2006 Finances and Grantmaking

During 2006 Lilly Endowment continued its grant programs that offer opportunities for reflection and renewal to education professionals, clergy members, artists, youth workers and human service professionals. These grant programs provide recipients with the time and resources required to allow them to step back and immerse themselves in activities that they believe will enable them to feel rejuvenated and passionate again about their professions. The Endowment's ability to provide these renewal opportunities would not be possible without the generous gifts from its founders, beginning in 1937, of stock in their company, Eli Lilly and Company.

The focus of Lilly Endowment's grantmaking this year remains in its three major grantmaking areas – community development, education and religion. At the end of 2006, the value of the Endowment's assets totaled $7.6 billion (see chart 1). In 2006 we approved $310.1 million in new grants and distributed grant payments of $346.6 million. In the grants-paid category (see charts 2 and 3), Education Division grants accounted for $164.4 million or 47 percent of the total; Religion Division grants totaled $123.7 million or 36 percent; Community Development Division grants added up to $58.5 million, or 17 percent.

Grants paid

As in previous years, most of the grants paid went to organizations in Indiana – a total of $207.6 million or 60 percent (see chart 4). Of the grant payment total of $346.6 million, $138.4 million or 40 percent was paid to non-Marion County grantees in Indiana, and $69.2 million or 20 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 $139 million or 40 percent, mostly from the Religion Division.

Chart 1

10-Year History

Market Value of Assets

(dollars in billions)

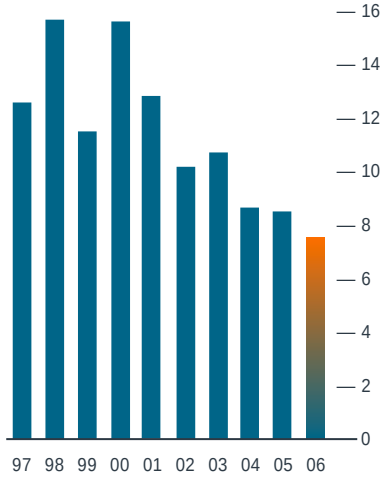


Chart 2

10-Year History

Grants Paid

(dollars in millions)

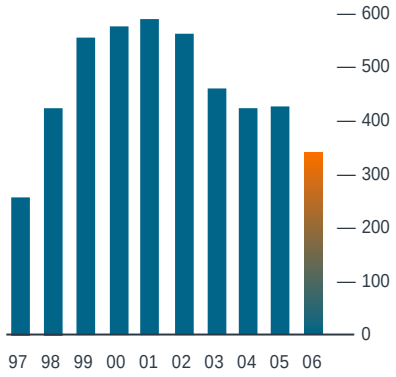


Chart 3

Grants Paid by Division (2006)

Education	$164.4 million
Religion	$123.7 million
Community Development	$ 58.5 million
Total	$346.6 million

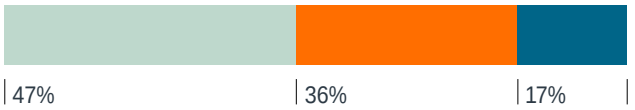
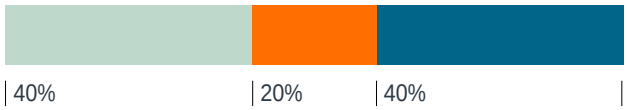


Chart 4

Grants Paid by Geographic Location (2006)

Indiana (non-Marion Co.)	$138.4 million
Marion County (Indianapolis)	$ 69.2 million
Outside Indiana	$139.0 million
Total	$346.6 million



Grants approved

During 2006 the Endowment approved $310.1 million to 657 grantees, 279 of them new to the Endowment (see chart 5).

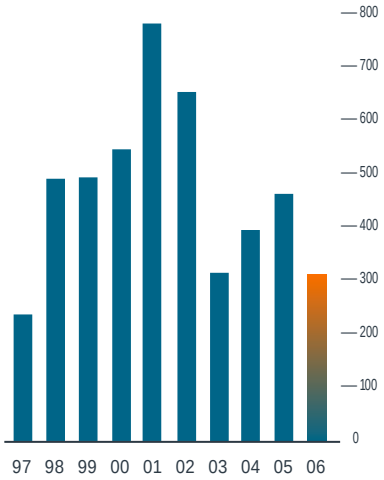
The Education and Religion divisions accounted for the most dollars approved, $124.8 million and $124.6 million, respectively, and represented 80 percent of those grants. Approvals for the Community Development Division totaled $60.7 million or 20 percent (see chart 6).

Chart 5

10-Year History

Grants Approved

(dollars in millions)



The geographic pattern for the grants-approved category is much like the grants-paid category: $100.8 million or 33 percent for Indiana grantees outside Indianapolis; $69.2 million or 22 percent for Marion County. The total approvals for Indiana grants amounted to $170 million or 55 percent of the total. The non-Indiana grant approvals totaled $140.1 million or 45 percent (see chart 7).

Perspective

Since 1937 the Endowment has paid $6.4 billion in grants to 7,135 grantees. Of that $6.4 billion total paid, Education accounts for $2.7 billion or 42 percent, Community Development for $2.1 billion or 33 percent, and Religion for $1.6 billion or 25 percent.

Chart 6

Grants Approved by Division (2006)

Education	$124.8 million
Religion	$124.6 million
Community Development	$ 60.7 million
Total	$310.1 million

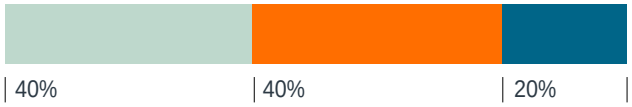
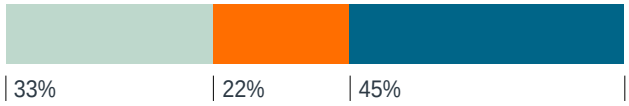


Chart 7

Grants Approved by Geographic Location (2006)

Indiana (non-Marion Co.)	$100.8 million
Marion County (Indianapolis)	$ 69.2 million
Outside Indiana	$140.1 million
Total	$310.1 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.

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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. as of December 31, 2006 and 2005, 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, 2006 and 2005, 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 26, 2007

Ernst + Young LLP

Statements of Financial Position

As of December 31	2006	2005
Assets		
Cash and equivalents	$ 48,322,750	$ 5,484,536
Investments — at fair value:		
United States government and agency, bank, and corporate interest-bearing obligations	137,295,530	–
Eli Lilly and Company common stock (cost — $85,455,284 at December 31, 2006, and $86,479,244 at December 31, 2005)	7,312,276,888	8,355,276,048
Diversified equity investments	103,769,013	–
Other assets	133,064	19,224
	$ 7,601,797,245	$ 8,360,779,808
Liabilities		
Amounts appropriated for future grants	$ 27,529,307	$ 64,069,816
Unrestricted net assets	7,574,267,938	8,296,709,992
	$ 7,601,797,245	$ 8,360,779,808

See accompanying notes.

Statements of Activities and Changes in Unrestricted Net Assets

Year Ended December 31	2006	2005
Income:		
Dividends	$ 231,823,723	$ 227,446,422
Interest	10,185,522	4,494,398
Other	19,165,802	17,327,064
Total income	261,175,047	249,267,884
Deductions:		
Grants approved	315,186,392	471,884,436
Expenses:		
Program support	8,171,171	8,410,131
Operational support	5,469,494	5,734,559
Federal excise tax	12,273,936	4,160,776
Total grants approved and expenses	341,100,993	490,189,902
Gain on sale of Eli Lilly and Company common stock (shares — 7,295,000 in 2006 and 3,535,000 in 2005)	394,609,619	195,249,227
Decrease in unrealized appreciation of marketable securities	(1,037,125,727)	(223,738,391)
Decrease in unrestricted net assets	$ (722,442,054)	$ (269,411,182)
Unrestricted net assets:		
Balance at beginning of year	8,296,709,992	8,566,121,174
Decrease in unrestricted net assets	(722,442,054)	(269,411,182)
Balance at end of year	$ 7,574,267,938	$ 8,296,709,992

See accompanying notes.

Statements of Cash Flows

Year Ended December 31	2006	2005
Cash flows used for operating activities:		
Dividends and interest received	$ 242,009,245	$ 231,940,820
Other income received	19,165,802	17,327,064
Grants paid	(352,335,165)	(427,465,199)
Grant refunds received	608,264	696,332
Program support	(8,171,171)	(8,410,131)
Operational support	(5,208,133)	(5,645,069)
Federal excise tax	(12,387,776)	(4,153,926)
Net cash used for operating activities	(116,318,934)	(195,710,109)
Cash flows provided by investing activities:		
Sale of Eli Lilly and Company common stock	395,633,579	195,745,416
Purchase of investments	(1,122,182,525)	(697,756,223)
Sale or maturity of investments	885,852,897	697,756,223
Investment-related expenses	(146,803)	(89,490)
Net cash provided by investing activities	159,157,148	195,655,926
Net increase (decrease) in cash	42,838,214	(54,183)
Cash and equivalents at beginning of year	5,484,536	5,538,719
Cash and equivalents at end of year	$ 48,322,750	$ 5,484,536

See accompanying notes.

Notes to Financial Statements

December 31, 2006

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.

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.

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 $343,000,000, before January 1, 2008, to meet the 2006 minimum distribution requirements.