KPMG

BILL & MELINDA GATES FOUNDATION TRUST

Financial Statements

December 31, 2007 and 2006

(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 (Trust) as of December 31, 2007 and 2006, 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, 2007 and 2006, 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

May 23, 2008

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Financial Position

December 31, 2007 and 2006

(In thousands)

Assets	2007	2006
Cash and cash equivalents	$ 435,928	$ 160,385
Investments	39,071,008	33,586,500
Investments loaned under secured lending transactions	4,492,520	4,465,171
Investment sales receivable	544,847	729,308
Interest and dividends receivable	200,733	210,326
Federal excise tax refund receivable	—	8,523
Prepaid expenses and other assets	—	1,237
Property and equipment, net	—	12,679
Total assets	$ 44,745,036	$ 39,174,129
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ —	$ 16,884
Payable under investment loan agreements	4,583,440	4,588,339
Investment purchases payable	1,425,418	1,555,774
Accrued and other liabilities	1,474	16,255
Federal excise tax payable	17,083	—
Deferred excise taxes payable	64,645	42,242
Grants payable, net	—	3,390,459
Total liabilities	6,092,060	9,609,953
Net assets – unrestricted	38,652,976	29,564,176
Total liabilities and net assets	$ 44,745,036	$ 39,174,129

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Activities

Years ended December 31, 2007 and 2006

(In thousands)

	2007	2006
Change in net assets:		
Revenues and gains:		
Contributions	$ 3,127,756	$ 2,084,216
Investment income, net	4,950,789	3,619,253
Total revenues and gains	8,078,545	5,703,469
Expenses:		
Grants	2,327,300	2,933,900
Direct charitable expenses	—	30,336
Program and administrative expenses	466	142,528
Federal excise and other taxes	61,010	39,245
Total expenses	2,388,776	3,146,009
Changes in net assets before transfers	5,689,769	2,557,460
Transfer of net liabilities to the Bill & Melinda Gates Foundation on January 1, 2007	3,399,031	—
Change in net assets	9,088,800	2,557,460
Unrestricted net assets, beginning of year	29,564,176	27,006,716
Unrestricted net assets, end of year	$ 38,652,976	$ 29,564,176

See accompanying notes to financial statements.

BILL & MELINDA GATES FOUNDATION TRUST

Statements of Cash Flows

Years ended December 31, 2007 and 2006

(In thousands)

	2007	2006
Cash flows from operating activities:		
Change in net assets	$ 9,088,800	$ 2,557,460
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Stock contributions	2,604,993	1,620,832
Depreciation and amortization	—	7,578
Net realized and unrealized gains on investments	(4,034,262)	(2,742,302)
Loss on disposal of asset	—	5,448
Noncash transfer of IRIS Holdings, LLC	—	8,656
Noncash transfer of net liabilities to the Bill & Melinda Gates Foundation	(3,404,897)	—
Changes in operating assets and liabilities:		
Interest and dividends receivable	9,593	12,727
Prepaid expenses and other assets	—	(603)
Federal excise tax refund receivable	8,523	(6,816)
Program related investments receivable	—	720
Accounts payable	1	3,442
Accrued and other liabilities	(3,312)	6,178
Federal excise tax payable	17,083	—
Deferred excise taxes payable	22,403	15,410
Grants payable, net	—	1,294,018
Net cash provided by operating activities	4,308,925	2,782,748
Cash flows from investing activities:		
Purchases of investments	(301,345,315)	(229,970,245)
Proceeds from sales of investments	297,316,833	227,155,474
Cash received (paid) under secured lending arrangements	(4,900)	19,042
Purchases of property and equipment	—	(9,454)
Net cash used in investing activities	(4,033,382)	(2,805,183)
Net increase (decrease) in cash and cash equivalents	275,543	(22,435)
Cash and cash equivalents, beginning of year	160,385	182,820
Cash and cash equivalents, end of year	$ 435,928	$ 160,385
Supplemental disclosure of cash flow information:		
Cash paid during the year for excise taxes	$ 30,084	$ 23,484

See accompanying notes to financial statements.

(1) Organization

The Bill & Melinda Gates Foundation Trust (Trust) is a charitable trust that holds the endowment from Bill and Melinda Gates, and operates its main office in Seattle, Washington.

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 role of the Trust is 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 Buffett. 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, 2007 and 2006 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 investments make up less than 2% 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.

(In thousands)

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, grants payable were discounted using rates ranging from 3.24% to 5.5%. All grant obligations were transferred to the Foundation on January 1, 2007. See Note 14.

(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 Bill Gates, totaled $167,761 and $146,560 for the years ended December 31, 2007 and 2006, respectively. Investment management services contributed are reflected as contributions revenue, and as investment management services expense which is netted against investment income.

(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.

(In thousands)

(h) Presentation of Expenses on the Statement of Activities

The costs of providing the various programs and other activities have been allocated between grants, direct charitable, and program and administrative expenses in the accompanying statement of activities based on management's estimates. Grants and direct charitable expenses are charitable costs, largely for the benefit of others. Program and administrative expenses relate to activities which support the grant-making process as well as administrative operational costs.

(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) Contributions Received

The Trust receives contributions from related and unrelated parties. Related party contributions in 2007 and 2006 were received from Warren Buffett and Bill Gates. Warren Buffett contributed Berskshire Hathaway "B" shares valued at $1,763,414 and $1,603,000 in 2007 and 2006, respectively. Bill Gates contributed cash, stock, and third party investment management fees totaling $1,253,672 and $316,000 in 2007 and 2006, respectively. In addition, Bill Gates contributed investment management services as described in note 2(f). Contributions from unrelated parties are only accepted by the Trust if they are unrestricted. The Trust has been notified that it has been named as the beneficiary in the estate of certain individuals under revocable agreements. Such amounts will be recorded as contributions upon the passing of the donor and the amounts become known.

(3) Functional Allocation of Expenses

At December 31, 2007 and 2006, the Trust's financial allocation of expenses is represented as follows:

	2007	2006
Program expenses:		
Global Health	$ —	$ 1,913,342
U.S. Program	—	769,131
Global Development	—	263,996
Grants to Bill & Melinda Gates Foundation	2,327,300	94,739
Total program expenses	2,327,300	3,041,208
Management and general expenses	466	65,556
Federal excise tax expense	61,010	39,245
Total expenses	$ 2,388,776	$ 3,146,009

(In thousands)

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. See note 14 for explanation of the decrease in program expenses and the increase in grants to Bill & Melinda Gates Foundation.

(4) Investments

At December 31, 2007 and 2006 the Trust's investments consist of the following:

	2007	2006
Short-term investments	$ 1,061,068	$ 5,550,537
Bonds, notes, and other	24,205,213	18,993,657
Equities	18,072,866	13,387,120
Private equity investments	224,381	120,357
	43,563,528	38,051,671
Less investments loaned under secured lending transactions	(4,492,520)	(4,465,171)
Total investments	$ 39,071,008	$ 33,586,500

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.

Investment income was comprised of the following for the years ended December 31, 2007 and 2006.

	2007	2006
Interest and dividend income	$ 1,110,845	$ 1,043,430
Net realized and unrealized gains on investments	4,034,262	2,742,302
Investment expenses:		
Contributed investment management expenses (see note 2(f))	(167,761)	(146,560)
Third party investment management and custodian fees and other expenses	(26,557)	(19,919)
Investment income, net	$ 4,950,789	$ 3,619,253

(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 that 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 $4,492,520 and $4,465,171 as of December 31, 2007 and 2006, respectively.

(In thousands)

Cash and noncash financial instruments received as collateral totaled $4,583,440 and $4,588,339 as of December 31, 2007 and 2006, 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.

In order 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 intent of minimizing 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 used for enhancing returns on other investments and as an alternative to ownership.

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, 2007 and 2006 are as follows:

	2007		2006	
	Notional value	**Fair value**	**Notional value**	**Fair value**
Forward contracts	$ 11,407,702	$ 58,368	$ 8,343,879	$ (61,629)
Futures	(512,532)	6,433	102,670,660	53,026
Options	(55,118)	(28,056)	(13,267)	(1,641)
Swaps	(1,452,293)	(31,091)	(3,411,438)	(63,748)
		$ 5,654		$ (73,992)

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

(In thousands)

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, 2007 and 2006, property and equipment consist of the following. See Note 14 for details of the transfer of assets to the Foundation on January 1, 2007.

	2007	2006
Construction in progress	$ —	$ 4,861
Computers, printers, and software	—	20,357
Furniture and fixtures	—	7,534
Telecommunications	—	752
Leasehold improvements	—	23,972
	—	57,476
Less accumulated depreciation and amortization	—	(44,797)
Property and equipment, net	$ —	$ 12,679

(8) Grants Payable

Grants payable totaling $3,812,483 (discounted $3,390,459) at December 31, 2006, consisted of approved grant commitments. See Note 14 for explanation of the decrease in grants payable at December 31, 2007.

(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, 2007 and 2006. The current portion of excise tax expense is $38,607 and $23,484 for the years ended December 31, 2007 and 2006, respectively.

The Trust made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2007 and 2006. Deferred excise tax expense (credit) was $22,403 and $15,410 for the years ended December 31, 2007 and 2006, respectively, resulting from net unrealized gains on investments.

Other taxes of $466 were paid for the year ended December 31, 2007, primarily on unrelated business income generated as a result of the Trust's investments.

(10) Retirement Plan

The sponsorship of the retirement plans, a 401(k) Plan and a Money Purchase Plan, was transferred to the Bill & Melinda Gates Foundation on January 1, 2007.

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 year ended December 31, 2006, employer contributions to the Money Purchase retirement plan totaled $4,170.

(11) Commitments and Contingencies

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, the Bill & Melinda Gates Foundation (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 Buffett, 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. Buffett 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. The second installment of 475,000 shares, valued at $1,763,414, was contributed in July 2007. Although Mr. Buffett 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.

(In thousands)

(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. Buffett's 2008 contribution.

As this gift is conditional and the conditions cannot be satisfied in advance of each year's installment of the gift, 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) Transfer of Assets and Liabilities from the Trust to the 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 $19,782 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. Transfer of assets and liabilities on January 1, 2007 comprised the following:

Assets:		
Cash and cash equivalents	$	5,866
Non cash items:		
Prepaid expenses and other assets		1,237
Property and equipment, net		12,679
Total assets		19,782
Liabilities:		
Accounts payable		(16,885)
Accrued and other liabilities		(11,469)
Accrued grants payable, net		(3,390,459)
Total liabilities		(3,418,813)
Net liabilities transferred	$	(3,399,031)