BILL & MELINDA GATES FOUNDATION TRUST

Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Trustees
Bill & Melinda Gates Foundation Trust:

We have audited the accompanying statements of financial position of the Bill & Melinda Gates Foundation Trust (the Trust) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Trust'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 of America. 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 includes 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 Trust'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, as well as 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 the Trust as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 27, 2007

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Financial Position

December 31, 2006 and 2005

(In thousands)

Assets		**2006**		**2005**
Cash and cash equivalents	$	160,385	$	182,820
Investments		33,586,500		29,466,691
Investments loaned under secured lending transactions		4,465,171		4,340,182
Investment sales receivable		729,308		712,669
Interest and dividends receivable		210,326		223,053
Federal excise tax refund receivable		8,523		1,707
Program related investments receivable		—		720
Prepaid expenses and other assets		1,237		632
Property and equipment, net		12,679		24,907
Total assets	$	39,174,129	$	34,953,381
Liabilities and Net Assets				
Liabilities:				
Accounts payable	$	16,884	$	13,442
Payable under investment loan agreements		4,588,339		4,444,308
Investment purchases payable		1,555,774		1,355,565
Accrued and other liabilities		16,255		10,077
Deferred excise taxes payable		42,242		26,832
Grants payable, net		3,390,459		2,096,441
Total liabilities		9,609,953		7,946,665
Net assets – unrestricted		29,564,176		27,006,716
Total liabilities and net assets	$	39,174,129	$	34,953,381

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Activities

Years ended December 31, 2006 and 2005

(In thousands)

	2006	2005
Change in net assets:		
Revenues and gains:		
Contributions	$ 2,084,216	$ 442,701
Investment income, net	3,619,253	1,421,334
Total revenues and gains	5,703,469	1,864,035
Expenses:		
Grants	2,933,900	1,566,809
Direct charitable expenses	30,336	37,921
Program and administrative expenses	142,528	92,042
Federal excise and other taxes	39,245	14,836
Total expenses	3,146,009	1,711,608
Changes in net assets	2,557,460	152,427
Unrestricted net assets, beginning of year	27,006,716	26,854,289
Unrestricted net assets, end of year	$ 29,564,176	$ 27,006,716

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In thousands)

	2006	2005
Cash flows from operating activities:		
Change in net assets	$ 2,557,460	$ 152,427
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Stock contributions	1,620,832	—
Depreciation and amortization	7,578	6,627
Net realized and unrealized gains on sale of investments	(2,742,302)	(545,675)
Loss on disposal of asset	5,448	—
Noncash transfer of IRIS Holdings, LLC	8,656	—
Changes in operating assets and liabilities:		
Interest and dividends receivable	12,727	55,661
Prepaid expenses and other assets	(603)	103
Federal excise tax refund receivable	(6,816)	1,143
Program related investments receivable	720	720
Accounts payable	3,442	7,706
Accrued and other liabilities	6,178	(9,404)
Deferred excise taxes payable	15,410	(7,207)
Grants payable, net	1,294,018	211,379
Net cash provided by (used in) operating activities	2,782,748	(126,520)
Cash flows from investing activities:		
Purchases of investments	(229,970,245)	(251,050,373)
Proceeds from sales of investments	227,155,474	251,199,022
Cash received (paid) under secured lending arrangements	19,042	(12,118)
Purchases of property and equipment	(9,454)	(13,309)
Net cash (used in) provided by investing activities	(2,805,183)	123,222
Net decrease in cash and cash equivalents	(22,435)	(3,298)
Cash and cash equivalents, beginning of year	182,820	186,118
Cash and cash equivalents, end of year	$ 160,385	$ 182,820
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	$ 23,484	$ 20,900
Contributed services	147,375	122,701

See accompanying notes to financial statements.

(1) Organization

The Bill & Melinda Gates Foundation Trust (Trust) is a tax-exempt private foundation that works to reduce inequities around the world. In the developing world, it focuses on improving health, increasing free public access to digital information, and alleviating extreme poverty. In the United States, the Trust supports programs related to education and free public access to information. In its local region, the Trust promotes strategies and programs that help low-income families.

The Trust is organized as a charitable trust, and operates its main office in Seattle, Washington, with branch offices in Washington, D.C. and New Delhi, India.

In 2006, to separate its grantmaking from the management of its endowment, the Trust (formerly the Bill & Melinda Gates Foundation) implemented a two-trust structure. On October 25, 2006, the organization then known as the Bill & Melinda Gates Foundation changed its name to the Bill & Melinda Gates Foundation Trust. The primary future role of the Trust will be to manage the investment of the endowment. Bill and Melinda Gates are its Trustees. On that same date, a new organization was formed; the Bill & Melinda Gates Foundation (Foundation). Its Trustees are Bill and Melinda Gates, and Warren Buffet. Additional information is provided in note 14 to explain the relationship and purposes of the two entities beginning in 2007.

(2) Summary of Significant Accounting Policies

(a) Basis of Financial Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Trust recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. For the years ended December 31, 2006 and 2005 all activities of the Trust were classified as unrestricted due to the lack of donor-imposed restrictions.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash, money market funds, and highly liquid investments with original maturities of three months or less at the date of acquisition.

(c) Investments

Investments are stated at fair value and are recorded on the trade or contract date. The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments include private equity interests, mutual and commingled funds, bonds, notes, and other investments. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the general partner. The Trust reviews and evaluates the values provided by the general partner and agrees with the valuation methods and assumptions used in determining the fair value of private equity investments. Other alternative investments are valued in a variety of ways. Alternative

(Continued)

(In thousands)

investments make up less than 7% of total investments. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the statement of activities in the period that such fluctuations occur.

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon the ex-dividend date, and interest income is recorded as earned on an accrual basis. Futures, forwards, and options contracts are marked to market with the change reflected in investment income.

(d) Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets or amortized over the terms of the respective leases, whichever is shorter, as follows:

Computers, printers, and software	3 years
Furniture and fixtures	10 years
Telecommunications equipment	5 years
Leasehold improvements	Over estimated useful life of the lease

The Trust annually reviews the property and equipment records for impairment of value and records any adjustments necessary to reflect material impacts in value.

(e) Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2006 and 2005, grants payable were discounted using rates ranging from 3.25% to 5.5%.

(f) Contributed Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of contributed services recorded in the accompanying statement of activities, consisting primarily of investment management services provided by a related party, totaled $147,375 and $122,701 for the years ended December 31, 2006 and 2005, respectively. Investment management services contributed are reflected as contributions revenue, and as investment management services expense which is netted against investment income. All other types of contributed services are reflected in program and administration expenses.

(g) Tax-exempt Status

The Trust is exempt from federal income taxes under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Trust is subject to federal excise taxes as well as federal and state unrelated business income tax.

(h) Presentation of Expenses on the Statement of Activities

The costs of providing the various programs and other activities have been allocated between direct charitable and program and administrative expenses in the accompanying statement of activities based on management's estimates. Direct charitable expenses are charitable costs, largely for the benefit of others, where the Trust initiates and conducts the activity in part or in whole. Program and administrative expenses relate to general grant making and supporting activities.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Reclassification of Prior Year Amounts

During 2006, the Trust reorganized its charitable activities into three major program areas: Global Health, U.S. Programs, and Global Development. Because of this, certain grant and operating expenses presented in the 2005 audited financial statements have been reclassified in the 2006 financial statements in order to provide comparability between current and prior year expenses. In addition, certain balance sheet and cash flow amounts have been reclassified in 2005 to provide for better comparability to 2006 balances.

(In thousands)

(3) Functional Allocation of Expenses

At December 31, 2006 and 2005, the Trust's financial allocation of expenses is represented as follows:

	2006	2005
Program expenses:		
Global Health	$ 1,913,342	$ 1,046,240
U.S. Program	769,131	460,456
Global Development	263,996	147,659
Grants to Bill & Melinda Gates Foundation	94,739	—
Total program expenses	3,041,208	1,654,355
Management and general expenses	65,556	42,417
Federal excise tax expense	39,245	14,836
Total expenses	$ 3,146,009	$ 1,711,608

Included in management and general expenses are expenses not directly related to the programs including such expenses as human resources, legal, accounting, rent, and information technology.

(4) Investments

At December 31, 2006 and 2005 the Trust's investments consist of the following:

	2006	2005
Short-term investments	$ 5,550,538	$ 4,548,609
Bonds, notes, and other	18,990,916	19,367,723
Equities	13,389,860	9,458,829
Private equity investments	120,357	431,712
	38,051,671	33,806,873
Less investments loaned under secured lending transactions	(4,465,171)	(4,340,182)
Total investments	$ 33,586,500	$ 29,466,691

Short-term investments consist primarily of U.S. government treasury securities, high-grade commercial paper, and discounted notes. Bonds, notes, and other consist primarily of U.S. government agency and treasury securities, mortgage-backed securities, collateralized mortgage obligations, high-grade corporate securities, international corporate and government securities, and investments in domestic and international pooled funds. Equities consist primarily of U.S. and international stock.

(In thousands)

Investment income was comprised of the following for the years ended December 31, 2006 and 2005.

		2006		2005
Interest and dividend income	$	1,043,430	$	1,017,165
Net realized and unrealized gains on investments		2,742,302		545,675
Investment expenses:				
Contributed investment management expenses (see note 2(f))		(146,560)		(122,035)
Third party investment management and custodian fees and other expenses		(19,919)		(19,471)
Investment income, net	$	3,619,253	$	1,421,334

(5) Securities Lending

The Trust participates in securities lending transactions with a third-party investment company whereby the Trust lends certain investments in exchange for a premium. Under the terms of its securities lending agreement, the Trust requires collateral of a value at least equal to 102% of the fair value of the loaned investments and accrued interest, if any. The Trust maintains effective control of the loaned investments during the term of the agreement, in that they may be redeemed prior to the agreement's maturity. Upon the maturity of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The principal risks to the Trust of securities lending are that the yield earned on the collateral is insufficient to cover the rebate owed to the borrower, and than an investment purchased via the collateral reinvestment process becomes impaired. However, the Trust believes that its risk is low. Investments loaned under secured lending transactions totaled $4,465,171 and $4,340,182 as of December 31, 2006 and 2005, respectively.

Cash and noncash financial instruments received as collateral totaled $4,588,339 and $4,444,308 as of December 31, 2006 and 2005, respectively. Amounts received as collateral are included in investments and as a payable under investment loan agreements in the accompanying statements of financial position.

(6) Derivative Financial Instruments

In the normal course of business, the Trust uses various financial instruments, including derivative financial instruments, in an effort to manage exposure on long-term investments.

Specifically, to manage price and interest rate risk associated with investing activities, the Trust primarily uses a combination of forward contracts and futures. Under these instruments, the Trust agrees to the future delivery of a currency or security, on an agreed-upon date, and at an agreed-upon price. These contracts are entered into with the intention to minimize the Trust's economic exposure to adverse fluctuations in financial or currency markets and to reduce interest rate risk.

The Trust also enters into derivative instruments for speculative and other purposes, including income enhancement and as an alternative to ownership of the underlying asset. Specifically, written options and forward contracts are sometimes used for enhancing returns on other investments and as an alternative to ownership, respectively.

(In thousands)

All of the Trust's derivative instrument positions are marked to current value as a component of investment income. The fair values of these instruments are included in investments in bonds, notes, and other.

The notional and fair values of forward contracts, futures, options, and swaps as of December 31, 2006 and 2005 are as follows:

	2006		2005	
	Notional value	Fair value	Notional value	Fair value
Forward contracts	$ 8,343,879	$ (61,629)	$ 7,681,376	$ 33,868
Futures	102,670,660	53,026	90,784,348	(3,147,391)
Options	(13,267)	(1,641)	97,248	(110)
Swaps	(37,205)	(63,748)	(1,498,577)	(15,806)
		$ (73,992)		$ (3,129,439)

All notional amounts have been translated to and aggregated in U.S. dollars.

The Trust's derivative instruments involve varying degrees of risk of loss in excess of the amount recognized in the statement of financial position, arising either from potential changes in market prices or the possible inability of counterparties to meet the terms of their contracts. The Trust monitors the financial condition of the firms used for these contracts in order to minimize the risk of loss. Management believes the Trust's use of derivatives does not result in credit or market risk that would materially affect the Trust's financial statements.

(7) Property and Equipment

At December 31, 2006 and 2005, property and equipment consist of the following:

	2006	2005
Construction in progress	$ 4,861	$ 13,413
Computers, printers, and software	20,357	19,698
Furniture and fixtures	7,534	6,658
Telecommunications	752	764
Leasehold improvements	23,972	21,764
	57,476	62,297
Less accumulated depreciation and amortization	(44,797)	(37,390)
Property and equipment, net	$ 12,679	$ 24,907

(In thousands)

(8) Grants Payable

Grants payable totaling $3,812,483 and $2,344,966 (discounted to $3,390,459 and $2,096,441) at December 31, 2006 and 2005, respectively, consisted of approved grant commitments. As of December 31, 2006, such amounts are expected to be paid in the following years:

2007	$ 1,129,578
2008	992,204
2009	656,512
2010	467,039
2011	182,279
Thereafter	384,871
	3,812,483
Less discount to reflect grants payable at present value	(422,024)
Grants payable, net	$ 3,390,459

(9) Federal Excise and Other Taxes

The Trust 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 Trust qualified for a 1% excise tax rate for the years ended December 31, 2006 and 2005. The current portion of excise tax expense is $23,484 and $22,043 for the years ended December 31, 2006 and 2005, respectively.

The Trust made provisions for deferred excise taxes in 2006 and 2005, which were recorded at the 1% excise tax rate in 2006 and 2005. Deferred excise tax expense (credit) was $15,410 and $(7,207) for the years ended December 31, 2006 and 2005, respectively, resulting from net unrealized gains on investments.

Other taxes of $351 were paid for the year ended December 31, 2006, primarily on unrelated business income generated as a result of the Trust's investment income in various states.

(10) Retirement Plan

The Trust has two retirement plans: a 40l(k) Plan and a Money Purchase Plan.

The 401(k) retirement plan covers employees meeting certain qualifications. Under the terms of the plan, employees are allowed to contribute up to 15% of their compensation subject to annual limitations.

The Money Purchase retirement plan covers employees meeting certain plan qualifications. Under the terms of the plan, the Trust contributes 15% of employee-eligible plan compensation subject to annual limitations. Employees are immediately vested in employer contributions. For the years ended December 31, 2006 and 2005, employer contributions to the Money Purchase retirement plan totaled $4,170 and $3,185, respectively.

(Continued)

(In thousands)

(11) Commitments and Contingencies

(a) Lease Commitments

The Trust is obligated under various operating leases for equipment and office facilities which expire on various dates through 2016. Future minimum lease payments related to these leases as of December 31, 2006 are as follows:

2007	$	6,663
2008		6,778
2009		6,662
2010		6,861
2011		5,377
Thereafter		5,413
Total lease commitments	$	37,754

Rent expense, net of sub lease income of $197 in 2006, totaled $6,166 and $3,584 for the years ended December 31, 2006 and 2005, respectively.

(b) Legal Matters

In the ordinary course of business, the Trust is subject to certain legal actions. In the opinion of management, such matters will not have a material effect on the financial position of the Trust.

(12) Related Parties

The Trust holds and invests an endowment that funds a related party, Bill & Melinda Gates Foundation (the Foundation). The Trust makes annual grants to the Foundation as necessary to carry out the Foundation’s charitable goals. Neither entity controls the other; however, they share two trustees in common.

A related party to the Foundation is IRIS Holdings, LLC, (IRIS) a single member limited liability corporation formed for the purpose of purchasing land for the Foundation’s new campus and constructing and owning the headquarters. The Trust previously held the single member ownership of IRIS, and transferred its interest in IRIS to the Foundation on November 1, 2006, pursuant to a transfer and assignment agreement.

(13) Conditional Pledge Receivable

The Trust recognizes conditional promises to give as revenues when the conditions are met. On June 26, 2006, Warren Buffet, a Trustee of the Foundation, pledged to the Trust ten million shares of Berkshire Hathaway "B" shares. The shares will be transferred in annual gifts of 5% of the balance of the earmarked shares. Mr. Buffet has made provisions in his will for the remaining shares to be transferred to the Trust over a ten-year period, upon settlement of his estate.

The first installment of 500,000 shares, valued at $1,603,000, was contributed in August 2006. Although Mr. Buffet did not designate any significant restrictions on the use of the contributions, he did place three conditions on his remaining pledge:

(1) At least one of Bill or Melinda Gates must remain alive and active in the policy-setting and administration of the Foundation.

(2) The Trust must continue to satisfy legal requirements qualifying his gift as charitable and not subject to gift or other taxes.

(3) After a three-year period, designed to give the Foundation time to adjust its grant-making and supporting operations, the value of his annual gift must be fully additive to the spending required by the Internal Revenue Service Code (i.e. approximately 5% of the Trust's net assets). The additional spending required as a condition of the gift will be based on the prior year's contribution. This means that the Trust must comply with the increased spending requirement beginning in 2009, based on the value of Mr. Buffet's 2008 contribution.

As this gift is conditional and the conditions cannot be satisfied in advance of each year's installment of the give, a receivable for the remaining contribution has not been reflected in the financial statements. Rather, future contribution income will be recognized in annual installments as the conditions of the gift are met.

(14) Subsequent Event – Transfer of Assets and Liabilities from Trust to Foundation

The Trust and the Foundation executed an Asset Transfer and Acceptance Agreement which provided that effective January 1, 2007, the Trust would transfer to the Foundation, and the Foundation would accept all tangible and intangible assets, other than specifically identified excluded assets. In addition, the agreement provided that the Foundation would assume from the Trust all obligations arising from assumed contracts, transferred employees, and any accounts payable in the ordinary course of business, excluding any taxes payable by the Trust and certain obligations specifically excluded under the agreement. The effect of this agreement is that all endowment assets and associated obligations, including taxes, remain on the books of the Trust while all other property, equipment, contracts, employees, programs, grants payable, and other operating matters transfer to the Foundation. This transfer took effect on January 1, 2007 at which time $64,579 and $3,418,813 in assets and liabilities, respectively, were transferred from the Trust to the Foundation. Beginning in 2007, the fundamental role of the Trust is to manage the endowment assets and transfer proceeds to the Foundation, as required by the Foundation's charitable goals. The fundamental role of the Foundation is to carry out its charitable and programmatic goals, with funding for those activities to be received from the Trust.