

2005 Finances and Grantmaking

Over the years, Lilly Endowment has sought to use its funds not only to support the activities of worthy charitable organizations, but also to encourage them to imagine how they can be even more effective in pursuing their missions. The Endowment's ability to provide this encouragement and support would not be possible if its three founders in 1937 had not had the vision and generosity to establish this foundation. Because of that vision and generosity, \$6 billion in grants have been paid out by the Endowment since its founding in 1937.

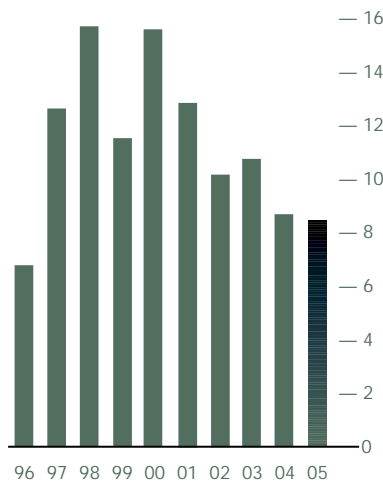
In 2005, the focus of Lilly Endowment's grantmaking remains in its three major grantmaking areas – community development, education and religion. At the end of 2005, the Endowment's assets totaled \$8.4 billion (see chart 1). In 2005 we were delighted to approve \$468.8 million in new grants and to distribute grant payments of \$422.3 million.

Chart 1

10-Year History

Market Value of Assets

(dollars in billions)



Grants paid

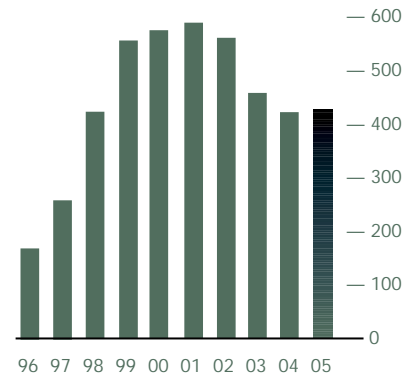
In 2005 the Endowment paid grants of \$422.3 million (see chart 2). In this category, Education Division grants accounted for \$237.2 million or 56 percent of the total; Religion Division grants totaled \$100.6 million or 24 percent; Community Development Division grants added up to \$84.5 million, or 20 percent (see chart 3).

Chart 2

10-Year History

Grants Paid

(dollars in millions)



As in previous years, most of the grants paid went to organizations in Indiana – a total of \$296.7 million or 70 percent (see chart 4). Of the grant payment total of \$422.3 million, \$231.2 million or 55 percent was paid to non-Marion County grantees in Indiana, and \$65.5 million or 15 percent went to Marion County (Indianapolis) grantees. Most of these funds came from grants in the Education and Community Development divisions. Organizations outside Indiana were paid \$125.6 million or 30 percent, mostly from the Religion Division

Chart 3

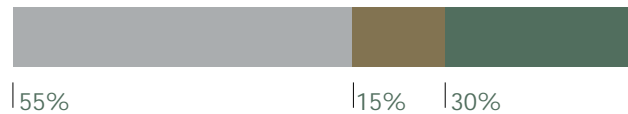
Grants Paid by Division (2005)

Education	\$237.2 million
Religion	\$100.6 million
Community Development	\$ 84.5 million
Total	\$422.3 million



Chart 4
Grants Paid
by Geographic Location (2005)

■ Indiana (non-Marion Co.)	\$231.2 million
■ Marion County (Indianapolis)	\$ 65.5 million
■ Outside Indiana	\$125.6 million
Total	\$422.3 million



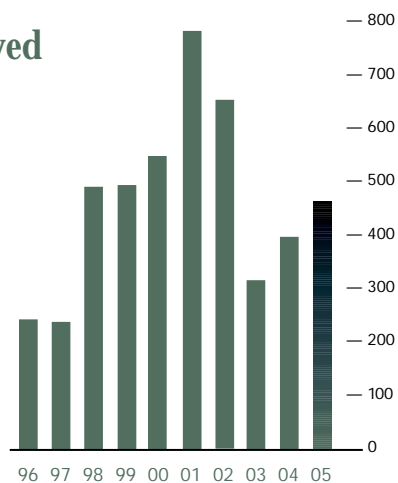
Grants approved

During 2005 the Endowment approved \$468.8 million to 783 grantees, 307 of them new to the Endowment (see chart 5).

Education Division grants accounted for the most dollars, \$288.6 million or 62 percent of the total. Approvals for the Religion Division totaled \$95.7 million or 20 percent, while approvals for Community Development Division grants totaled \$84.5 million or 18 percent (see chart 6).

The geographic pattern for the grants-approved category is much like the grants-paid category: \$281.5 million or 60 percent for Indiana grantees outside Indianapolis; \$65.5 million or 14 percent for Marion County. The total approvals for Indiana grants amounted to \$347 million or 74 percent of the total. The non-Indiana grant approvals totaled \$121.8 million or 26 percent (see chart 7).

Chart 5
10-Year History
Grants Approved
(dollars in millions)



Perspective

Since 1937 the Endowment has paid \$6 billion in grants to 6,856 grantees. Of that \$6 billion total paid, Education accounts for \$2.5 billion or 42 percent, Community Development for \$2.1 billion or 35 percent, and Religion for \$1.4 billion or 23 percent.

Chart 6
Grants Approved by Division (2005)

■ Education	\$288.6 million
■ Religion	\$ 95.7 million
■ Community Development	\$ 84.5 million
Total	\$468.8 million



Chart 7
Grants Approved
by Geographic Location (2005)

■ Indiana (non-Marion Co.)	\$281.5 million
■ Marion County (Indianapolis)	\$ 65.5 million
■ Outside Indiana	\$121.8 million
Total	\$468.8 million



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 46-47.

Report of Independent Auditors

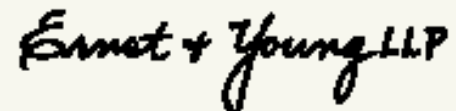
The Board of Directors
Lilly Endowment Inc.

We have audited the accompanying statements of financial position of Lilly Endowment Inc. as of December 31, 2005 and 2004, 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 Lilly Endowment Inc.'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, 2005 and 2004, and the changes in unrestricted net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

February 20, 2006

 Ernst & Young LLP

Statements of Financial Position

as of december 31	2005	2004
Assets		
Cash and equivalents	\$ 5,484,536	\$ 5,538,719
Investments — at fair value:		
Eli Lilly and Company common stock (cost — \$86,479,244 at December 31, 2005, and \$87,975,433 at December 31, 2004)	8,355,276,048	8,579,510,627
Other assets	19,224	26,074
	\$ 8,360,779,808	\$ 8,585,075,420
Liabilities		
Amounts appropriated for future grants	\$ 64,069,816	\$ 18,954,246
Unrestricted net assets	8,296,709,992	8,566,121,174
	\$ 8,360,779,808	\$ 8,585,075,420

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

years ended december 31	2005	2004
Income:		
Dividends	\$ 227,446,422	\$ 216,462,392
Interest	4,494,398	2,117,721
Other	17,327,064	15,566,892
Total income	249,267,884	234,147,005
Deductions:		
Grants approved	471,884,436	382,655,606
Expenses:		
Program support	8,410,131	8,034,097
Operational support	5,734,559	5,440,754
Federal excise tax	4,160,776	8,198,327
Total grants approved and expenses	490,189,902	404,328,784
Gain on sale of Eli Lilly and Company common stock (shares — 3,535,000 in 2005 and 2,940,000 in 2004)	195,249,227	207,731,225
Decrease in unrealized appreciation of marketable securities	(223,738,391)	(2,259,394,715)
Decrease in unrestricted net assets	\$ (269,411,182)	\$ (2,221,845,269)
Unrestricted net assets:		
Balance at beginning of year	8,566,121,174	10,787,966,443
Decrease in unrestricted net assets	(269,411,182)	(2,221,845,269)
Balance at end of year	\$ 8,296,709,992	\$ 8,566,121,174

See accompanying notes.

Statements of Cash Flows

years ended december 31

2005

2004

Cash flows used for operating activities:

Dividends and interest received	\$ 231,940,820	\$ 218,580,113
Other income received	17,327,064	15,566,892
Grants paid	(427,465,199)	(428,977,921)
Grant refunds received	696,332	3,836,334
Program support	(8,410,131)	(8,034,097)
Operational support	(5,645,069)	(5,369,442)
Federal excise tax	(4,153,926)	(8,220,119)
Net cash used for operating activities	(195,710,109)	(212,618,240)

Cash flows provided by investing activities:

Sale of Eli Lilly and Company common stock	195,745,416	208,143,897
Purchase of interest-bearing obligations	(697,756,223)	(738,972,705)
Sale or maturity of interest-bearing obligations	697,756,223	738,972,705
Investment-related expenses	(89,490)	(73,181)
Net cash provided by investing activities	195,655,926	208,070,716
Net decrease in cash	(54,183)	(4,547,524)
Cash and equivalents at beginning of year	5,538,719	10,086,243
Cash and equivalents at end of year	\$ 5,484,536	\$ 5,538,719

See accompanying notes.

Notes to Financial Statements

December 31, 2005

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 Expenses

Interest and dividend income is 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.

Investments

Investments are stated at fair value.

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 five percent of the average market value of its assets. The Endowment must make additional qualifying distributions of approximately \$357,000,000, before January 1, 2007, to meet the 2005 minimum distribution requirements.