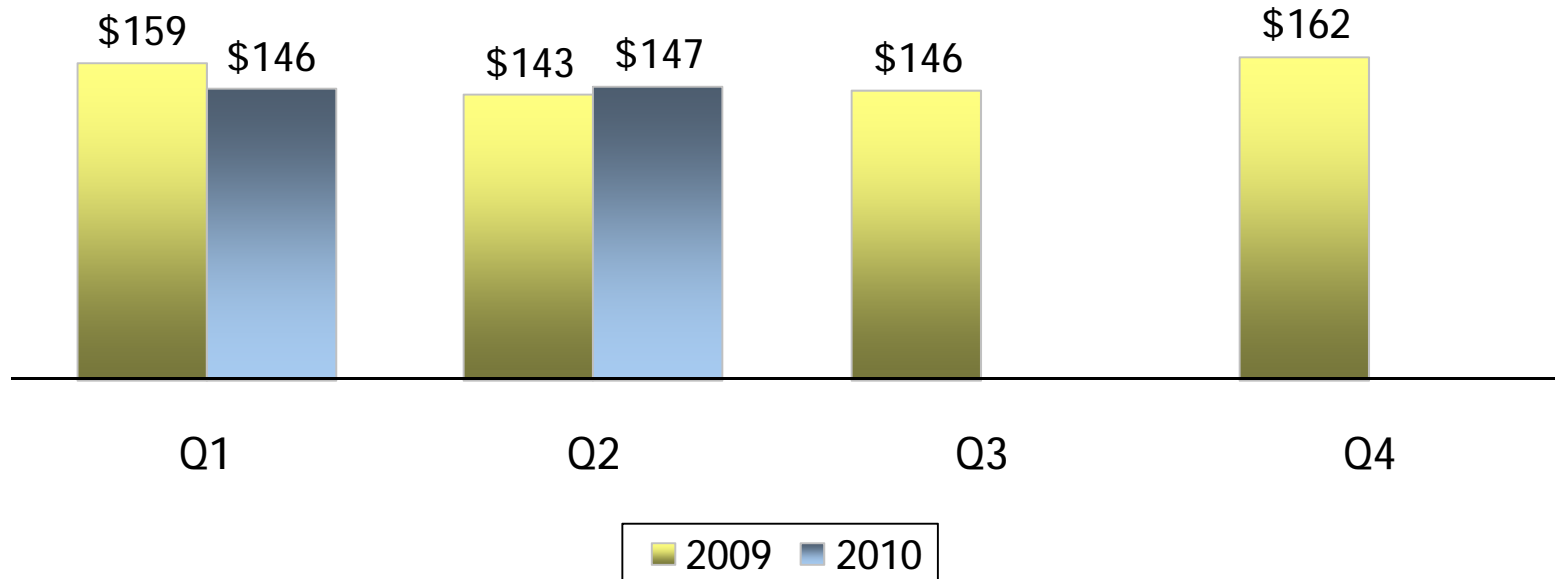
Note:

- Quarterly numbers may not add to year-to-date totals due to rounding.
- Bar height represents total molecule sales; values shown inside bars represent amount recorded in Lilly revenue line.

Q2 Strattera[®] Sales Increased 3%

Millions

U.S. sales decreased 5%
International sales increased 26%



Note: Quarterly numbers may not add to year-to-date totals due to rounding.