

Report of Independent Auditors

The Board of Directors
Lilly Endowment Inc.

We have audited the accompanying financial statements of Lilly Endowment Inc. (the Endowment), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in unrestricted net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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.

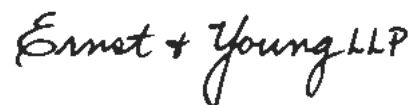
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lilly Endowment Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 15, 2013



Statements of Financial Position

As of December 31	2012	2011
Assets		
Cash and equivalents	\$ 8,359,719	\$ 11,564,601
Dividend receivable	66,478,694	66,478,694
Other receivables	32,121,269	36,616,322
Investments — at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	82,691,271	101,465,103
Eli Lilly and Company common stock (cost — \$84,798,379 at December 31, 2012 and 2011)	6,691,284,053	5,638,478,614
Diversified equity investments	476,471,345	370,827,472
Other assets	219,596	198,557
	\$ 7,357,625,947	\$ 6,225,629,363
Liabilities		
Amounts appropriated for future grants	\$ 20,728,500	\$ 8,691,831
Deferred tax liability	125,067,113	102,933,600
	145,795,613	111,625,431
Unrestricted net assets	7,211,830,334	6,114,003,932
	\$ 7,357,625,947	\$ 6,225,629,363

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year ended December 31	2012	2011
Income:		
Dividends	\$ 277,372,909	\$ 274,274,499
Interest	285,550	236,771
Total income	277,658,459	274,511,270
Deductions:		
Grants approved	246,185,616	215,120,639
Expenses:		
Program support	6,371,294	6,732,770
Operational support	7,787,573	5,697,142
Federal excise tax	28,078,020	22,800,301
Total grants approved and expenses	288,422,503	250,350,852
Gain on sale of investment	309,306	—
Increase in unrealized appreciation of marketable securities	1,106,838,087	866,232,666
Other income (deductions)	1,443,053	(1,421,493)
Increase in unrestricted net assets	1,097,826,402	888,971,591
Unrestricted net assets:		
Balance at beginning of year	6,114,003,932	5,225,032,341
Increase in unrestricted net assets	1,097,826,402	888,971,591
Balance at end of year	<u>\$ 7,211,830,334</u>	<u>\$ 6,114,003,932</u>

See accompanying notes.

Statements of Cash Flows

Year ended December 31	2012	2011
Operating activities		
Increase in unrestricted net assets	\$ 1,097,826,402	\$ 888,971,591
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Investment expenses	246,398	250,244
Gain on mark-to-market adjustments on investments	(1,106,838,087)	(866,232,666)
Gain on sale of investment	(309,306)	—
Changes in assets and liabilities:		
Dividend and other receivables	4,495,053	29,255,978
Other assets	(21,039)	19,230
Amount appropriated for future grants	12,036,669	2,248,252
Deferred federal excise tax liability	22,133,513	17,326,531
Net cash provided by operating activities	29,569,603	71,839,160
Investing activities		
Purchases of investments	(324,109,009)	(382,707,676)
Proceeds from sale and maturity of investments	291,580,922	309,322,318
Investment expenses	(246,398)	(250,244)
Net cash used in investing activities	(32,774,485)	(73,635,602)
Net decrease in cash	(3,204,882)	(1,796,442)
Cash and equivalents at beginning of year	11,564,601	13,361,043
Cash and equivalents at end of year	\$ 8,359,719	\$ 11,564,601

See accompanying notes.

Notes to Financial Statements

December 31, 2012

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.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). 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. Subsequent events have been evaluated through March 15, 2013, the date these financial statements were available to be issued.

Cash and Equivalents

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

Investments

Investments are stated at fair value in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not for Profit Entities*. Investments are comprised of equity and fixed income securities, which are recorded at market-quoted fair values. Changes in fair value are recorded in the statement of activities and changes in unrestricted net assets. There are no restrictions on investments.

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.

Facilities and Equipment

Expenditures for facilities and equipment are expensed as paid. The amounts expensed during 2012 and 2011 are not material to the financial statements.

Grants

The Endowment primarily makes grants to organizations that qualify as public charities under the Internal Revenue Code. When distributions are made to organizations other than public charities, the Endowment assumes expenditure responsibility as required under applicable federal law. All grants are approved by the Board of Directors and are accrued when approved.

Income Recognition

Income is recognized when amounts are realizable and earned.

Statements of Cash Flows

Prior year amounts in the statements of cash flows for purchases of fixed income securities and proceeds from maturity of fixed income securities have been corrected to be presented on a gross basis and to conform to the current year presentation.

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 \$280,000,000, before January 1, 2014, to meet the 2012 minimum distribution requirements.

3. Other Receivables

Other receivables represent the fair value of future cash flows to be received from the Endowment's split-interest agreements. Amounts recorded are subject to subsequent changes in fair value, which would be recorded in the statements of activities and changes in unrestricted net assets.

4. Fair Value of Financial Instruments

The Endowment determines fair values based on the framework for measuring fair value under ASC 820, *Fair Value Measurements*. The following table summarizes fair value information at December 31, 2012 and 2011.

Description	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Fair Value (Carrying Value)
December 31, 2012				
Cash equivalents	\$ 5,999,265	\$ 5,999,985	\$ —	\$ 5,999,985
Fixed income securities	82,688,922	—	82,691,271	82,691,271
Marketable securities	558,299,943	7,167,755,398	—	7,167,755,398
	646,988,130	7,173,755,383	82,691,271	7,256,446,654
Other receivables	—	5,756,372	26,364,897	32,121,269
	\$ 646,988,130	\$ 7,179,511,755	\$ 109,056,168	\$ 7,288,567,923
December 31, 2011				
Cash equivalents	\$ 8,997,970	\$ 8,997,260	\$ —	\$ 8,997,260
Fixed income securities	101,617,540	11,249,091	90,216,012	101,465,103
Marketable securities	506,532,503	6,009,306,086	—	6,009,306,086
	617,148,013	6,029,552,437	90,216,012	6,119,768,449
Other receivables	—	5,940,659	30,675,663	36,616,322
	\$ 617,148,013	\$ 6,035,493,096	\$ 120,891,675	\$ 6,156,384,771

Transfers between levels, if any, are recorded at the beginning of the reporting period. There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2012 and 2011.

The fair value for marketable securities is determined using quoted market values. Fair values of fixed income securities are based on quoted market prices, where available. These fair values are obtained primarily from third-party pricing services. United States government securities represent Level 1 securities, while Level 2 securities primarily include corporate securities. For fixed income securities that are not based on quoted market values, the value is determined by pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The fair value of other receivables is based on observable inputs using quoted market values and a combination of a market and income approach determined based on future cash flows. Inputs in this valuation methodology include the initial value of the split-interest agreement, the Endowment's interest percentage in the split-interest agreement, annuity percentage per the split-interest agreement, estimated rate of return, and discount rate.

5. Federal Excise Taxes

The Endowment is subject to federal excise taxes imposed on private foundations at 2%, or at 1% if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which includes interest, dividends, and net realized gains on the sale of investments. The Endowment qualified for a 2% excise tax rate for the years ended December 31, 2012 and 2011. Federal excise tax paid on realized amounts was \$5,542,538 and \$5,473,770 for the years ended December 31, 2012 and 2011, respectively.

The Endowment recorded an additional liability of \$22,133,513 and \$17,326,531 for the years ended December 31, 2012 and 2011, respectively, for deferred federal excise tax related to unrealized gains on investments.

The Endowment is subject to routine audits by taxing jurisdictions. The Endowment believes it is no longer subject to income tax examinations for years prior to 2009 due to the three-year statute of limitations.

If incurred, any interest and penalties would be recorded as a component of excise tax.