FINANCES & GRANTMAKING

These are no ordinary times. We are in the midst of what many are calling "the most severe economic condition since the Great Depression."

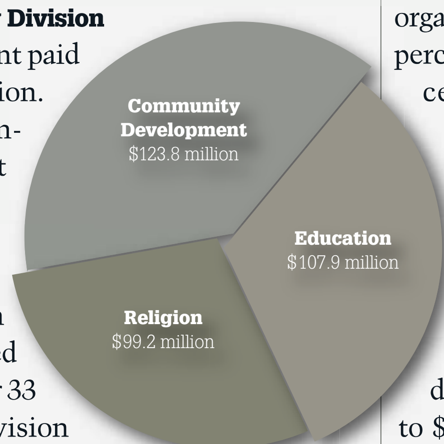
This economic downturn, of course, affects foundations and nonprofit organizations, and Lilly Endowment is no exception. It has caused us to focus even more sharply on the most compelling needs and programs in the three priorities the Endowment's founders established for its grantmaking.

We are inspired, however, by the faith in the future J.K. Lilly Sr. and his sons—J.K. Jr. and Eli—showed by creating this foundation in the challenging economic environment of 1937. Their gifts of stock in their pharmaceutical business, Eli Lilly and Co., have made possible over the years more than $7 billion in grants to 8,115 charitable organizations, most of them in Indiana. Of that $7 billion, $2.9 billion supported education (41 percent), $2.4 billion supported community development (34 percent) and $1.7 billion supported religion (25 percent). At the end of 2008, the Endowment's assets totaled $5.7 billion.

During 2008 the Endowment distributed grant payments of $330.9 million and approved $310.9 million in new grants.

Grants paid

Chart 1: Grants Paid by Division

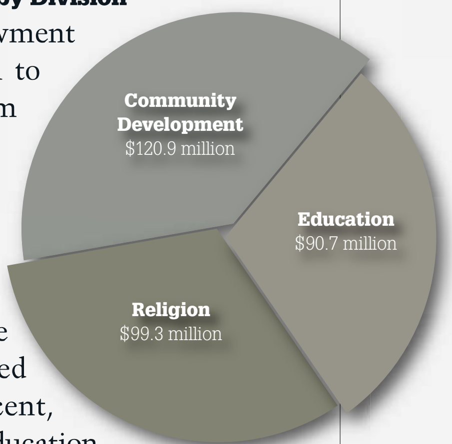


In 2008 the Endowment paid grants of $330.9 million. In this category Community Development Division grants accounted for $123.8 million or 37 percent of the total; Education Division grants added up to $107.9 million or 33 percent; Religion Division grants totaled $99.2 million or 30 percent.

As in previous years, most grants were paid to organizations in Indiana—a total of $250.1 million (76 percent). Of the payment total of $330.9 million, $181.9 million (55 percent) was paid to non-Marion County grantees in Indiana and $68.2 million (21 percent) to Marion County (Indianapolis) grantees. Organizations outside Indiana received $80.8 million or 24 percent, mostly from the Religion Division.

Grants approved

Chart 2: Grants Approved by Division



During 2008 the Endowment approved $310.9 million to 664 grantees, 239 of them new to the Endowment.

Community Development grants totaled the most dollars at $120.9 million or 39 percent of the total. Approvals for the Religion Division totaled $99.3 million or 32 percent, while approvals for the Education Division totaled $90.7 million or 29 percent.

Similar to the geographic distribution of the grants paid in 2008, almost three-fourths (74 percent) of grants approved went to Indiana organizations. Of the $310.9 million in grants approved, $161.8 million (52 percent) was approved for non-Marion county grantees in Indiana and $68.3 million (22 percent) to Marion County (Indianapolis) grantees. Indiana organizations thus were awarded $230.1 million (74 percent) of grants approved. $80.8 million (26 percent) in grants were approved for non-Indiana organizations.

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 Philanthropic 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 Endowment) as of December 31, 2008 and 2007, 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 Endowment'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 Endowment'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 Endowment'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, 2008 and 2007, 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 13, 2009

Ernst + Young LLP

Statements of Financial Position

As of December 31	**2008**	2007
Assets		
Cash and equivalents	$ 26,662,815	$ 56,708,974
Investments — at fair value:		
United States government and agency, bank and corporate interest-bearing obligations	–	18,943,105
Eli Lilly and Company common stock (cost — $84,798,379 at December 31, 2008, and $85,055,948 at December 31, 2007)	5,463,463,277	7,341,434,876
Diversified equity investments	228,683,724	317,773,200
Other assets	3,607,133	42,767
	$ 5,722,416,949	$ 7,734,902,922
Liabilities		
Amounts appropriated for future grants	$ 3,969,750	$ 23,946,950
Unrestricted net assets	5,718,447,199	7,710,955,972
	$ 5,722,416,949	$ 7,734,902,922

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	**2008**	2007
Income:		
Dividends	$ 264,894,950	$ 241,701,475
Interest	3,286,921	14,365,858
Other	13,267,121	33,625,036
Total income	281,448,992	289,692,369
Deductions:		
Grants approved	314,850,416	335,146,768
Expenses:		
Program support	6,527,047	6,648,117
Operational support	11,720,543	6,131,616
Federal excise tax	3,491,275	8,282,198
Total grants approved and expenses	336,589,281	356,208,699
Gain on sale of Eli Lilly and Company common stock (shares — 1,835,000 in 2008 and 2,845,000 in 2007)	87,468,985	167,438,455
(Decrease) increase in unrealized appreciation of marketable securities	(2,024,837,469)	35,765,909
(Decrease) increase in unrestricted net assets	$ (1,992,508,773)	$ 136,688,034
Unrestricted net assets:		
Balance at beginning of year	$ 7,710,955,972	$ 7,574,267,938
(Decrease) increase in unrestricted net assets	(1,992,508,773)	136,688,034
Balance at end of year	$ 5,718,447,199	$ 7,710,955,972

See accompanying notes.

Statements of Cash Flows

Year ended December 31	**2008**	2007
Cash flows used for operating activities:		
Dividends and interest received	$ 268,181,871	$ 256,067,333
Other income received	13,267,121	33,625,036
Grants paid	(336,551,359)	(341,863,979)
Grant refunds received	1,723,743	3,134,854
Program support	(6,527,047)	(6,648,117)
Operational support	(11,632,202)	(5,905,616)
Federal excise tax	(7,055,641)	(8,191,901)
Net cash used for operating activities	(78,593,514)	(69,782,390)
Cash flows provided by investing activities:		
Sale of Eli Lilly and Company stock	87,726,554	167,837,792
Purchase of investments	(593,655,678)	(1,059,116,907)
Sale or maturity of investments	554,722,424	969,618,786
Investment-related expenses	(245,945)	(171,057)
Net cash provided by investing activities	48,547,355	78,168,614
Net (decrease) increase in cash	(30,046,159)	8,386,224
Cash and equivalents at beginning of year	56,708,974	48,322,750
Cash and equivalents at end of year	$ 26,662,815	$ 56,708,974

See accompanying notes.

NOTES to FINANCIAL STATEMENTS

December 31, 2008

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*.

As discussed fully in Note 3, the Endowment adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in Generally Accepted Accounting Principles and expands disclosures about fair value measurements. The implementation of this statement was not material to the financial position or statement of activities and changes in unrestricted net assets.

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.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Tax*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption for nonpublic organizations will be effective for fiscal periods beginning after December 15, 2008. The Endowment believes the impact of the adoption will not be material.

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 $286,000,000, before January 1, 2010, to meet the 2008 minimum distribution requirements.

3. Fair Value of Financial Instruments

The Endowment determines fair values based on a market approach using quoted market values.

The following table summarizes fair value information at December 31, 2008.

	2008			2007	
Description	**Cost**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Fair Value (Carrying Value)**	**Cost**	**Fair Value (Carrying Value)**
Cash equivalents	**$ 9,980,847**	**$ 9,997,093**	**$ 9,997,093**	$ 52,470,154	$ 52,714,003
Fixed income securities	–	–	–	18,759,597	18,943,105
Marketable securities	**449,563,732**	**5,692,147,001**	**5,692,147,001**	392,128,449	7,659,208,076
	$459,544,579	**$5,702,144,094**	**$5,702,144,094**	$463,358,200	$7,730,865,184