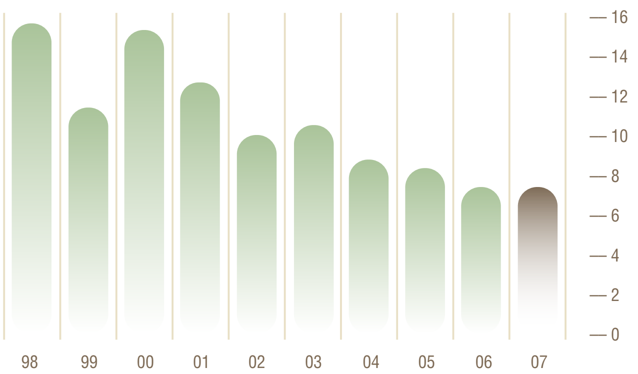
2007 Finances & Grantmaking

Throughout the 70-year life of Lilly Endowment the attention of its founders, directors, officers and staff has been focused primarily on the quality of life in Indiana and Indianapolis.

This is not accidental. The three founders—J.K. Lilly Sr. and his sons J.K. Jr. and Eli—were grateful for the support of the community in building their pharmaceutical business and wanted, in turn, to help their hometown, Indianapolis, and their state, Indiana, thrive. They started with gifts of stock in that company. Lilly Endowment is a totally separate organization from the company, but those gifts have remained the financial bedrock of the Endowment. Little could they have known that, 70 years later in a new century, the success of their investment would have allowed the Endowment to grant almost $7 billion, most of it going to charitable organizations in Indianapolis and Indiana. We hope that this annual report provides a glimpse of the range and scope of this grantmaking as we continue to support efforts to improve the quality of life throughout the state.

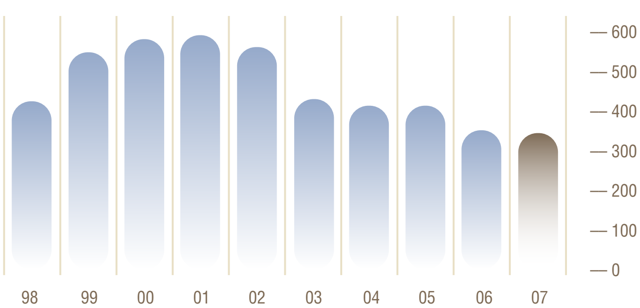
10-Year History
Market Value of Assets
(dollars in billions)

CHART 1



10-Year History
Grants Paid
(dollars in millions)

CHART 2



The focus of the Endowment's grantmaking this year remains in its three major grantmaking areas—community development, education and religion. At the end of 2007, the Endowment's assets totaled $7.7 billion (see chart 1). In 2007 the Endowment approved $333.3 million in new grants and distributed grant payments of $336.6 million.

GRANTS PAID

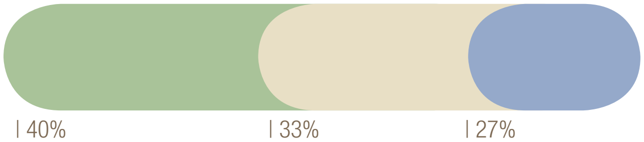
In 2007 the Endowment paid grants of $336.6 million (see chart 2). In this category, Education Division grants accounted for $135 million or 40 percent of the total; Community Development Division grants added up to $111.6 million or 33 percent; Religion Division grants totaled $90 million or 27 percent (see chart 3).

As in previous years, most of the grants were paid to organizations in Indiana – a total of $245.2 million or 73 percent (see chart 4). Of the payment total of $336.6 million, $197 million or 59 percent was paid to non-Marion County grantees in Indiana and $48.2 million or 14 percent to Marion County (Indianapolis) grantees. Funds for most of these grants came from the Education and Community Development divisions. Organizations outside Indiana were paid $91.4 million or 27 percent, mostly from the Religion Division.

Grants Paid by Division (2007)

CHART 3

Education	$135.0 million
Community Development	$111.6 million
Religion	$ 90.0 million
Total	$336.6 million



Grants Paid by Geographic Location (2007)

CHART 4

Indiana (non-Marion Co.)	$197.0 million
Marion County (Indianapolis)	$ 48.2 million
Outside Indiana	$ 91.4 million
Total	$336.6 million

GRANTS APPROVED

During 2007 the Endowment approved $333.3 million to 664 grantees, 263 of them new to the Endowment (see chart 5).

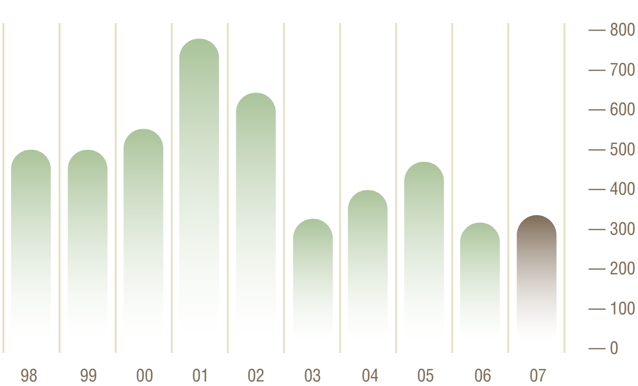
Education Division grants accounted for the most dollars, $130.9 million or 39 percent of the total. Approvals for the Community Development Division totaled $112.7 million or 34 percent, while approvals for the Religion Division totaled $89.7 million or 27 percent (see chart 6).

The geographic pattern for the grants-approved category is much like the grants-paid category: $194.1 million or 58 percent for Indiana grantees outside Indianapolis and $48.5 million or 15 percent for Marion County. Total approvals for Indiana grants amounted to $242.6 million or 73 percent. The non-Indiana grant approvals totaled $90.7 million or 27 percent (see chart 7).

10-Year History Grants Approved

(dollars in millions)

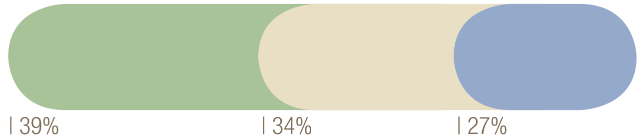
CHART 5



Grants Approved by Division (2007)

CHART 6

Education	$130.9 million
Community Development	$112.7 million
Religion	$ 89.7 million
Total	$333.3 million



Grants Approved by Geographic Location (2007)

CHART 7

Indiana (non-Marion Co.)	$194.1 million
Marion County (Indianapolis)	$ 48.5 million
Outside Indiana	$ 90.7 million
Total	$333.3 million

PERSPECTIVE

Since 1937 the Endowment has paid $6.7 billion in grants to 7,452 grantees. Of that $6.7 billion total paid, Education accounts for $2.8 billion or 42 percent, Community Development for $2.2 billion or 33 percent, and Religion for $1.7 billion or 25 percent.

Board-approved grants are listed in the back of this report and are divided into the Community Development, Education and Religion divisions. Youth Programming and Leadership Education grants are included with the Education and Religion divisions, respectively. Discretionary grants of up to $7,500, authorized by the officers, are listed as a single line item for each division.

The Endowment's match for the charitable contributions of staff, retirees and Board members is reported as a single line item before the total of all grants approved. "Guidelines & Procedures" are outlined on pages 48-49.

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Report of Independent Auditors

The Board of Directors
Lilly Endowment Inc.

We have audited the accompanying statements of financial position of Lilly Endowment Inc. (the Entity) as of December 31, 2007 and 2006, and the related statements of activities and changes in unrestricted net assets and cash flows for the years then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Entity's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lilly Endowment Inc. as of December 31, 2007 and 2006, and the changes in its unrestricted net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

February 15, 2008

Ernst & Young LLP

Statements of Financial Position

As of December 31	2007	2006
Assets		
Cash and equivalents	$ 56,708,974	$ 48,322,750
Investments – at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	18,943,105	137,295,530
Eli Lilly and Company common stock (cost – $85,055,948 at December 31, 2007, and $85,455,284 at December 31, 2006)	7,341,434,876	7,312,276,888
Diversified equity investments	317,773,200	103,769,013
Other assets	42,767	133,064
	$ 7,734,902,922	$ 7,601,797,245
Liabilities		
Amounts appropriated for future grants	$ 23,946,950	$ 27,529,307
Unrestricted net assets	7,710,955,972	7,574,267,938
	$ 7,734,902,922	$ 7,601,797,245

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	2007	2006
Income:		
Dividends	$ 241,701,475	$ 231,823,723
Interest	14,365,858	10,185,522
Other	33,625,036	19,165,802
Total Income	289,692,369	261,175,047
Deductions:		
Grants approved	335,146,768	315,186,392
Expenses:		
Program support	6,648,117	8,171,171
Operational support	6,131,616	5,469,494
Federal excise tax	8,282,198	12,273,936
Total grants approved and expenses	356,208,699	341,100,993
Gain on sale of Eli Lilly and Company common stock (shares – 2,845,000 in 2007 and 7,295,000 in 2006)	167,438,455	394,609,619
Increase (decrease) in unrealized appreciation of marketable securities	35,765,909	(1,037,125,727)
Increase (decrease) in unrestricted net assets	$ 136,688,034	$ (722,442,054)
Unrestricted net assets:		
Balance at beginning of year	$ 7,574,267,938	$ 8,296,709,992
Increase (decrease) in unrestricted net assets	136,688,034	(722,442,054)
Balance at end of year	$ 7,710,955,972	$ 7,574,267,938

See accompanying notes.

Statements of Cash Flows

Year ended December 31	2007	2006
Cash flows used for operating activities:		
Dividends and interest received	$ 256,067,333	$ 242,009,245
Other income received	33,625,036	19,165,802
Grants paid	(341,863,979)	(352,335,165)
Grant refunds received	3,134,854	608,264
Program support	(6,648,117)	(8,171,171)
Operational support	(5,905,616)	(5,208,133)
Federal excise tax	(8,191,901)	(12,387,776)
Net cash used for operating activities	(69,782,390)	(116,318,934)
Cash flows provided by investing activities:		
Sale of Eli Lilly and Company stock	167,837,792	395,633,579
Purchase of investments	(1,059,116,907)	(1,122,182,525)
Sale or maturity of investments	969,618,786	885,852,897
Investment-related expenses	(171,057)	(146,803)
Net cash provided by investing activities	78,168,614	159,157,148
Net increase in cash	8,386,224	42,838,214
Cash and equivalents at beginning of year	48,322,750	5,484,536
Cash and equivalents at end of year	$ 56,708,974	$ 48,322,750

See accompanying notes.

Notes to Financial Statements

December 31, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Lilly Endowment Inc. (the Endowment) is an Indianapolis-based, private, philanthropic foundation created by three members of the Lilly family through gifts of stock in their pharmaceutical business, Eli Lilly and Company. The stock of Eli Lilly and Company continues to be the Endowment's most significant asset. The Endowment supports the causes of religion, education, and community development. The Internal Revenue Service has determined that the Endowment is exempt from federal income tax under Section 501(a) of the Internal Revenue Code. It remains a private foundation subject to federal excise tax on net investment income.

Income and Deductions

Interest and dividend income are recorded as received, and operating expenses are recorded as paid. The currently payable portion of federal excise tax is accrued. Grants are recorded when approved by the Board of Directors.

Realized gains and losses from the sales of Eli Lilly and Company common stock are calculated using the first-in, first-out method of allocating cost.

Cash and Equivalents

Investments with original maturities of three months or less are considered to be cash equivalents.

Investments

Investments are stated at fair value in accordance with Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Diversified equity investments are valued at market quoted fair values.

Facilities and Equipment

Expenditures for facilities and equipment are expensed as paid.

Use of Estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expense, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

2. REQUIRED DISTRIBUTIONS

The Internal Revenue Code provides that the Endowment generally must distribute for charitable purposes 5% of the average market value of its assets. The Endowment must make additional qualifying distributions of approximately $348,000,000, before January 1, 2009, to meet the 2007 minimum distribution requirements.