

Environmental Health & Safety Report

1998



Lilly

ELI LILLY AND COMPANY



Message from the President and CEO



At Eli Lilly and Company, our values and our strategy have shaped our commitment to protect both the natural environment and the health and safety of employees. Our environmental goals support the company's mission to help people worldwide live longer, healthier, more active lives. Our health and safety imperative reflects our recognition that Lilly people are indeed the source of all our expertise, commitment, and innovation. Consequently, I am delighted to report that we continue to make progress in both areas.

As the data here show, our environmental results have improved significantly during the past decade. For instance, we are very pleased with our progress in reducing air emissions by almost 90% from our operations in the United States as reported under the SARA Title III requirements since reporting began in 1987.

Yet, we have opportunities for further environmental progress. We are redoubling our efforts to replicate our best practices throughout our global operations. Accordingly, we are well on our way to implementing consistent environmental management systems at Lilly sites worldwide. We also continue to apply new environmental technologies that protect our employees and the communities where we do business. It is important to note that, as we improve our environmental performance, we frequently achieve efficiencies that directly support our financial results as well.

Our pursuit of an injury-free workplace is a key element of one of our corporate objectives. We have taken great strides in this area that were recently confirmed by the U.S. Chemical Manufacturers Association and the National Safety Council, which recognized us for cutting serious accidents by 45 percent during the past five years.

To help us build on this momentum, we commissioned Arthur D. Little, Inc., to review our current health and safety efforts. The consultants said we should continue to increase management support for this priority, focus on integrating it into all our key business processes, and ensure that it becomes an element of performance evaluation at Lilly. We are addressing these recommendations and - most importantly - our injury rates are falling. This reflects our concern about our colleagues' well-being. It also acknowledges that healthy, productive Lilly employees will ultimately determine our success in a knowledge-driven business where people are the source of our competitive strength.

Looking ahead, we are intent on achieving world-class results in our environmental and health and safety performance. With growing support by Lilly people worldwide, we are continuing to pursue excellence in both areas - as we are in all essential areas of our business.

Sidney Taurel
President and Chief Executive Officer



Environmental Policy

Eli Lilly and Company is dedicated to creating and delivering innovative pharmaceutical-based health care solutions that enable people to live longer, healthier and more active lives. This mission requires that the company operate all its facilities worldwide in a manner that protects human health and the environment.

Environmental Guidelines

Eli Lilly and Company intends to carry out its environmental policy with a spirit of continuous improvement in the following ways:

- The company will design, construct and operate its facilities in a manner that protects human health and minimizes the impact of its operations on the environment.
- The company will encourage and expect each employee to be environmentally responsible.
- The company will provide ongoing education and training for Lilly employees so that they will be prepared to deal with day-to-day environmental responsibilities as well as environmental emergencies.
- The company will comply with or exceed all applicable laws and regulations. Where existing laws and regulations are not adequate, the company will adopt its own environmental quality standards.
- The company will make environmental considerations a priority throughout the process of developing new products.
- The company will encourage and promote waste minimization, the sustainable use of natural resources, recycling, energy efficiency, resource conservation and resource recovery.
- The company will communicate its commitment to environmental quality to Lilly employees, shareholders, vendors, customers and the communities in which it operates.
- The company will recognize and respond to the community's questions about its operations.
- The company will actively participate with government agencies and other appropriate groups to ensure that the development and implementation of environmental policies, laws, regulations and practices serve the public interest and are based on sound scientific judgment.
- The company will regularly assess and report to management and the board of directors on the status of its compliance with this policy and with environmental laws and regulations.



Occupational Health and Safety Policy

Eli Lilly and Company is committed to providing safe and healthful working conditions for its employees, contractors and visitors. The company will conduct all operations and activities in a manner that protects human health and quality of life.

Guidelines

The following guidelines apply to all Lilly employees and operations around the world for the purpose of establishing safety as an integral part of the daily work and business environment.

- The company will establish, implement and seek to continuously improve sound occupational health and safety policies and programs.
- The company will design, construct and operate its facilities in a manner that protects the health and safety of the occupants.
- Area management will create an environment where a genuine concern for safety is accomplished through example, involvement and providing proper training, equipment and recognition.
- Area management is responsible for achieving safety in the workplace by evaluating and controlling all changes in processes/procedures.
- All employees are expected to comply with the company's safety policies and procedures.
- Safe behavior and judgment will be considered essential measures of performance at all levels.
- Each component will comply with or exceed all applicable health and safety laws and regulations. Where existing laws and regulations are deemed inadequate, the company will adopt its own health and safety standards.
- Each component will develop and maintain written safety policies and programs to address known hazards in its workplaces. Policy and program effectiveness and compliance will be regularly assessed.
- Each component will provide a means for appropriate safety communication with its employees, contractors and visitors.
- The company will periodically report to senior management and the board of directors on the status of its compliance with specific occupational health and safety policies and regulations.



Management Systems and Initiatives

Summary of Strategic Objectives and Initiatives:

Message from the Director of Occupational Health, Safety and Environmental Affairs

At Eli Lilly and Company, compliance with environmental, health and safety laws is an absolute **minimum** standard of performance. Our fundamental goal for EHS performance is to operate our company in as safe and environmentally responsible a manner as is practical. To accomplish this goal, we regularly assess our operations at the corporate and plant site levels and identify the best opportunities to improve EHS performance. These assessments have led to the establishment of the following company-wide initiatives:

- 1. Globalizing our corporate EHS programs.** We recognize a need for our company's EHS programs to shift from their historical focus on U.S.- based facilities to a more global focus in recognition of the truly global nature of our operations.

Two specific initiatives we undertook in this area were the following:

- Global Auditing. 1996 was the beginning of a three-year initiative to conduct environmental, health and safety audits at all our global research, manufacturing and major administrative facilities.
- Global EHS Policies and Management Systems. The EHS management team recognized the need for global standards for EHS management systems and programs. In 1998 this goal was accomplished by the publication of an EHS Policy Manual containing global standards for EHS management systems and 40 specific EHS policy requirements.

- 2. Establishing an injury-free work environment.** In 1996, we decided that our global injury/illness rate was unacceptably high. We have launched company-wide initiatives to improve employee, contractor and motor vehicle safety and have set specific targets for the reduction of workplace accidents and injuries.

- 3. Improving targeted health and safety performance.** Analysis of our 1995 global health and safety performance identified two programs with companywide opportunities for improvement:

- process safety management
- chemical exposure assessment/containment control.

For each area, global teams established specific goals and action plans that are being implemented throughout the company.



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- 4. Fully Implementing Responsible Care®.** To continue to capitalize on the EHS performance benefits we have gained at our five major manufacturing sites participating in the Chemical Manufacturers Association's Responsible Care® program, we committed in 1996 to full implementation of all 106 of the Responsible Care® management practices at these five sites by the end of 1998.
- 5. Incorporating waste minimization into new product development.** Recognizing the value of incorporating waste minimization into the earliest stages of product development, we set a company-wide goal to fully establish and support our New Product Environmental Requirements Tracking process in all new product development efforts.
- 6. Reducing global packaging.** In 1996, we surveyed and benchmarked our global packaging reduction efforts with other major pharmaceutical companies and established new guidelines and objectives for our packaging reduction efforts.

Setting objectives is only the first step in improving performance. They must be followed with effective action plans and successful implementation. We look forward to sharing with you in the future additional status reports regarding our implementation of these six objectives as well as our newest initiatives to continually improve our EHS performance. We appreciate your interest in Eli Lilly and Company and our EHS performance and welcome your questions or comments about this report.

A handwritten signature in black ink that reads "Mark T. Owens". The signature is written in a cursive, flowing style.

Mark T. Owens
Director of Occupational Health,
Safety and Environmental Affairs



Management Systems and Initiatives

Establishing Global EHS Policies, Management Systems and Methods to Track Conformance

Corporate policies and guidelines for management of EHS are in place for environmental (1991) and health and safety (1993) and have been communicated both within the organization and externally. In addition, a management system framework has been developed consistent with existing quality management processes already in place within the organization. However, the consistency and level of detail in terms of specific site expectations were identified as a gap. A goal was set to refine these expectations and to harmonize any differences between environmental and health and safety requirements to make existing program requirements more consistent in level of detail. The benefits of accomplishing this goal were identified as:

- Greater efficiency for site EHS staffs
- Consistent global performance measures
- Joint EHS audits at some sites to reduce audit program expenses.

In 1998 this goal was accomplished by the publication of a joint EHS Policy Manual containing elements of a joint EHS management system and 40 specific policies with minimum requirements. Although these requirements had been in place previously and disseminated via various documents, this was the first time to combine all EHS requirements in one document. We were also successful in finding synergy among some programs that had previously been viewed as being either health and safety or environmental (e.g., Emergency Response). Examples of some of the 40 requirements are:

- Air Pollution Control
- Confined Space Entry
- Exposure Assessment
- Soil and Groundwater Protection
- Emergency Response.

This harmonization of policies has allowed us to conduct joint audits of environmental and health and safety programs at several locations in 1998 (see Facility Audit Program section). Due to the regulatory complexities in the United States, it is anticipated that we will continue to perform separate audits for both environmental and health and safety for the foreseeable future in that country.

The EHS management system is consistent with ISO14001 management system requirements. The goal is to have this comprehensive management system implemented at sites in 1998. The audit teams are utilizing an assessment tool developed by the Global Environmental Management Institute (GEMI) as well as internal protocols and checklists to measure the progress toward this goal.



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Global Environmental, Health & Safety Audit Program

The corporate environmental audit program has been in place since 1989, and the health and safety audit program was begun in 1994. Much of the focus of both of these audit programs was directed at sites in the United States and Puerto Rico. Two goals were set forth by the oversight committees with responsibility for management of environmental and health and safety within the corporation. These goals were as follows:



All global research and manufacturing sites must have a corporate audit performed of their EHS programs on or before the end of calendar year 1998. This audit will focus on both conformance with corporate EHS policies and requirements as well as environmental regulatory compliance.



An external assessment will be performed of the corporation's health and safety management processes in 1997 and be reported in the 1998 EHS Report (see Message from the President and CEO).

The goal of auditing all sites will be accomplished by the end of 1998, with the exception of two new facilities in Egypt and China and a research facility in Canada, all of which will be visited in 1999. In addition, a joint venture site in Pakistan was not visited due to travel limitations in that country. This site will be scheduled for an audit in 1999.

A Tool for Continuous Improvement

As the end of the century approaches, the auditing program continues to improve. The audit program must continue to provide assurances that health, safety and environmental programs are appropriately managing risks for the company and its employees. It is also important that this program be a vital part of the process of developing new pharmaceuticals by accomplishing the following:

- Identifying opportunities for improvement
- Highlighting "best practices" for use throughout the company
- Raising the knowledge of EHS staff through service as members of audit teams.



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Several improvements were incorporated to assist with the goals of our audit program:

- A risk assessment process was implemented for the purpose of improved scheduling of audits based on priority.
- A handbook detailing the auditing process was developed to ensure a uniform process for both health and safety and environmental audits.
- An environmental multimedia approach was begun in 1996, which significantly increased the scope of impact of the program. Previous audits had examined only a single regulatory or environmental media: for example a focus on hazardous and solid waste.
- An environmental management systems evaluation tool based on the ISO14001 standard has been incorporated into the environmental audit process.
- A new corporate measure has been put into place to track the implementation of global audit action plans.

Staff members are also involved with outside auditing groups that continue to assist in improving the auditing program. These groups are the Environmental Auditing Roundtable (EAR) and the ENSR's International Audit Protocol Consortium (IAPC). Both groups have allowed the company to benchmark the auditing program with different types of organizations, providing new perspectives on how to approach and conduct audits.



Environmental Goals and Initiatives: Waste Management

Eli Lilly and Company recognizes source reduction as our primary waste management strategy and makes it a focus of our new product development process as we explore alternative manufacturing routes. In the absence of source reduction options, Lilly follows the waste management hierarchy which includes recycling, energy recovery, and treatment. In those applications where the above steps are not endpoints, we dispose of the waste. The utilization of the waste management hierarchy begins in the development cycle of every new drug product and continues through the manufacturing phase of the approved drug substance.

Waste Management Hierarchy



During the development of new drug products, associates with environmental experience are assigned to each product team to identify environmental concerns and to focus on waste minimization opportunities. During the development of raloxifene, this approach resulted in the elimination of methylene chloride from the proposed route of manufacture and a 60% reduction in solvent usage when the final manufacturing route was defined.

Lilly's development laboratories in Indianapolis have implemented a chemical stores inventory management system that monitors inventory levels at several locations. Prior to ordering chemicals from outside vendors, available stock is checked to determine whether the request can be filled from other Lilly stores locations. This inventory management system allows researchers to use chemicals no longer needed by other laboratories. The system has substantially reduced the amount of expired and unused reagents sent for treatment.

Lilly's Cleaning Technology Center (CTC) was formed in 1996 and has been exploring aqueous cleaning techniques that could replace existing solvent cleaning applications in our manufacturing operations. Traditionally, cleaning applications have relied on solvents to dissolve residues in equipment between product campaigns or between batches. Our Cleaning Technology Center has



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been screening aqueous cleansers for performance characteristics such as residue penetration (wetting) and removal, dispersion, emulsification, and chemical reaction. Wetting agents called surfactants are used to help remove the residue so that it can be carried away while rinsing the equipment with water.

The CTC's focus on aqueous based cleaning has resulted in a significant pollution prevention story as well as reduction in changeover time and in costs of cleaning. In 1997, five product clean-ups were switched to an aqueous-based cleaner, which resulted in cumulative savings of \$32,900 in cleaner raw material, elimination of 297,200 liters of solvent (94% by volume SARA-reportable solvents) and a reduction of 33 days in cleaning time when compared to the previous solvent-based clean-ups. As a result of its work, the CTC received the 1998 Indiana Governor's Award for Excellence in Pollution Prevention. This is just the beginning of the waste minimization activities for the CTC. We anticipate additional reductions when the effort is expanded to facilities around the globe.

With these efforts and successes, the company is reducing the amount of waste generated in our research facilities and in our manufacturing operations. By doing so, we are helping the communities in which we operate to reach their goals in the reduction of air emissions and waste generation.



Environmental Goals and Initiatives: Environmentally Acceptable Packaging - Directives and Goals

In 1993, Lilly created its Environmentally Acceptable Packaging Policy and Guidelines in order to ensure that the environmental impact of the packaging used for Lilly pharmaceutical products is minimized. These policies and guidelines were most recently updated in 1995. Environmentally acceptable packaging is defined as those packaging systems which give consideration to the basic principles of waste minimization. An environmentally acceptable package minimizes the packaging needs at the onset of the development cycle for new products while maintaining a focus on the reuse of materials through recycling and/or other means of reclamation.

The primary function of the packaging materials is to protect the drug product for the duration of its shelf life to ensure the quality at the moment of use for the patient. Thus, the selection of packaging should be data driven. Aspects to be considered when choosing packaging materials include - in addition to the environmental impact factors - issues such as customer needs, product protection requirements, legal requirements, technical feasibility, and cost.

In order to understand how Lilly compares with its competitors, the Lilly Global Packaging Technology and Development organization located at the European Development Center at Mont-Saint-Guibert, Belgium, and Lilly Technology Center, Indianapolis, Indiana, conducted a benchmarking study on the environmental packaging policies of the top 25 world-wide pharmaceutical companies. Based on these results, the following guiding principles have been established in order to minimize the environmental impact of the selected packaging solution when feasible:

Minimization of:

- size & volume of all packages
- weight of packaging materials
- number of different packaging materials used per finished package

Preferred use of:

- mono-materials
- plastic materials which can be incinerated to CO₂ and water
- recycled paper and cardboard
- re-usable shipment containers and pallets
- recycling logos and material marking

Avoid or minimize the use of:

- polyvinyl chloride
- inks containing heavy metals
- expanded polystyrene



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The following examples serve to demonstrate the considerable impact the consequent application of these guiding principles can have in terms of waste minimization.

Case 1: The insulated shipment box for the distribution of our cardiovascular product ReoPro to our European hospital customers has been redesigned. The previous container was comprised of expanded polystyrene and corrugated cardboard and designed to package 6 single doses. The new container, which is made from the same materials, contains up to 30 single doses and weighs only 3.5 kg as compared to 12 kg for the original 6 dose package.

Case 2: The previously used PVC tray in the five-vial pack of our anti-infective Nebcin for the Austrian and German markets has been eliminated by switching to a new construction made of 100% cardboard.

Case 3: The optimization of the 10 tablet blister card design for our anti-infective CeclorMR resulted in a 26% reduction of the size of the blister and, consequently, of the size of the folding box.

For 1998, greater focus will be placed on collecting packaging waste data in order to identify areas where further improvements can be made.



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Environmental Goals and Initiatives: Energy Savings Successes

Eli Lilly and Company affirms its commitment to energy efficiency in one of the ten elements of our environmental policy:

The company will encourage and promote waste minimization, the sustainable use of natural resources, recycling, energy efficiency, resource conservation, and resource recovery.

During 1997, we continued to identify opportunities for energy efficiency that would reduce the impact of our operations on the environment and generate significant reductions in our operating expenses.

Clinton Laboratories is Lilly's largest manufacturing plant and has the largest utility expenses of all our manufacturing sites. During 1997, engineering and operational improvements resulted in the reduction of energy consumption in the fermentation area of the facility. These reductions were accomplished through improvements in the cooling towers and modification to the operating parameters during transitional weather conditions. This effort has resulted in annual savings of approximately \$300,000. The total annual electrical savings due to this project and other energy reduction projects at Clinton Laboratories over the past three years is approximately 55,000,000 kilowatt-hrs. These reduced energy requirements equate to a direct reduction in emissions of:

- 33,000 tons of CO₂
- 473 tons of SO₂
- 132 tons of NO_x



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Environmental Goals and Initiatives: Green Lights Program



Lilly has been active in the U. S. Environmental Protection Agency's Green Lights Program since its inception. Green Lights is a voluntary EPA program that encourages government agencies and major corporations to install and use energy-efficient lighting systems in order to reduce the environmental impacts of electricity generation. Lilly has made modifications to use more efficient lighting fixtures and light bulbs where practical in the company's facilities. These changes have resulted in lower energy requirements while maintaining lighting quality.



Health and Safety Goals and Initiatives: Striving for an Injury-Free Workplace

As part of Lilly's commitment to our employees as our most valuable resource, we must stress the importance of improving the health and safety of Lilly people throughout the world.

"Probably one of the most important things we as the management team in Lilly manufacturing can do is ensure that our employees have a safe working environment in which to add value to Lilly products. It is absolutely inconceivable that we could tolerate working situations where we could put our employees at risk." **Michael Eagle, Vice President, Manufacturing**

Occupational health and safety is not only a concern in the manufacturing areas at Lilly but in every office, research laboratory and sales field location as well. This is a fact that has not gone unnoticed in the Lilly Research Laboratories:

"We must do a better job of maintaining and in fact enhancing a safe working environment. You might wonder why this is a specific Lilly Research Laboratories objective. If you look at our serious accident rate, it is much too high, twice as high as rates in what we consider to be our peer companies. We have to begin to pay attention and focus seriously on health and safety." **August Watanabe, M.D., Executive Vice President, Science and Technology**

As you can see by the Lilly Serious Injury/Illness Chart, despite recent progress, it's clear that accidents are happening too frequently throughout our operations. In 1995, Lilly formally dedicated itself to the principle that no accident is acceptable.

As we work toward that overarching goal, we have established measurable goals for the next several years:



- **cut serious injuries that require treatment by at least one-half over the next three years**
- **have no more than two serious injuries or illnesses per 100 employees by the year 2000, which we refer to as our "2 x 2000" goal**
- **have no more than one serious injury or illness per 100 employees by the year 2003.**

In 1997, 16 of Lilly's 29 sites had already achieved the "2 x 2000" goal.



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Health and Safety Goals and Initiatives: Process Safety Management (PSM)

Process Safety is a set of management principles, methods and practices to prevent and control accidental releases of hazardous chemicals and energy. In 1995, Lilly set three PSM goals which were to be completed according to a three-year schedule:

- implement a new manufacturing framework to facilitate PSM integration;
- expand technical requirements; and
- conduct corporate PSM audits at all applicable sites and business units.

All of the goals were achieved on time.

Based on the results of the 1997 PSM audits, a new project, Globally Integrated Process Safety Management (GIPSM), was established in 1998. GIPSM will provide a process to continue the development and implementation of PSM at Lilly manufacturing facilities. Four reasons for continued improvement of the PSM program have been identified:

- reduction of potential for death, injury, or explosion;
- reduction of potential for adverse publicity;
- reduction of potential for business interruptions; and
- compliance with regulatory requirements and Lilly policy requirements.

A two year timeline has been established for the development, integration, and replication of PSM globally at all bulk manufacturing and development facilities.



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Health and Safety Goals and Initiatives: Chemical Exposure Assessment and Containment Control

Chemical exposure assessment refers to the methods used to evaluate workplaces for potential employee exposure to chemical hazards. Based on the evaluation, control or prevention strategies must be designed and implemented.

Corporate and site audits revealed the need to:

- establish expanded standards for proper ways to conduct, document and communicate exposure assessment studies; and
- clarify the requirement for exposure assessment activities to be formally included in the development of new pharmaceuticals.

Specific goals and objectives for 1996 and 1997 were established by a global stakeholder team. These goals included the development and implementation of expanded technical requirements in North America and Europe, the implementation of a pilot initiative to formally integrate exposure assessment activities into the new product development process, and the development of expanded methods for setting occupational exposure limits for all chemicals used by Lilly. All of the goals set for 1996 and 1997 were achieved.

The following additional goals were established for 1998:



- **Implement the new Chemical Exposure Assessment and Control technical requirements in Asia, Japan, Latin America, and South America; and**
- **Expand the integrated product development exposure assessment pilot to all other products in development.**

Lilly is currently making progress toward achieving all of these goals.



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Health and Safety Goals and Initiatives: Contractor Safety

Contractor safety performance in the Indiana construction and plant engineering/maintenance business units continues to be a success story for Lilly. Nineteen ninety-seven marked another year of continuous improvement in safety performance for contractors, both in terms of injury/illness rate reduction and peer recognition of the Lilly contractor safety program.

Continuous improvement is the future focus of the Lilly contractor safety program. In order for the company to pursue industrywide recognition of its contractor safety program, several initiatives are either planned or already in progress.

Major initiatives for 1998 include the following:

- distribution of a global, comprehensive contractor safety technical requirements manual to provide a framework for minimum safety requirements for all Lilly contractors and visitors.
- development and implementation of an Indiana contractor safety training program aimed at key Lilly and contractor management personnel.
- implementation of a quarterly random substance abuse testing program in Indiana.
- development and implementation of a safety orientation testing program for all contractors working at Lilly sites in Indiana.
- development of a safe work permit to be used on construction projects and maintenance activities to allow documented hazards analysis of specific work tasks.
- increased efforts with contractor safety program assessment, verification, accountability and recognition at both the company-wide and Indiana construction and plant engineering/maintenance business unit levels.
- continued reliance by the Lilly Indiana plant sites on the consultant, Safety Management Group, to provide valuable input in the continued development and improvement of its contractor safety program.



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Health and Safety Goals and Initiatives: U.S. Fleet Safety

The desire to be injury free extends to all Lilly workplaces, including our sales force. In 1994, a cross-functional team of employees was chartered by the vice president of U.S. sales to compare Lilly collision rates with other peer companies. After careful evaluation, the team concluded there was room for improvement.

After investigating the programs of several successful companies, Lilly launched a Vehicle Safety Improvement Program in 1995. Facets of the program include:

- qualification of new employees
- training and educating all U.S. sales employees on defensive driving skills and behaviors
- providing accountability for performance
- setting management goals for improvement.



Just two years after the program was implemented, Lilly collision rates are below industry average and continue to improve. We intend to reach our short-term goal of a 30 percent reduction in collisions by the end of 1998.

Vehicle Safety for All Lilly Employees

The vehicle safety program for members of our sales force has been so successful, we intend to expand it to include other members of the Lilly family. About 23,000 workers in the United States died from off-the-job motor vehicle crashes in 1996. It is estimated that the cost to employers exceeds \$54 billion each year.

In 1998, we launched a defensive driving educational program for employees and family members. As part of our Work/Family initiative, we intend to expand our program to reach those who historically suffer preventable collisions, injuries, and health and productivity costs associated with these events.



By 2000, we plan to have elements of a vehicle safety program installed at each global site.



Environmental Conservation and Restoration Projects

Eli Lilly and Company is committed to aggressive environmental conservation and education efforts. Lilly acknowledges the importance of conserving local lands in their natural state for the benefit of both current and future generations. Two Lilly facilities, one in the United States and one in Belgium, are prime examples of this ongoing commitment.

Tippecanoe Laboratories' Wildlife Habitat Area

Tippecanoe Laboratories is a 2,300 acre site in Lafayette, Indiana, devoted to both manufacturing and development. Lilly has set aside 977 acres of the site for a Wildlife Habitat Area. Funded in part by the facility's voluntary recycling program, the Wildlife Habitat program will promote land conservation by restoring the area to a more natural state and will serve as an educational tool for the local community.

The implementation of this habitat restoration project is guided by the site's Wildlife Management Plan. One of the primary goals of the plan is to educate elementary, middle and high school students on the importance of environmental conservation and other environmental issues. Tippecanoe Laboratories will implement various segments of its multistage Wildlife Management Plan over one, three and five year periods.

The Wildlife Habitat program is managed by the all-volunteer Wildlife Habitat Team, which was formed in 1991 and currently involves more than 100 employees. The team has been responsible for implementing projects such as rotational mowing, tree and shrub planting, nest boxes for a variety of birds, and a 1.5-mile walking trail. Currently the team is completing numerous projects at the site, including installing an information board and interpretive stations, landscaping the trail entrance, posting tree identification tags, replacing the trail surfaces with white rock instead of mulch, planting prairie grasses and wildflowers, and installing mounds and natural prairie landscaping.

Lilly's conservation efforts were recognized in 1997 when the Wildlife Habitat Council (WHC) certified Tippecanoe Laboratories' Wildlife Habitat Program. WHC is a nonprofit, non-lobbying organization that works to increase the amount of quality wildlife habitat on corporate, private and public lands. WHC certification began in 1990; there are now 193 qualifying programs in nine countries.

Ecological Environment Program at Mont-Saint-Guibert

The Lilly Development Centre in Mont-Saint-Guibert, Belgium, is a 22 acre site located in the Scientific Park of the University of Louvain-la-Neuve, 40 miles southwest of Brussels. Soon after Lilly's acquisition of the site in 1993, the site management made preservation of the ecological diversity of the local environment a priority. Through a collaborative effort with an environmental laboratory at the local university, the site established a program for the reintroduction of native plant species adapted to the soil and climate of the area.



Social Responsibility

Since purchasing the site, Lilly has made great strides towards restoring the site's ecological environment and improving aesthetic appearance. Since 1994, the program has planted more than 5000 trees, creating a 5-acre woods with more than 20 varieties of trees. Additional efforts have been aimed at protecting wildlife on the site, including utilizing an existing pond as a haven for wild water-fowl, installing nests in the trees to attract a variety of birds, and maintaining a wildgrass area to lure insects that had disappeared because of extensive insecticide use in the region.



Philanthropic Activities: Lilly's Responsibility as a Global Corporate Citizen

The mission of Eli Lilly and Company is to create and deliver superior health care solutions to people worldwide. In addition to this direct contribution to society, Lilly also acknowledges the company's responsibility as a global corporate citizen through a philanthropic program that includes financial grants, the donation of products to the world's indigent and disaster victims, matching gifts to organizations that share our goals for people, and the volunteer time and expertise of our employees. In 1997, Lilly made cash and product donations totaling over \$100 million.

Product Donations

One of the primary means through which Lilly continues to enhance the company's role as a global corporate citizen is the contribution of products worldwide for disaster assistance and international relief. Lilly's history of providing such assistance began in 1906, when it responded to a request for medicines for the victims of the San Francisco earthquake. In 1997, Lilly contributed \$20 million worth of product to international relief efforts in areas such as Vietnam, China, the Czech Republic, Mexico, and Pakistan. These pharmaceutical products typically are distributed through international aid organizations. Lilly is also an active participant in the ongoing review of the World Health Organization's guidelines for drug donations, including the company's role as a primary organizer of a 1997 conference that brought together for the first time the full spectrum of stakeholders in the issue of drug donations.

Lilly Cares is a long-standing indigent patient program established by Lilly to offer free medications, through physicians, to all Americans regardless of their ability to pay. In 1997, the company provided pharmaceutical products valued at \$52 million to those in need.

Financial Contributions

In addition to product donations, Lilly makes financial contributions to support improvements in health care around the globe. The company has continued its history of being a leader in diabetes care by making grants totally \$120,000 to the Hungarian Diabetes Association from 1995 through 1997. These grants were for the improvement of diabetes care standards in Hungary and were expected to benefit over 30,000 diabetes patients. In 1997 Lilly gave the American Red Cross \$1 million to train mental health professionals who assist victims, families and relief workers during times of disaster.

Employee Directed Contributions

Lilly encourages employees to make both financial contributions and gifts of their time and expertise to organizations that enrich the quality of life in local communities. Through the Matching Gifts Program, Lilly matches the financial contributions of U.S. employees, retirees, and board members to qualifying educational, cultural, and health care organizations of their choice. Lilly also matches the gifts pledged by employees and retirees to the United Way, a recipient in the area of



Social Responsibility

health and human services. In 1997, these two programs directed more than \$12 million to such organizations.

Volunteer Activities

Lilly also recognizes the important role that volunteers play in the success of community organizations. Two volunteer programs which Lilly actively supports are Habitat for Humanity and the United Way Day of Caring. Habitat for Humanity provides affordable housing for people in need, and Lilly has provided resources in the form of volunteers and funding to support this effort. Lilly employees participate in the Day of Caring by volunteering their time to United Way agencies and the people they serve.



RESPONSIBLE CARE® : A Public Commitment

As a member of the Chemical Manufacturers Association (CMA), Lilly is committed to the industry's program for continual improvement of health, safety, environmental performance, and community outreach: Responsible Care®.

Responsible Care® consists of 106 codes of management practices organized among seven performance areas. We pledge to manage our business according to the principles set forth in these seven areas:

- Community Awareness
- Emergency Response
- Pollution Prevention
- Distribution
- Health and Safety
- Process Safety
- Product Stewardship

We have implemented the criteria for each of these 106 practices and annually perform a self-evaluation at each of our manufacturing sites involved in the effort. Responsible Care® has been adopted by five of our manufacturing sites in the United States and Puerto Rico:

- Carolina, Puerto Rico
- Clinton, Indiana
- Indianapolis, Indiana
- Mayaguez, Puerto Rico
- Lafayette, Indiana



Our goal is to have all of the practices in place at these five sites by the end of 1998 and to implement the program as appropriate within non-manufacturing operations in the United States. To track our progress, take a look at the chart found in our performance metrics section.



Social Responsibility

Responsible Care® is not just about reacting to correct a situation, but focuses on being proactive. Our proactive efforts are demonstrated in the following activities:

- Lilly was one of the first CMA member companies to conduct an external verification audit of Responsible Care® Management Systems. An Executive Summary of the report is included.
- Our efforts in Indianapolis, Indiana are helping to prepare industry, local emergency planning groups, and the community for communication of chemical risk management information.
- Lilly was a charter subscriber to the Indiana Governor's Toxic Reduction Challenge and is actively working both internally and with fellow Indiana manufacturers to find ways to reduce emissions (as reported under the U. S. Toxic Release Inventory Program) by 50% by the end of 2002 (1995 base year).
- Lilly participated in the Management System Verification Program by supplying resources to review other CMA member companies.

Although current Lilly policy does not require the CMA Responsible Care® program to be adopted outside the United States, three sites have chosen to adopt their own country's Responsible Care® initiatives: Cosmopolis, Brazil; Kinsale, Ireland; and Speke Operations, UK.



Responsible Care® Executive Summary

Tippecanoe Laboratories Responsible Care® Management Systems Verification March 5 & 6, 1997 Executive Summary

A Responsible Care® Management Systems Verification was conducted at Eli Lilly and Company's (Lilly's) corporate headquarters, Indianapolis, Indiana, and at the Tippecanoe Laboratories near Lafayette, Indiana on March 5-6, 1997.

A verification team made up of industry representatives, a public participant, and a management system verification consultant evaluated Lilly's Responsible Care® management systems using the Chemical Manufacturers Association's protocol.

The verification focused on processes for implementing Responsible Care® and on an evaluation of the management systems necessary to ensure the sustainability and continuous improvement of the objectives of Responsible Care®. The verifiers evaluated employees' understanding of Responsible Care® and of safety, health and environmental processes. The team looked for systems and processes that establish and promote appropriate levels of performance; provide for outreach to all stakeholders; assign responsibilities, authorities and accountabilities; are documented; and provide for adequate resources to implement Responsible Care®.

The team found a number of strengths at Eli Lilly and Company relative to Responsible Care® management systems.

1. There is a demonstrated commitment to Responsible Care® through the development of policies, processes and "stretch" goals that focus on continuous improvement in environmental, health and safety performance.
2. There is a Responsible Care® implementation strategy that includes the assignment of responsibilities and accountabilities, documented definitions of practice-in-place, and measurements and timetables.
3. There is a company-wide planning process for all business decisions and it is applied to the implementation of Responsible Care®. It integrates the Responsible Care® initiative into the mainstream of the company's business management processes.
4. The company has established Community Advisory Panels at all three Indiana sites.
5. There are a number of communications materials that inform stakeholders about Lilly's environmental, health, and safety performance.
6. The company uses periodic employee and community surveys to obtain input on the company's environmental, health, and safety performance.
7. There is a formalized process for the selection of suppliers that includes environmental, health, and safety performance criteria.
8. The company has developed a number of guidance documents to assist all company operations and activities.



9. There is a well-planned emergency preparedness policy that is coordinated with community emergency preparedness needs.
10. Significant emphasis is placed on environmental, health, and safety training. This is enhanced by a system that tracks training schedules and completions.
11. The company has systems in place to identify gaps in environmental, health, and safety performance and to identify corrective action following an incident.
12. There is a process to identify, reduce, and control emissions.
13. The company produces an annual, internal Environment Report that identifies corrective actions.
14. Benchmarking of Responsible Care® systems against other organizations is a priority at Lilly. The company has taken leadership roles in local civic organizations, trade associations, business associations and governmental organizations. Benchmarking and sharing of Responsible Care® self-assessments is done with other companies to identify opportunities for continuous improvement.
15. Management is dedicated to sharing company performance information and company challenges with employees and other stakeholders.
16. The company encourages employee involvement in public outreach through the Ambassador Program, the Grass Roots Program, the Wildlife Habitat Program, and the School Outreach Program. Company employees actively participate in outside organizations related to environmental, health, and safety at the local, state and federal level.
17. Lilly enlists public and employee participation in development of certain policies, processes and procedures.
18. Safety Lead Team includes hourly employees and is used to plan and schedule safety meetings for employees and contractors.
19. "Metric Monday," the second Monday of every month, is an opportunity to determine performance results on a wide range of parameters, including environmental, health, and safety. There is extensive use of metrics at all levels of the organization.
20. Environmental, health and safety performance goals are tied to individual performance reviews. This is done at all levels of the organization and applies to team goals as well as individual goals.

In the spirit of continuous improvement, the team concluded that:

1. There is an opportunity to enhance the new employee orientation process to include the company's commitment to environmental, health and safety performance and an introduction to Responsible Care®.
2. There is an opportunity to have the Community Advisory Panels facilitated by a neutral party.
3. There is an opportunity to assure that the concerns of all stakeholders are being addressed.
4. The same type of corporate "stretch" goals that have been adopted for safety could be adopted for environmental issues.
5. The company should reinforce top management's commitment to continuous improvement in environmental, health and safety performance through all levels of the organization.



6. There is an opportunity to enhance the process for cascading environmental, health, and safety targets down to the facilities.
7. There is the opportunity to strengthen the management system for integrating environmental, health, and safety continuous improvements into the capital allocation and resource decision making process.
8. The company should consider the use of the transportation risk management process to the transportation of hazardous waste.
9. There is the opportunity to enhance the quality of the emergency response drills at research laboratories.
10. Sharing of information could be more effective through a more personal approach with all stakeholders.
11. The company could consider the use of more in depth (e.g., HAZOP) risk analysis reviews for the higher risk processes.
12. There is the opportunity to consider enhancements to the responsibility and accountability for accident and incident investigations by utilizing line management rather than staff to lead incident investigations and develop corrective action recommendations.
13. Based on comments from a number of panelists, the Tippecanoe facility should evaluate reducing the number of environmental, health, and safety parameters that are measured and reported. Fewer parameters could focus priorities and increase the emphasis on key parameters.



Advocacy Program

The policy of the company is to "actively participate with government agencies and other appropriate groups to ensure that the development and implementation of environmental policies, laws, regulations and practices serve the public interest and are based on sound scientific judgment." To this end, a corporate-level strategy group has been in place for several years to coordinate the advocacy efforts of the company in the United States. This group focuses on legislative, regulatory and trade association activities in Indiana and in the nation's capitol. Due to the high concentration of bulk chemical manufacturing facilities in Indiana and the complexity and reach of environmental regulations in the United States, this geographic region has been given the greatest resources to advocate sound scientific and public policy positions. This effort has been very successful. For example:

- Lilly was instrumental in advocating changes in the laws governing hazardous waste management in Indiana that will result in reduced waste management costs with no increased environmental impact.
- Lilly has been active in the Clean Air Act Advisory Council that has been influential in shaping air emissions regulations in the United States.
- Lilly has devoted significant resources to shaping the Indiana state implementation plan for the Clean Air Act Amendments. This effort has resulted in numerous benefits to both the public and business in terms of simplifying the permitting process for new and modified manufacturing processes.

There are also advocacy initiatives occurring in Europe focused on both environmental and hazardous materials transportation issues.



Integrating EHS Activities With Lilly New Product Development

Product stewardship - the passage of a new pharmaceutical from discovery through development to launch - takes many forms. One of the most important forms at Lilly is the environmental, health and safety efforts that help bring a new product to market. We believe that identifying, evaluating and integrating EHS issues into a product's development at the earliest stages of its life cycle enhances our EHS performance and makes good business sense.

Under the New Product Environmental Requirements Tracking (NPERT) process, environmental issues are identified and addressed from the very beginning. The NPERT process mandates that the Pharmaceutical Process Development team (PPD team) identify and quantify the raw materials used and the wastes generated at each process step. The PPD team uses the waste management hierarchy to determine how best to minimize the waste generated in the manufacturing process, giving priority to source reduction, then recycling, and so on. The PPD team identifies the hazards and the difficulties in treating the waste associated with the raw materials and processing to determine if chemical substitutions are desirable and possible. If a substitute is not possible, then consideration is given to recycling, treatment, and ultimately disposal.

Waste Management Hierarchy



Lilly has witnessed many examples of the environmental benefits of the NPERT process since its inception. Two of the most interesting involved the new drug products olanzapine, a drug used for the treatment of schizophrenia, and raloxifene, a drug used for the treatment of postmenopausal osteoporosis. The brief case studies that follow tell about the significant EHS activities that took place to support the development and ultimate launch of these new compounds. These ventures called upon the talents of EHS employees all over the world. Their dedicated efforts played a major role in the development of these products.



Olanzapine Case Study

Compound Discovery

A number of years ago, a small team working in Lilly's U.K. Erl Wood, England, research facility set out to find a better therapy for people suffering from schizophrenia. The antipsychotics of that time had limited efficacy against symptoms of the disease and frequently produced side effects, particularly movement disorder related side effects, nearly as unpleasant as those symptoms. The team, led by Dr. Jiban Chakrabarti, was determined to discover a drug which, when compared to the leading treatment of the time, had equivalent or better efficacy against disease symptoms and had an improved safety profile. Team members Dr. Chakrabarti, David Tupper and Terry Hotten synthesized a new molecule named olanzapine.

Conduct Initial Safety Studies

As with nearly all new pharmaceutical compounds, there was no safety or environmental information known about olanzapine at the time it was first discovered. At the same time that Lilly scientists were conducting clinical studies to determine the safety and efficacy of the product, Lilly experts were also conducting thorough research on safety issues related to the manufacturing process. Among other things, these experts were gathering data on possible pharmacological effects, if any, that might occur in workers who might be handling or exposed to the compound in the manufacturing process. These data enabled the company to develop and establish internal guidelines regulating employee activity in various facets of the manufacturing process. Other tests were conducted and evaluated to assess the chemical reactivity of the compound. Again, early assessment resulted in the ability to establish appropriate safety measures and guidelines related to the manufacturing process.

Data from these safety studies, together with the guidelines, were communicated to Lilly employees who would be working with these compounds. Seventeen Material Safety Data Sheets related to this product were made available on-line to all employees. The Material Safety Data Sheets were promptly updated if new information became available and thus remained a dynamic and integral part of the development process.

Process Selection and Optimization

In developing a product, we design manufacturing processes that will minimize waste and maximize safety. This process begins in the selection of the chemicals that will be used in the synthetic process, assessing each potential raw material and chemical intermediate for environmental, health and safety impact. In 1995 and 1996, we implemented the New Product Environmental Requirements Tracking (NPERT) program. Under the NPERT program, an environmental professional was assigned to the olanzapine product team to help do the following:



- identify all regulatory or environmental quality requirements early in the manufacturing scale-up processes
- work directly with the research and development and scale-up production facilities to select waste management and pollution prevention strategies
- ensure that company and customer expectations concerning product stewardship were met.

Bulk Chemical Manufacturing

Lilly selected its Kinsale, Ireland, facility as its bulk manufacturing site for olanzapine. Before Kinsale began any work with the material, however, Lilly's toxicology division coordinated the completion of nine health and safety studies, eight environmental toxicology studies and 14 physical/chemical studies, all of which were provided for the Irish health and safety authorities. After all test results were reviewed, the material was cleared for passage to Ireland.

Early safety studies resulted in the adoption and improvement of important EHS related processes, including:

- conducting special placebo manufacturing runs to learn and validate the use of new state-of-the-art engineering technologies prior to working with active ingredients
- providing highly detailed process safety and hazard communication training for employees
- completely reevaluating dust explosion controls on-site, which spurred additional proactive efforts to add new safety techniques and technologies to all hazardous processes
- completing chemical exposure monitoring studies for every raw material, intermediate and final material used in the manufacturing process prior to product launch
- formal inclusion of environmental, general safety, process safety and exposure issues in the New Product Validation Plan.

Implementing these processes was a learning experience that will have a lasting effect on Kinsale's and Lilly's EHS systems and site processes.

Pharmaceuticals Manufacturing

Lilly chose its Carolina, Puerto Rico, and Basingstoke, England, facilities as the sites for olanzapine tablet manufacturing, packaging and shipping. Early in the process, long before the product would reach these sites, all the EHS information known about the product was introduced at the site and initial strategies were developed to transfer the manufacturing development process. In addition, we had learned that olanzapine could cause contact skin dermatitis reactions. Containment engineering strategies were developed to ensure a safe and efficient working environment at both sites. Multisite teams were formed to ensure that innovative EHS solutions were quickly shared and implemented. By the time olanzapine was launched, all initial exposure assessments were completed at both Puerto Rico and England.



Clinical Trials and Special EHS Studies

Data from clinical trials is important for EHS, as it gives us the ability to identify exposure levels that might cause adverse effects in humans. While manufacturing processes were being finalized, so were the olanzapine clinical trials and special environmental, health and safety studies. Data from those studies helped finalize two Lilly-specific EHS guidelines: Lilly Exposure Guidelines to protect worker safety issues and Lilly Aquatic Exposure Guideline to protect aquatic flora and fauna. Additionally, results from environmental impact studies were compiled and submitted to the U.S. Food and Drug Administration (FDA) as part of the overall New Drug Application submission for olanzapine.

Launch

Olanzapine was cleared for marketing in the United States by the Food and Drug Administration on September 30, 1996, and in 15 European Union nations by the European Medicines Evaluation Agency on September 27, 1996. Its launch was one of the most successful new product launches in Lilly's history — and in the history of the pharmaceutical industry. Our efforts to integrate EHS concerns into all stages of the product development process helped enable us to make this drug available on the market.



EHS Considerations in the Development of Raloxifene

The initial raloxifene manufacturing route identified during the development process had many environmental drawbacks. The manufacturing process produced significant amounts of aluminum waste, used large amounts of various solvents, and used compounds with high odor potential. Environmental representatives working with the development team challenged the team to reconsider the route of manufacture due to the solvents selected and potential waste handling issues. The resulting success story proved that incorporating environmental considerations early in the development cycle can have both pollution prevention and economic impacts.

Environmental Benefits

The process development group's goal was to identify manufacturing processes with less environmental impact. Their efforts resulted in a new manufacturing process that generated a higher quality product and reduced or eliminated many other negative environmental and safety factors associated with the initial production route. Lilly eliminated the aluminum solid waste stream, eliminated the use of odiferous raw materials, eliminated the use of methylene chloride, reduced the number of high pressure and temperature reactions, and eliminated all distillation steps from the processes. The amount of solvent used in the manufacturing process was reduced from 250 liters per kilogram of final product to around 98 liters per kilogram of final product, representing a reduction of over 60%. The amount of waste produced per unit of final product was reduced by about 80%.

Health and Safety Improvements

Although Lilly's primary goal was to reduce the environmental impact of the manufacturing process for raloxifene, the company also realized significant health and safety benefits. The potential for accidents and employee exposure was reduced considerably since the manufacturing process selected is less hazardous and generates less waste. The efficiency improvements will make production of the product safer for employees and neighbors.

Economic Benefits

Lilly also realized direct economic benefits from modifying the raloxifene manufacturing processes relative to the costs of raw materials and waste treatment. Per unit of product, the new manufacturing route has reduced the cost of solvents by nearly 75%. Since the process produces less waste, waste treatment costs have been reduced significantly. The reduction in waste from the process also has a direct impact on the capacity of Lilly's waste treatment facilities. Reduction in waste allows the current capacity to be utilized as efficiently as possible and lessens the need to build new treatment facilities.

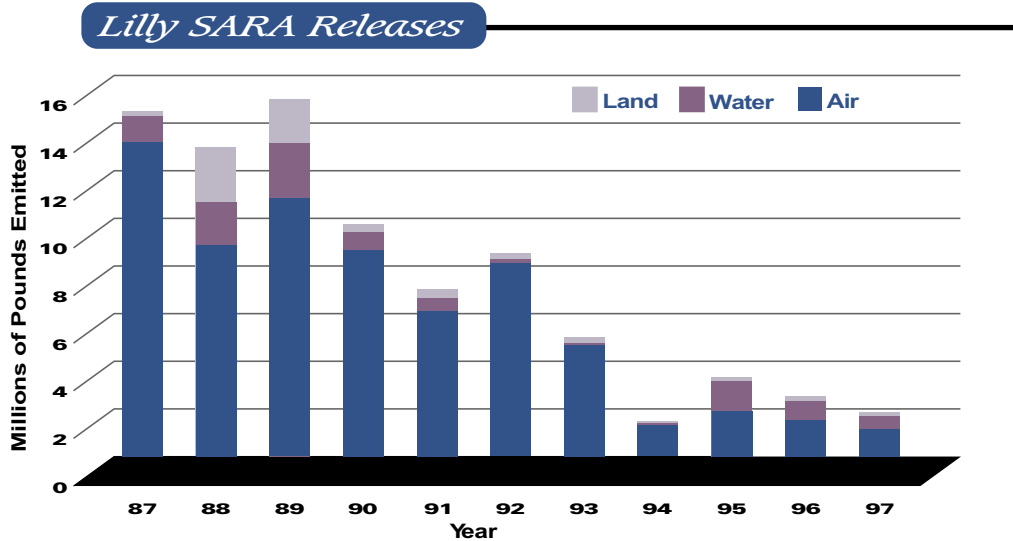


Environmental Program Costs

	Expenses	Capital
1994	65,810	20,018
1995	67,989	11,066
1996	62,650	10,731
1997	60,846	13,706
	(\$'000)	(\$'000)

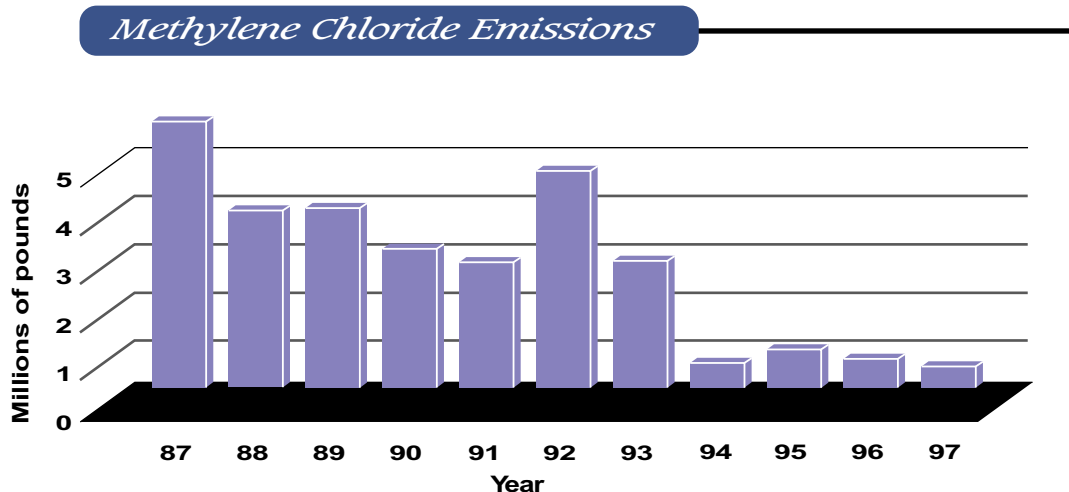
Environmental Program Costs

The Environmental Program Costs table illustrates the money spent by Lilly for environmental programs. Capital represents money spent on pollution control equipment and other physical assets related to environmental protection. Expenses represent money spent on EHS employee salaries, pollution control equipment operation and maintenance, training and other noncapital costs. As of 1997, Lilly maintains a worldwide staff of 330 environmental program employees. In 1994, Lilly's capital expenses included the initiation of many new programs. The start-up costs of these programs dramatically increased the capital expenses, which have since decreased as projects have been completed.



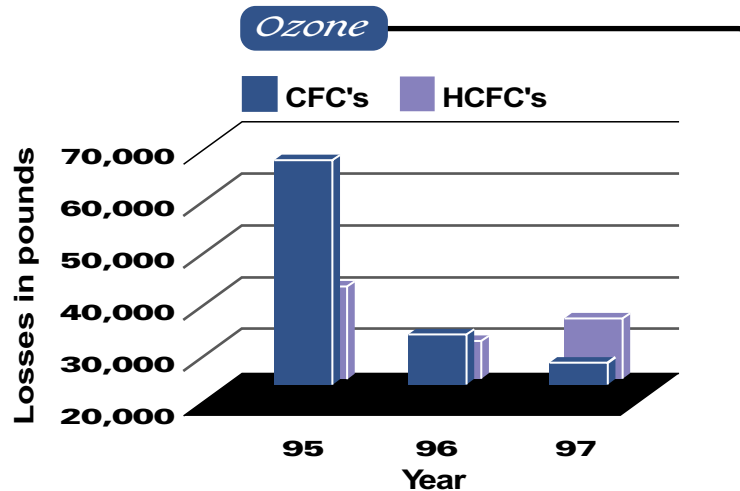
Lilly SARA Releases

Under the United States' Superfund Amendments and Reauthorization Act (SARA), corporations must report annually to the Environmental Protection Agency (EPA) the quantity of EPA-defined toxic chemicals released into the environment. Deliberate actions by Lilly, including expanding solvent recycling, improving emission controls and increasing production efficiency, have resulted in a dramatic continuing declining trend in our SARA releases. One exception to this decline occurred in 1995, when the U.S. Environmental Protection Agency doubled the list of reportable chemicals, including nitrate compounds, and we experienced an increase in production. We're proud of efforts to again reduce in 1996 our SARA releases, despite the inclusion of nitrate compounds as a reportable compound for the first time. These nitrate compounds account for the vast majority of Lilly's emissions to the water. We've addressed this problem at our Tippecanoe Laboratories wastewater treatment plant by implementing an award-winning "denitrification" project. SARA releases again declined in 1997, a trend which we are working to continue in the future.



Methylene Chloride Emissions

Since 1992, Lilly has engaged in an aggressive program to reduce methylene chloride emissions. Overall we have been very successful in our efforts. While large production increases in 1995 caused the total emissions of methylene chloride to rise above 1994 levels, new emission controls, recycling technologies, and process yield improvements resulted in actual decreases in the rate of loss of methylene chloride as a percentage of use.



Ozone Depletion

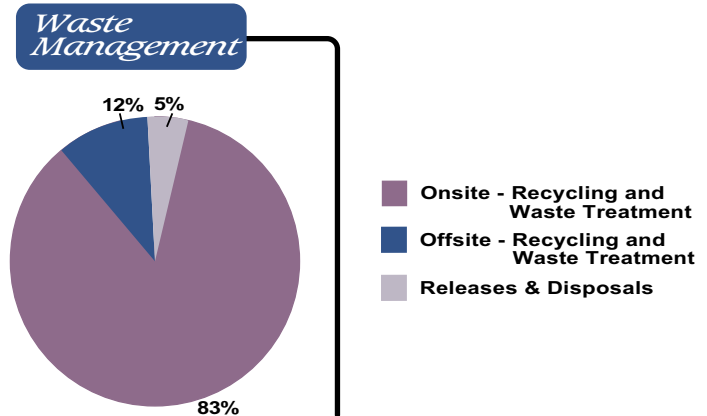
Lilly uses ozone-depleting substances (ODS), such as chlorofluorocarbons (CFCs) and hydrochlorofluorocarbons (HCFCs), primarily in closed refrigeration systems. Refrigeration systems are used for both process refrigeration and in comfort cooling, such as air conditioning. Process refrigeration includes uses such as freeze dryers, process or air pollutant emissions control condensers, and the chilling of liquids used to cool chemical reactors. The majority of Lilly's ODS losses occur in the process refrigeration uses. To reduce these emissions, Lilly has pursued a deliberate policy of planned chiller improvements, retirements and retrofits designed to maximize the useful life of its chillers, while both decreasing the company's dependence on ODS and minimizing the release of ODS to the environment. The decreased CFC losses over the past three years reflect both the continuing success of improved maintenance procedures adopted in response to significant losses in 1995 and the decreasing usage of CFCs at Lilly. The increased loss of HCFCs in 1997 reflects to some extent an increased usage, as HCFCs are still the primary replacements for CFCs.

In addition to the refrigeration systems, Lilly also owns Halon fire suppression systems, which do not release their contents except in emergencies. Since 1992, company policy has been not to install new Halon systems and to discourage replacing Halon systems that have discharged. Water based fire protection systems are used instead. Most Halon systems have been removed from service, with only the most critical systems remaining. The company does not track the amounts released from such fire protection systems.



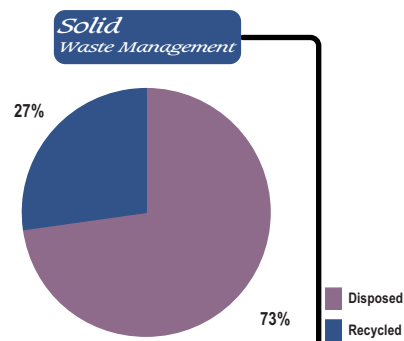
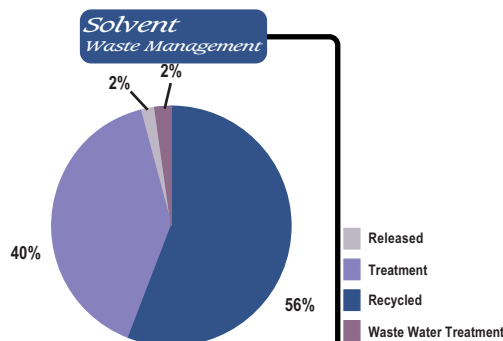
Waste Management

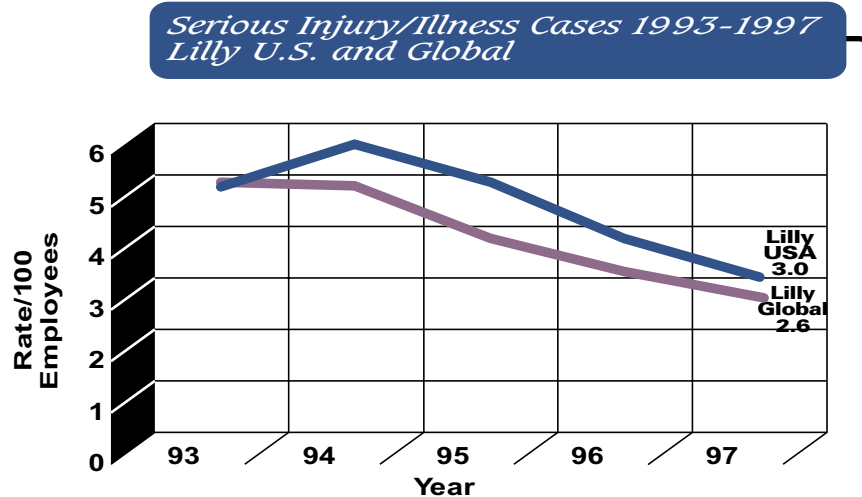
The hierarchy of waste management at Lilly begins with reducing waste at the source - identifying routes of manufacture that generate fewer waste materials from the production process. For those wastes that cannot be avoided, the next step is recycling the waste that is generated. If recycling is not an option, we determine if the wastes are suitable for energy recovery. Finally, if a waste cannot be managed by one of the above steps, the waste must be treated and disposed. Where practicable, Lilly tries to manage wastes onsite rather than transfer them to other Lilly facilities or third party facilities for treatment.



Under the United States' Superfund Amendments and Reauthorization Act (SARA), corporations must report annually to the Environmental Protection Agency (EPA) the quantity of EPA-defined toxic chemicals released into the environment. The graph depicts SARA-reportable wastestreams managed at U.S. facilities. In 1997, 83% of our SARA-reportable wastestreams were managed through one of the above steps at the facility where the waste was generated. The remaining waste that must be shipped off-site is sent to other Lilly facilities or third-party treatment facilities for treatment or recycling.

As part of the company's waste management strategy, Lilly looks for recycling opportunities in order to reduce the volume of waste destined for treatment or disposal at our facilities around the globe. The majority of the solvent waste generated at Lilly is recovered and recycled for use at Lilly facilities. During 1997, 27% of the solid waste generated at Lilly facilities was recycled. In this context, the term "solid waste" includes both hazardous and nonhazardous waste in a solid physical state (not liquid or gaseous).



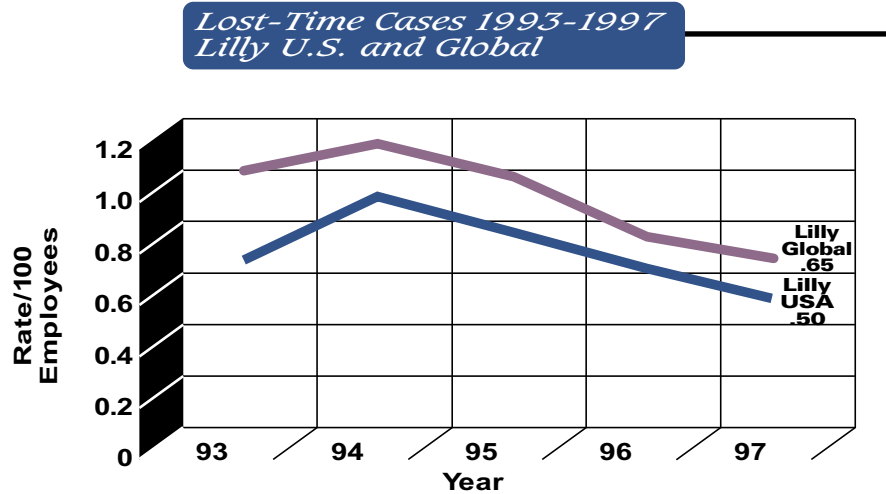


Serious Injury and Illness

A serious injury is any work-related injury or illness that results in death, loss of consciousness, restriction of work or motion, transfer to another job or medical treatment (beyond first aid).

The 1997 serious injury and illness rate of 2.6 for Lilly global operations represents a 19 percent reduction from 1996. Based on 1997 performance, 16 of the 29 Lilly sites listed in this report have already achieved the company-wide 2.0 by 2000 rate-reduction goal for serious occupational injuries and illnesses. By the year 2003, Lilly's goal is to have no more than one serious occupational injury or illness per 100 employees during a calendar year.

In addition, in 1997 there were no Lilly employee or contractor fatalities.

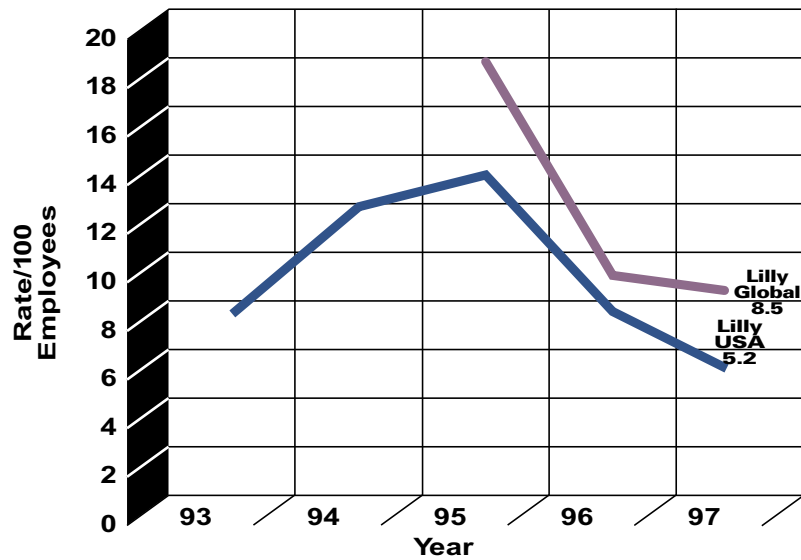


Lost-Time Rate

The 1997 lost-time case rate of 0.65 incident per 100 employees for Lilly global safety performance was a decrease of 12 percent from 1996 results. Facilities in Belgium, China, Japan, Korea, Taiwan and Giessen, Germany, completed the year without a single lost-time accident.

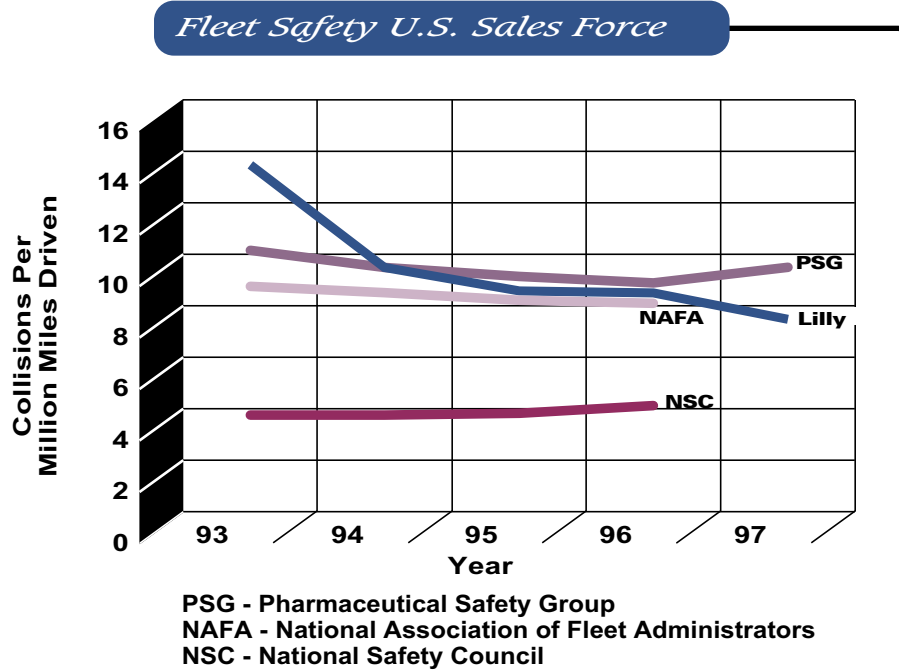


*Lost Workdays 1993-1997
Lilly U.S. and Global*



Lost-Workday Rate

The lost-workday rate for 1997 indicated continued improvement in worker safety. The rate of 8.5 for Lilly global safety performance was a decrease of nearly 6 percent from 1996 results. These data reflect an overall decrease in the severity of injuries as well as improvements with injury and illness case management.

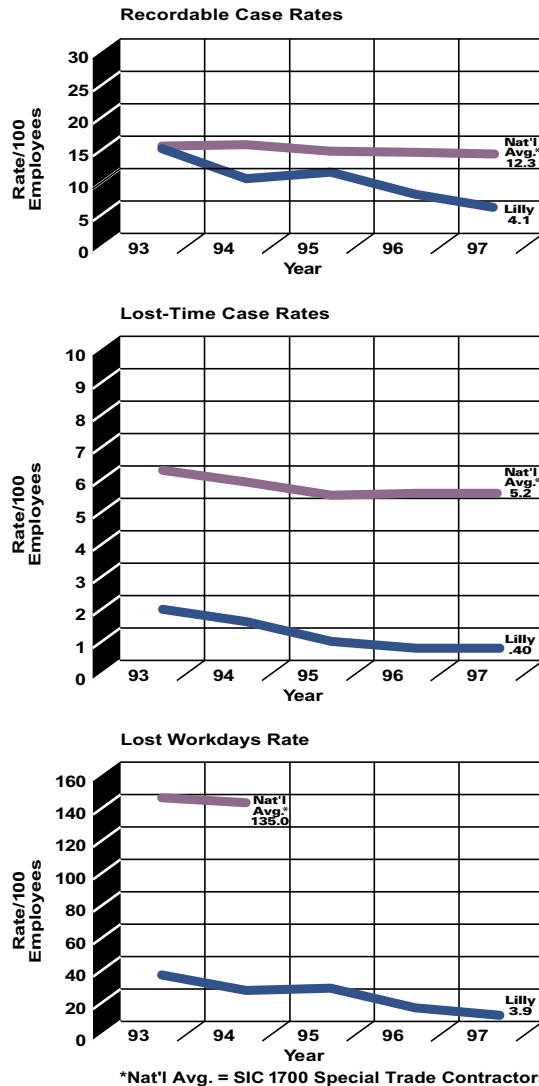


Fleet Safety

The Lilly automobile accident rate for its U.S. sales force continued to improve but remains relatively average when compared with other benchmark company sales fleets. The Lilly comprehensive fleet safety program was implemented in the first quarter of 1995 and was developed through a cooperative effort involving pharmaceutical sales and marketing management, human resources, risk management and fleet administration. Focusing on continuous improvement, the company target for 1998 is a 30 percent reduction in the number of preventable collisions from 1996 results. This program will enable Lilly to show how safety efforts can directly affect Lilly's bottom line. Lilly has reduced rates since 1993, proving the success of this program. The next phase of this program is going to include driver safety education for immediate family members of employees, targeting high school students and parents, and expansion of the program to other global facilities.

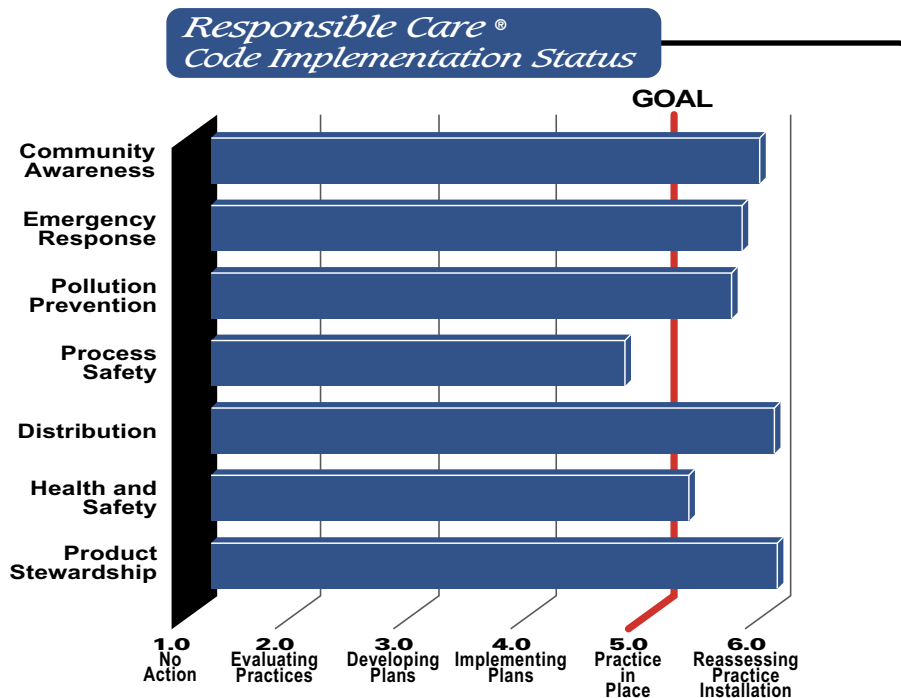


Contractor Safety Performance



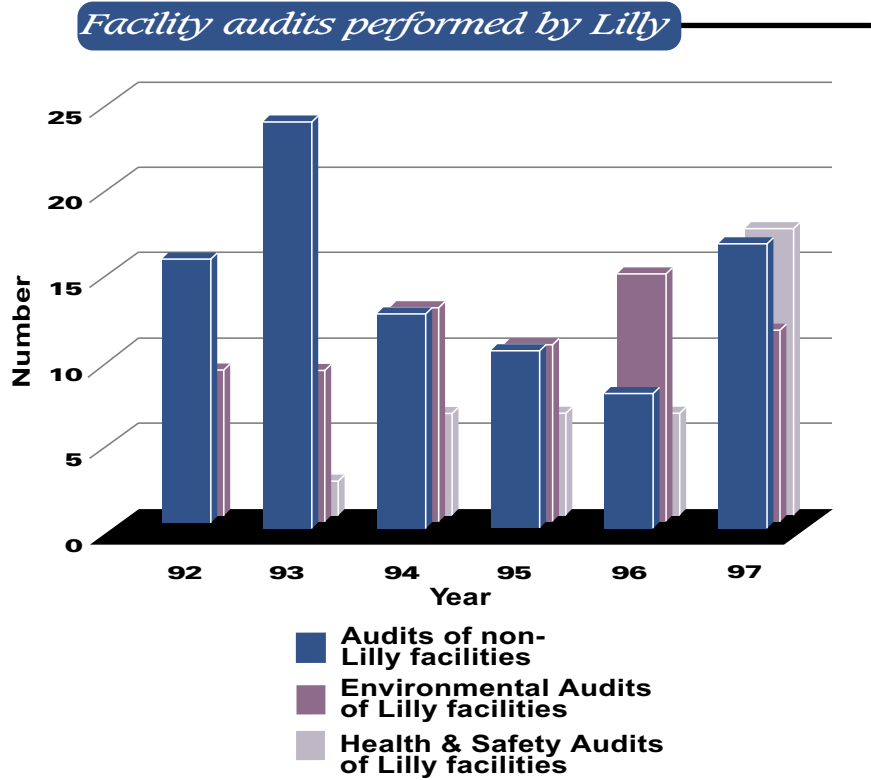
Contractor Safety

Indiana contractor safety performance in the construction and plant engineering business units improved significantly in 1997 from 1996 results. The OSHA recordable rate decreased 4 percent; the lost-time case rate decreased 5 percent; and the lost-workday rate decreased 52 percent. Indiana construction and plant engineering/maintenance contractors continue to work at much safer levels than the industry averages. Lilly has developed a U.S. contractor safety management system to help further assess and focus on contractor safety improvement. This program has resulted in several external safety awards.



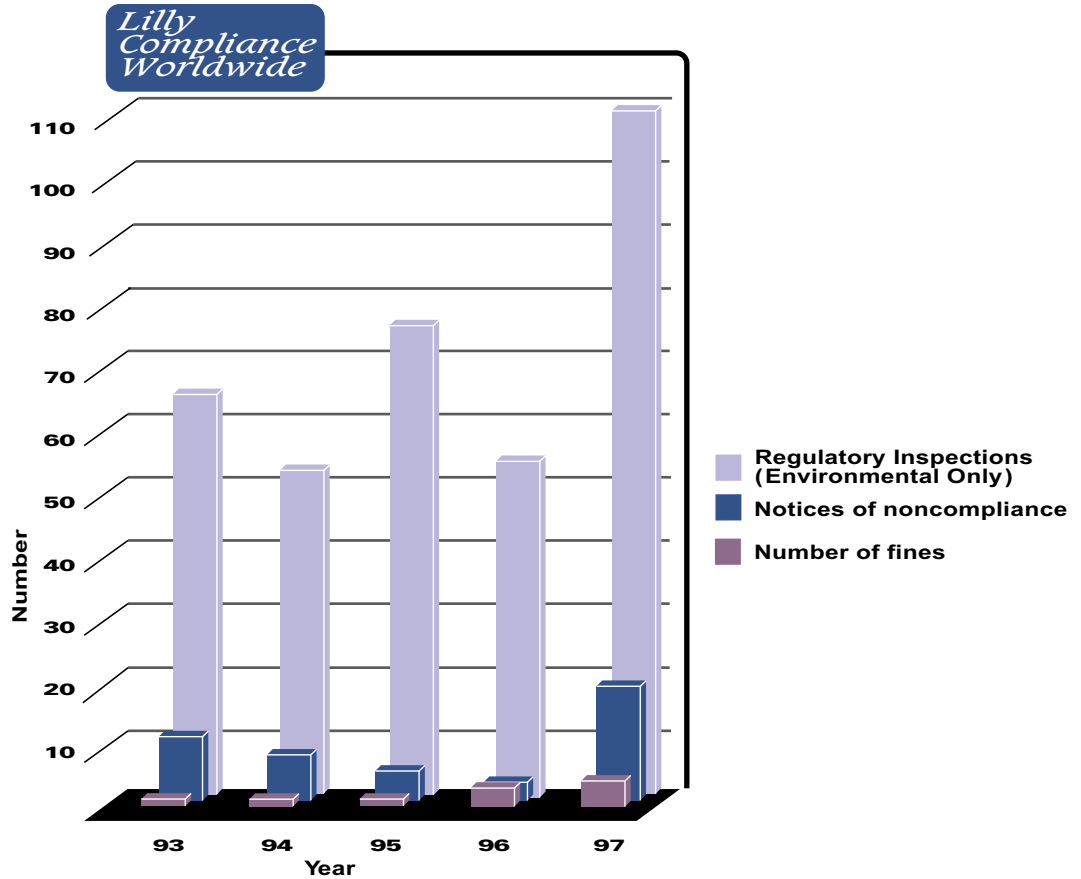
Responsible Care®

As a member of the Chemical Manufacturers Association (CMA), Lilly participates in the Responsible Care® initiative, a program of continuous improvement of environmental, health and safety issues and proactive public involvement. The program has been applied to all Lilly manufacturing sites in the United States and Puerto Rico. Annually, self evaluations are performed on each of the seven codes of management practice that comprise the initiative. The goal is to be at "best practice" (stage 5 on the chart) for all codes by the end of 1998. The chart above is a composite score for all the sites included in the program.



Facility Audits Performed by Lilly

Lilly continues to use company-wide audits as a key management tool for evaluating plant site EHS performance. EHS audits increased significantly in 1997, with 11 environmental audits, 17 health and safety audits, and 16 audits of non-Lilly facilities.



Inspections and Fines

Federal, state and local environmental health and safety agencies perform frequent inspections of Lilly facilities to determine compliance with regulations and permits. Despite Lilly's commitment to comply with every applicable regulation, occasional violations are noted, some of which result in the assessment of penalties. When a violation is discovered, the company works quickly to correct the situation.

In addition to the environmental inspections identified above, regulatory agencies conducted health and safety inspections at many of Lilly's global facilities during 1997. No major findings or penalties resulted from these inspections.



Awards and Recognition

Eli Lilly and Company's commitment to environmental and health and safety excellence has led to recognition around the world. We're proud of the following awards:

- The Puerto Rico Aqueduct and Sewer Authority (PRASA) recognized Lilly del Caribe, Inc., in 1995, 1996, and 1997 for full compliance with the PRASA pretreatment permit.
- The U.S. Chemical Manufacturers Association awarded Lilly the 1997 Performance Improvement Award, which recognized the company for cutting serious injuries by 45 percent since 1994.
- In 1997, our Erl Wood, England, facility received the Gold Award for Occupational Safety from the Royal Society for the Prevention of Accidents. This award is in recognition of Erl Wood's consistently outstanding performance over the years 1993-1996 in addition to the site's sound safety policies.
- In both 1996 and 1997, the Lilly manufacturing facility in Mayaguez, Puerto Rico, received an Excellence Award from the Puerto Rico Solid Waste Management Authority in recognition for its plant site recycling programs and involvement with schools on recycling education.
- Lilly was presented the National Safety Council's Award of Merit in recognition of continuing improvement in workplace health and safety. Lilly earned the award by significantly reducing the company's 1997 incidence rates as compared to 1994-1996 incidence rates and that of the pharmaceutical industry as a whole.
- Lilly's facility in Basingstoke, England, was recognized for its pollution prevention efforts in 1997. The Department of Environment recognized as an environmental best practice the conversion of the Aspirin coating process from acetone-based to an aqueous-based process.
- The waste water treatment facility at Tippecanoe Laboratories received an award in 1997 from the Indiana state water pollution control association for its excellent safety programs and injury prevention efforts.
- Lilly received three awards from the Metro Indianapolis Coalition for Construction Safety (MICCS) for the company's contractor safety program and performance record in 1997. These awards were the Excellence in Safety Award, the top honor of the MICCS, the Safety Leader Award in the Owner Category, and the Outstanding Project Award.
- In 1997, Tippecanoe Laboratories received certification from the Wildlife Habitat Council for its wildlife improvement program. Tippecanoe Labs was only the second manufacturing facility in Indiana to receive this certification.



Performance

- Tippecanoe Laboratories received the 1998 Indiana Governor's Award for Excellence in Pollution Prevention. The award was given in recognition of the Cleaning Technology Center's success in identifying numerous water-based cleaners that replace chemical cleaners containing organic solvents.
- Lilly's Fegersheim, France, facility received an award from the French health and safety regulatory agency in 1997 recognizing the site's efforts in dramatically reducing work-related accidents from 1995 to 1997.
- The national Health and Safety Authority recognized the Kinsale, Ireland, facility for its involvement in the 1997 European Health and Safety Week. The recognition was for training Lilly provided to one of its engineering equipment supplier companies.
- Lilly Canada has received the Industrial Accident Prevention Association award for the past four years for having no lost-time accidents or illnesses at the facility.



Who We Are

Eli Lilly and Company is a global research-based pharmaceutical corporation dedicated to creating and delivering innovative pharmaceutical-based health care solutions that enable people to live longer, healthier and more active lives.

Our research and development efforts target health care solutions that address urgent, unmet medical needs and replace more expensive and invasive medical treatments. As we pursue leadership in the therapeutic areas where we are focusing our resources, we often reduce the cost of disease, thereby creating significant value for patients, health care providers and payers, and health care policymakers.

Lilly employs 31,100 people worldwide and markets its products in 159 countries.

Our Values

As we implement our strategies and pursue our objectives, long-established core values guide us in all that we do:

- Respect for people that includes our concern for the interests of all the people worldwide who touch -- or are touched -- by our company: customers, employees, shareholders, partners and communities
- Integrity that embraces the very highest standards of honesty, ethical behavior and exemplary moral character
- Excellence that is reflected in our continuous search for new ways to improve the performance of our business in order to become the best at what we deliver.

What We Do

At Lilly, we are focusing on the discovery and development of the most effective pharmaceutical-based health care solutions for our diverse customers throughout the world. We are dramatically accelerating our drug discovery and development processes and, thus, the speed at which our new products achieve regulatory approval and reach patients.

With our pharmaceutical business central to our efforts to provide customers with the best clinical and economic outcomes, we seek constant innovation through the creative combination of scientific discovery and the application of information technology. This continual search for innovation underpins our efforts not only in the laboratory but throughout the entire Lilly organization.

As Lilly touches the lives of people worldwide, we recognize that we have a particular responsibility to be a good corporate citizen of the communities in which we operate and to help preserve the environment for the generations to come.



Major Facilities

Research and development facilities are located in Australia*, Belgium, Canada, England, Germany, Japan, Singapore*, Spain and the United States. Clinical studies are conducted in more than 30 countries worldwide.

Lilly manufacturing facilities are located in Australia, Brazil, China*, Egypt*, England, France, Germany, Hungary*, Ireland, Italy, Japan, Korea*, Mexico, Pakistan*, Poland*, Puerto Rico, South Africa, Spain, Taiwan, the United States and Venezuela.

* joint venture

Financial Information

Financials -- 1997

(dollars in millions, except per-share data)

Net sales	\$8,517.6
Net income -- normalized*	\$1,774.4
Earnings per share -- normalized*	\$1.57
Net income (loss) -- as reported	\$(385.1)
Earnings (loss) per share -- as reported	\$(0.35)
Dividends paid per share	\$0.74
Capital expenditures	\$366.3
Economic value added (EVA)	\$751

Research and Development

1997 Expenditures

\$1,382.0 million/year

\$115.2 million/month

\$26.6 million/week

\$5.3 million/workday

Increase from previous year 16%

R&D as a percentage of sales 16%

Total R&D investment in last five years from continuing operations \$5,207.5million



We would like to hear from you. Please complete the survey below to help us assess how we can improve next year's Environmental Health, and Safety (EH&S) Report.

The EH&S Report:

- Provided all of the EH&S performance information I was seeking.
- Provided most of the EH&S performance information I was seeking.
- Provided some of the EH&S performance information I was seeking.
- Provided little of the EH&S performance information I was seeking.
- Provided none of the EH&S performance information I was seeking.

I would like to see more information on the following topic(s) in next year's EH&S Report:

The graphical data contained in the report:

- Contributed significantly to my understanding of Eli Lilly and Company's EH&S performance.
- Contributed to my understanding of Eli Lilly and Company's EH&S performance.
- Neither contributed nor detracted from my understanding of Eli Lilly and Company's EH&S performance.
- Detracted from my understanding of Eli Lilly and Company's EH&S performance.
- Significantly detracted from my understanding of Eli Lilly and Company's EH&S performance.

I am employed in one of the following sectors:

- Industry
- Federal Government
- State Government
- Local Government
- Environmental Consultant
- Safety Consultant
- Shareholder
- Interested Citizen
- Student
- Other



Comments or questions on our Environmental, Health, and Safety Report:

Please understand that we can respond only to questions directly related to our report or our company's environmental, health and safety performance.

Please supply your E-mail address to facilitate a response to any questions regarding our Environmental, Health, and Safety Report.

Your E-Mail Address: _____

(Optional Information)

Name: _____

Address: _____

City: _____

State: _____

Zip: _____

Country: _____

To complete the survey, please **print this page** and mail it to the following address:

Julie Delp
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