

ANNUAL
REPORT 2006



BILL & MELINDA
GATES *foundation*

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A Message From Patty Stonesifer

For a foundation as young as ours, every year feels different from the one before. We're constantly learning and adapting. Rapid advances in science, technology, and communications can add to the feeling that we're moving faster than ever. Even so, none of us will soon forget the big news of 2006.

On June 26, Warren Buffett announced an astonishing pledge to the foundation—10 million shares of Berkshire Hathaway Inc. stock worth more than \$31 billion at the time. Most of us at the foundation had two reactions when we heard the news: *Wow*—Warren has made an incredible statement. And *Holy cow*—we have a lot of work to do.

"The more deeply we get involved in these issues and see what's possible, the more all of us want to do."

As I told foundation employees in a lively meeting shortly after Warren's announcement: Giving away money isn't hard. But giving it away effectively sure is. We were already making about \$1.4 billion a year in grants. Last year, the total jumped to \$1.6 billion, thanks to Warren's pledge, and we'll be giving away a projected \$3.2 billion a year by 2009. We're not making the jump all at once; our annual grantmaking will increase by about one-third in each of the next three years. To prepare for this growth, in 2006 we created a two-trust structure, which is explained in more detail in the Financials section of this report.

People frequently ask me: How can the foundation give away so much money and do it well? Believe me, we think about that tremendous responsibility every day. But as a foundation, I believe, we're in a better position than ever to translate these immense resources into billions of people living healthier lives, getting a better education, and lifting themselves out of poverty. Warren's unprecedented gift gives us the opportunity to double our impact on some of the world's most pressing—and distressing—problems. Let me tell you some of the things we're doing to get ready.

For one thing, we're staying focused. When Warren made his pledge to the foundation, he urged us to accelerate our work in the areas we'd already identified, rather than adding new areas. Bill, Melinda, and I agree. Last year we reshaped the foundation so it could focus on our three main areas of giving: Global Health, Global Development, and the United States Program, with a president to oversee each area. We also brought on a chief operating officer, who is responsible for building the infrastructure—teams in legal, finance, impact assessment, and so on—that will support the programs in their grantmaking.

Because we are a foundation with three engaged donors as our only board members, we recognize the need for outside voices to help guide our strategies and stretch our thinking. We've used advisors in a variety of ways over the years, but in 2006 we decided to formalize the process with advisory panels for each of our program areas. By giving us expert counsel and critical feedback, these three panels will play a significant role in making sure we're doing a good job of listening to diverse voices and learning from our mistakes. We've begun discussions with some potential members of these advisory panels, and we're creating the internal team to support them. We plan to announce the members of our

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Global Health advisory panel this summer and the panels for our U.S. and Global Development programs in the fall.

We go into greater detail about the advisory panels in an enhanced section of our Web site. This new information also answers common questions about how we work. It describes the steps we take to turn our values into strategies and to turn those strategies into specific grants. It's a rigorous process that includes identifying a problem, scoping the landscape for what has already been tried, and creating the approach that will have the most impact. At every step in the process, we work with partners and experts.

Some of those expert voices come from outside the foundation, but as we grow, we're also working hard to bring more people in house who can guide us on our core issues and help support our mission. We're taking great care to create the right jobs and then recruit people who can help us make real progress against the world's most glaring inequities.

The addition of all these new employees will require us to spread out in several buildings in Seattle, along with our offices in Washington, D.C., and Delhi, India. Eventually our Seattle employees will move into a new headquarters near the Seattle Center.

It's a tall order to pull off this kind of growth. But the thing that worries me most about our growth is that it might cause others to shrink from the critical problems in health, education, and poverty. The last thing we want is for anyone to think that we've got things covered.

All the issues we address—from slowing the spread of AIDS to improving the output of family farmers in developing countries to increasing high school graduation rates in the U.S.—are difficult by nature. They defy simple solutions. That's one of the reasons we chose to focus on them. They cause immense harm and attract too little attention.

As a foundation, we're in a great position to take big risks, and we're willing to make changes when we learn new information. But we can't solve these problems alone. For one thing, as immense as they may sound, our resources are a drop in the bucket compared to what's needed. To put it in perspective, in the past nine years combined, our foundation has spent less than \$2 billion on HIV/AIDS. By contrast, the United Nations predicts that in 2008 alone it'll take more than *10 times* that amount—\$22 billion—to fight HIV/AIDS in middle- and low-income countries.

Clearly, government support is critical. But government can't do it alone either. It will take widespread public will and creative collaboration across all sectors—public, private, and nonprofit—to find solutions to these problems and get them to the people who need them. Ordinary people have to take responsibility for these issues. We need to commit to solving them together.

I'm optimistic because we're already seeing it happen. These kinds of vigorous partnerships are behind our most successful efforts to date. Partnerships like the Global Alliance for Vaccines and Immunization (GAVI) are working. Through GAVI, donor governments, governments in developing countries, nongovernmental organizations, private donors, and pharmaceutical companies are all working together with a shared goal: to give lifesaving vaccines to children in the developing world. According to the World Health Organization, their collaboration has already helped prevent 2.3 million deaths in the past seven years.

This is truly an exciting time in history: Improving the lives of billions of people is within reach. The more deeply we get involved in these issues and see what's possible, the more all of us want to do. Shortly before Warren's gift, Bill Gates announced he would transition out of his day-to-day role at Microsoft by 2008 to devote more time to the foundation and

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the issues we're focused on. Melinda Gates also let us know that she will be spending even more time on the foundation's work. Their increased participation coincides with our growing sense of urgency and possibility. Warren has made it clear that he wants his money put to work in the next 25 years or so, and Bill and Melinda have stipulated that their endowment won't continue into perpetuity.

We want results in this lifetime. Children dying of malaria and AIDS can't wait. People struggling to feed their families can't wait. And young Americans who drop out of high school without the skills to survive in today's economy can't wait. We're willing to take big risks with our partners to make sure they don't have to.



Patty Stonesifer
Chief Executive Officer

P.S.: In last year's annual report, I wrote both a letter from the CEO and a Management Discussion and Analysis (MD&A), and I promised the MD&A would be a regular feature of future annual reports. This year it made more sense to combine the two. I hope I've provided the same kind of information—just more efficiently.



Warren Buffett's Gift

"You are tackling problems that have resisted great intellect and lots of money. These are important problems. ... It's a great feeling to know that as the company (Berkshire Hathaway) becomes worth more and more money, it actually translates into something good for people around the world."

—Warren Buffett

"Bill and I are absolutely honored and humbled by Warren's gift. It's really unprecedented in terms of what we can do to do good in the world. ... It's just an awesome thing to be able to think about the number of people you could lift out of poverty with a gift like this."

—Melinda Gates

"It's a huge responsibility. In some ways if you make mistakes with your own money, you don't feel as bad about it as if it were someone else's. Now we're even more intent on doing it right. ... I think Warren will not only be known as the world's greatest investor, but the world's greatest investor for good."

—Bill Gates

On June 26, 2006, Warren Buffett announced that he would give away most of his fortune to philanthropy, including a pledge of 10 million shares of Berkshire Hathaway Inc. stock to the Bill & Melinda Gates Foundation. Warren's gift to the foundation was worth more than \$31 billion at the time.

The foundation and its partners have already begun to put Warren's unprecedented generosity to work. The increased resources will allow us to deepen and accelerate our efforts to address urgent inequities in the United States and around the globe. Thanks to Warren's gift, the foundation will be giving away a projected \$3.2 billion a year by 2009, working with our partners to make sure all people, no matter where they live, have a chance to live a healthy, productive life.

Our [Web site](#) has more information about Warren's pledge.



Global Development Overview

Nearly 2.5 billion people in the developing world live on less than \$2 a day. This kind of grinding poverty—incomprehensible to most people in developed countries—often reduces life to a daily struggle for survival. The basics of food, water, and shelter are in chronic short supply, and health care and education can be unattainable luxuries.

Life in rural areas, where two-thirds of the poorest live, can be particularly punishing. Many rural families farm small plots of land and depend on often meager harvests for food and income. These rural people are disproportionately burdened by malnutrition and illness, and they have limited access to hospitals, schools, sanitation systems, and clean water.

Opportunities to escape this kind of poverty are elusive. The world's poorest people lack access to banking services—from loans to savings accounts to insurance—that would help them manage life's risks and take advantage of life's opportunities. And while economic and social progress is increasingly driven by information technology, only one in six people around the world has access to a computer with Internet access.

In 2006, we established the Global Development Program to increase opportunities for people in the developing world to lift themselves out of hunger and poverty. In establishing the program, we sought to identify core initiatives that would build on and complement our existing expertise in global health.

Our grantmaking in the program's first year focused on an ambitious partnership with the Rockefeller Foundation to help African farmers increase their productivity and on a series of innovative efforts to bring financial services to poor people in Africa and Asia who haven't had access to them before.



Swap Meeting

Public Librarians From Around the World Trade Ideas About Technology

Across the foundation, we work with thousands of grantees who are out in the field day after day, and they generate an extraordinary wealth of knowledge about the best strategies and tactics for addressing the problems we focus on. But most of our grantees don't have the opportunity to share that knowledge with each other. It's a waste of a precious resource. So, in 2006 we thought about better ways to help grantees learn from one another and create a network to share information so they don't have to reinvent the wheel constantly.

"But most of our grantees don't have the opportunity to share that knowledge with each other. It's a waste of a precious resource."

That was the idea behind a six-day peer-learning meeting we hosted in December with library leaders from Botswana, Chile, Latvia, Lithuania, and Mexico—the five countries our Global Libraries initiative has worked with so far. Instead of filtering their expertise through the grantmaking organization—us—they transferred it directly and interactively.

The Global Libraries initiative is dedicated to helping people benefit from free Internet access in their public libraries. Chile and Mexico, longtime grantees, shared five years' worth of experience. Botswana, Latvia, and Lithuania, which

just announced their first grants in November, brought new ideas to the table.

The participants held sessions on a range of topics: What are the best ways to overcome the challenges of installing hardware in rural places? What kinds of content do people find most useful? How can libraries train people to use computers most effectively? How can libraries make the case to governments that providing Internet access should be a priority?

They also visited a number of libraries near Santiago, Chile, where the meeting took place. Chile was the perfect location because its successful library project has expanded from a basic access and training initiative to one focused on developing high-quality local content. *Biblioredes: Abre tu Mundo* (Open Your World) has transformed Chilean libraries. All 378 libraries in the country now offer free Internet access, which generates more interest in libraries generally. In the project's first year, adults used libraries 50 percent more than in the year before. But people didn't go just for the computers; once at the library, they took advantage of other services. Chile's libraries now loan out 75 percent more books than they did when the project started. *Biblioredes* has put libraries at the center of civic life in Chile.

Chile's libraries served as models for library leaders from the other countries. At the meeting, they didn't just talk about what success looks like—they saw it.



Saving The Seeds Farmers Need A Plan to Help Protect Biodiversity for the Developing World

In the past 50 years, plant breeders have made amazing advances, developing crops that are more nutritious and less susceptible to drought and disease. That's the good news. But these advances also have an unintended consequence: As breeders develop better varieties, farmers stop using the old ones, which means that the very genetic material breeders need to keep making improvements is disappearing.

“As breeders develop better varieties, farmers stop using the old ones, which means that the very genetic material breeders need to keep making improvements is disappearing.”

For some farmers, this isn't an issue. In fact, much of the plant-genetic material in the world is preserved in gene banks; the seeds for 100,000 different varieties of rice are literally stored in freezers in warehouses around the world. Worldwide, about 1,500 gene banks store almost 5.5 million samples, about 2 million of which are unique.

But for farmers in the poorest and most distant places, preserving biodiversity is a major concern. We believe in the potential of better seeds to improve the lives of millions of people who suffer from hunger and poverty, and we are making grants to help more small farmers use them. But we are also committed to helping protect the crops

that matter most to these communities—which means providing funding to help developing countries preserve their biodiversity.

To that end, we made a \$30 million grant to the United Nations Foundation's Global Crop Diversity Trust. This grant will help protect the biodiversity of those places that need it most and will work to ensure that small farmers can access this biodiversity.

In addition, it will allow the other gene banks to preserve the material they have while improving coordination across the gene-bank system. It will also upgrade existing gene banks and provide back-up storage in a top-of-the-line facility being built by Norway near the North Pole.

By holding in trust the world's collection of plant-genetic material, this effort will guarantee that breeders can continue to develop crops that give billions of people better, healthier lives.



Banking On Technology

Cell Phones and Other Tools Help Poor People Build Wealth

Less than 10 percent of the world's poor people have access to financial services today. These services—savings accounts, loans, insurance, and money transfers—can help poor people manage life's risks and take advantage of life's opportunities. Part of the problem is that banks are few and far between in many areas of the developing world, and since poor people tend to make very small transactions, it simply hasn't been cost-effective for commercial banks to serve them.

“These services—savings accounts, loans, insurance, and money transfers—can help poor people manage life's risks and take advantage of life's opportunities.”

But new technologies might be able to overcome these challenges. In November we made a \$23.9 million grant to the Consultative Group to Assist the Poor (CGAP), a consortium of some 33 development agencies, to experiment with innovations that could revolutionize the way the poor use financial services. For example, conducting routine financial transactions over a cellular telephone can be more than six times cheaper than going through the same process with a bank teller. Another innovation, biometric debit cards that use thumbprint or retina scanners, can save money by reducing fraud while giving illiterate clients unprecedented access to bank accounts and health insurance.

The first round of proposals that CGAP reviewed yielded several lessons that will help the consortium as it promotes technology among financial-service providers in the future. For example, cell-phone banking is a very popular and promising idea, but most of the proposals about it focused only on payments, not on more complicated services like insurance. Technology has the potential to make banking significantly cheaper, but it could also reduce the costs of a wide range of services that could help millions more people protect their families and plan for the future. Thus, CGAP will encourage proposals that offer a fuller menu of services in the next round.

Another challenge is regulation. Because CGAP is working with brand-new technology, the rules governing financial institutions in many countries haven't caught up. Making sure enabling regulations keep pace with technology while still protecting consumers is a high priority.

Some of these experiments won't work out. But some will, and they can serve as models for innovative ways of providing financial services that don't exclude the poorest people in the world.



Africa's Growth Industry

A New Green Revolution for African Farmers and Their Families

One in three Africans suffers from hunger. And the problem is getting worse, not better. There are many reasons for this crisis. The soil is becoming less fertile as Africans have to farm it more intensively to keep up with population pressure. Meanwhile, African farmers don't have access to four things essential to successful agriculture: improved, high-quality seeds that are well-suited to local conditions; farming inputs like organic and mineral fertilizers and irrigation; opportunities to learn and test new farming techniques; and commercial markets where they can sell crops.

"We want to support African farmers, who produce food under the most difficult conditions, by improving the agricultural sector from seed to market."

To help African farmers and their families, we teamed up with the Rockefeller Foundation, which has decades of experience working on agriculture issues in Africa and has earned the trust of agricultural leaders in many African countries, to launch the Alliance for a Green Revolution for Africa (AGRA). We want to support African farmers, who produce food under the most difficult conditions, by improving the agricultural sector from seed to market. Our goal is to help 30 million Africans, who now live in hunger and extreme poverty, live better lives.

The original Green Revolution of the mid-20th century, which fed hundreds of millions of people in Asia and Latin America who wouldn't have had enough to eat, barely reached Africa.

In some places, the original Green Revolution contributed to inequity and environmental degradation. This new Green Revolution will heed the lessons of the past; it will increase productivity while also focusing on small farmers, protecting the environment, and reducing inequity.

AGRA's first initiative, the Program for Africa's Seed Systems (PASS), exemplifies the results we hope to achieve. PASS is focused on reducing hunger and growing the economy in rural areas by increasing the production of nutritious crops, including African staples (such as cowpea, millet, and sorghum) and species widely adopted by African farmers (such as maize, cassava, and beans).

PASS is investing \$150 million to develop and distribute new crop varieties in 16 countries.

Currently, 75 percent of African farmers don't use any form of improved crops. But we hope that in the next five years the program will introduce 100 well-adapted crop varieties and distribute these improved seeds, train hundreds of Africans in agricultural science, build community seed systems, and help set up 10,000 small agro-dealers who can work with small farmers to improve their equipment and practices.

In the near future, AGRA will add more partners and launch additional initiatives aimed at issues such as improving the health of soils and expanding farmers' access to markets.



Banks For Africa's Poor

Program Related Investments Help More Africans Get Financial Services

Sometimes making grants is not the best way to support our partner organizations. As an alternative or a complement to grants, Program Related Investments (PRIs), low-cost loans and equity investments provided at below-market rates to support a charitable purpose, can often do more to help our partners grow.

“If our partners show that they can pay us back, then commercial investors may be more willing to assume the risk of investing in financial-services institutions with low-income clients.”

This year, we made two PRIs to stimulate the development of banks that serve the poor in Africa. If our partners show that they can pay us back, then commercial investors may be more willing to assume the risk of investing in financial-services institutions with low-income clients. In addition, because PRIs are partially intended to demonstrate our partners' viability to commercial investors, they help encourage financial discipline.

There is good reason to believe that such investments will pay off. In Africa, some studies suggest that more than 90 percent of the population doesn't have access to financial services. No other continent makes do with such a sparse banking infrastructure. And yet, if financial-services institutions could be encouraged to work with more families in African

countries, they could use these families' savings to offer additional services, such as loans that could generate profits while assisting their depositors to build wealth. In short, banks may very well be able to operate profitably in Africa while serving poor Africans.

We made combined grants and PRIs to two financial-services providers in Africa—ProCredit and Opportunity International—to help them build banks for the poor. (ProCredit received a \$9 million grant and a \$20 million loan. Opportunity International received a \$5.5 million grant and a \$10 million loan.) Both groups have years of experience providing financial services to low-income clients. They will use the grants to train staff, upgrade computer systems, and build capacity in other ways; they will use the loans to meet minimum capital requirements set by bank regulators and to provide more loans to poor clients.

In the next several years, we hope these investments will help millions more Africans get the banking services they need to better provide themselves and their families with the basic necessities of life.

Updates

2005 In 2005, we created a Strategic Opportunities group to explore potential new areas of giving for the foundation.

2006 In 2006, the foundation launched the Global Development Program with the goal of reducing hunger and poverty in the developing world.

The Global Development Program focuses on helping promote agricultural development, provide financial services to the poor, and increase people's access to essential information through computers and Internet access at public libraries. In the coming years, the Global Development Program will account for roughly a quarter of our grantmaking.



Global Health Overview

The foundation’s global health mission is to help ensure that lifesaving advances in health are created and shared with those who need them most. To date, the foundation has committed more than \$7.8 billion to support global health efforts in three priority areas:

- **Discovery:** Research to understand the scientific basis of major diseases in the poorest countries
- **Development:** Partnerships to translate scientific breakthroughs into new vaccines, drugs, and other tools for the developing world
- **Delivery:** Local, national, and international efforts to ensure that effective health tools reach the people who need them most

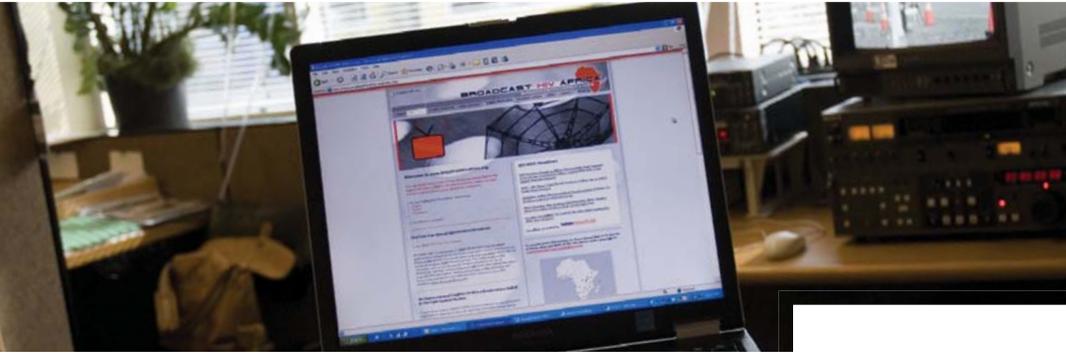
In our global health grantmaking, we prioritize the diseases and health conditions that cause the greatest global health burden and death and that receive the least attention and resources, including AIDS, malaria, TB, child and newborn health, and reproductive health.

We can’t solve these problems alone. While our resources are significant, they are not nearly enough to meet the tremendous needs in global health. We work as a partner with diverse groups—including governments, the private sector, scientific institutions, and nonprofit organizations—to bring the necessary talent, resources, and political will to bear on the toughest health problems.

We strive for big results. We try new ideas in the laboratory and in the field—sometimes taking risks that business and government can’t. We evaluate the programs we support and share the results of those efforts with others so success in one area can be replicated elsewhere.

Examples of our work in 2006 include the following:

- HIV/AIDS continued to be a major focus. In August, Bill and Melinda Gates gave a keynote address at the International AIDS Conference in Toronto, where they outlined priorities for more effectively controlling the spread of the global epidemic. Many of our grantees are focused on intensifying HIV prevention efforts, including expanding access to current prevention tools such as education and condoms and developing new prevention tools such as an HIV vaccine.
- We continued working with grantees to expand access to tools for fighting other serious diseases and to develop new vaccines, drugs, and diagnostics for improving health in the poorest countries. For example, tuberculosis is now a leading cause of death among people with AIDS, and it hasn’t gotten the attention it deserves. Diseases, such as Japanese encephalitis, schistosomiasis, and lymphatic filariasis, that affect millions of the poorest people in the world get even less attention, and we are working with many grantees who are helping to remedy that problem.



Broadcasters Fight AIDS

African Media Help Provide Lifesaving Information

A critical barrier to fighting HIV/AIDS in developing countries is a lack of information. Many people don't know how to protect themselves and their families from becoming infected, and they don't know about the options available to people living with the disease.

“The goal of this ground-breaking continent-wide campaign is to help Africans better understand the disease and what they can do to fight it.”

To help disseminate more and better information on HIV/AIDS in Africa, we joined other funders to support the Kaiser Family Foundation's African Broadcast Media Partnership Against HIV/AIDS. The partnership brings together 41 television and radio broadcast companies in 25 countries, and it will eventually expand to all 52 African countries. Each broadcaster will devote one hour of airtime every day to HIV/AIDS-related content.

The partnership launched its first campaign in December with a series of public-service announcements based on the theme “An HIV-Free Generation ... It Begins With You.” In the future, it will address a range of themes with a variety of programs, including long-form documentaries and dramas that weave HIV/AIDS messages into their storylines.

The goal of this ground-breaking continent-wide campaign is to help Africans better understand the disease and what they can do to fight it.



The Road To An HIV Vaccine Scientists Come Together to Meet a Shared Goal

2006 marked the 25th year we have known about the HIV/AIDS epidemic, and the world is still far from developing an effective vaccine against it. The main reason for the slow progress is that the scientific challenges are extremely difficult. A related problem is that the researchers working on overcoming these challenges have thus far worked mostly in small, independent teams. While they have made many important findings, what's needed is a larger-scale, more cooperative approach—one that can guide the entire HIV vaccine research community toward its goal as quickly as possible.

“... what's needed is a larger-scale, more cooperative approach—one that can guide the entire HIV vaccine research community toward its goal as quickly as possible.”

The foundation is a member of the Global HIV Vaccine Enterprise, an alliance of organizations from around the world that has developed a shared scientific strategic plan to accelerate HIV vaccine development. Top priorities for the Enterprise include vaccine discovery—that is, studying a variety of innovative approaches to eliciting anti-HIV immune responses—and standardizing laboratory protocols so researchers can compare results and coordinate their efforts. In July, the foundation announced \$287 million in grants to support projects in these two areas.

The grants support 16 highly collaborative research consortia that bring together 187 investigators from 22 countries. These investigators are pursuing a number of cutting-edge strategies. For example, one group is using state-of-the-art computer-design techniques to engineer novel molecules that trigger antibodies to neutralize HIV. To access the computer power needed for the project, the investigators are exploring ways to use the idle time of thousands of personal computers around the world to run research calculations over the Internet.

The grants also support new central service facilities—three immunology laboratories, a research specimen repository, and a data and statistical management center. These facilities will help scientists to compare data using standardized techniques and to share data, in real time, so advances by one team can rapidly contribute to progress by others.

In December, the investigators who are part of the consortia met in Seattle to discuss their projects. The meeting brought together leading HIV vaccine researchers from around the world under one roof, an important step toward the kind of cooperation needed for this effort to succeed.



The Delivery Question

New Ways to Prevent HIV Are on the Way, but Will They Get to the People Who Need Them?

In 2006, more than 4 million people worldwide became infected with HIV—the equivalent of nearly 11,000 people every day. “The harsh mathematics of this epidemic proves that prevention is essential,” Bill and Melinda Gates told delegates to the International AIDS Conference in Toronto last August. And, they added, we must “put the power of prevention in women’s hands” by expanding access to current prevention strategies and developing effective new prevention methods.

“New prevention methods could give the world a historic opportunity to slow, and ultimately reverse, the global HIV/AIDS epidemic.”

In conjunction with the conference, the Global HIV Prevention Working Group, a panel of 50 experts convened by the Gates and Kaiser Family foundations, released a report on promising HIV prevention research titled *New Approaches to HIV Prevention: Accelerating Research and Ensuring Future Access*.

According to the report, several innovative HIV prevention methods are in the late stages of clinical research and could show results within the next few years. (With our partners, we are funding some of this research.) Among the new prevention tools are oral prophylaxis drugs and topical microbicides—gels and creams that, if applied to the vagina,

may reduce the transmission of HIV to women. If proven effective and used in combination with existing strategies, oral drugs and microbicides could help avert millions of HIV infections among women.

But the report also issued an urgent warning: “Virtually no planning or resources have been dedicated to ensuring future access to new prevention approaches,” it said, which means “we risk letting new prevention methods sit idle while 4 million people become infected every year.” Even now, fewer than one in five people at high risk for HIV have access to current prevention methods such as condoms and education.

Part of the equation is ensuring that the world commits the necessary financial resources to delivery of new prevention methods. But there are other questions as well. For example: What is the best strategy for making sure that introducing new prevention methods doesn’t lead to an increase in high-risk behavior? How do countries and health agencies gauge the demand for new products to provide an adequate supply? How should the regulatory process evolve so that new products are approved without unnecessary delays?

New prevention methods could give the world a historic opportunity to slow, and ultimately reverse, the global HIV/AIDS epidemic. Making the most of this opportunity will require global commitment to guarantee rapid access to new tools as soon as they are proven effective.



Stopping TB

Bringing the Fight Against Tuberculosis Into the 21st Century

Every year, nearly 2 million people die from tuberculosis. The tools we have to fight the disease are woefully inadequate. The world has an 80-year-old vaccine that doesn't work very well. The standard diagnostic test for tuberculosis is even older, and it misses about half the cases. There are effective antibiotics, but the drug regimen must be followed for at least six months, which means that many people are unable to complete a full treatment course. When people fail to complete the treatment, the incidence of drug-resistant TB goes up, making it harder and more expensive to treat. Moreover, as the HIV/AIDS epidemic continues, tuberculosis is a leading cause of death among people with HIV.

“The tools we have to fight the disease are woefully inadequate.”

Yet 2006 saw important signs of momentum on TB research and development:

- In January, the Stop TB Partnership, which includes private- and public-sector organizations from around the world, announced the *Global Plan to Stop TB 2006–2015*. The plan lays out a series of specific goals to accelerate TB research, including developing at least one new TB drug and a quick, sensitive, and affordable diagnostic test by 2010 and developing a safe, affordable vaccine by 2015. Implementing the plan will require a threefold increase over the current level of funding. At the press conference launching the plan, Bill Gates announced

that the foundation would increase its spending on TB by \$900 million over the next decade, and he called on other funders to significantly increase their support as well.

- Other TB grantees are also making progress: The Foundation for Innovative New Diagnostics (FIND) is developing a test for multi-drug-resistant TB, and the Aeras Global TB Vaccine Foundation opened a state-of-the-art facility to develop and produce TB vaccines. The Consortium to Respond Effectively to the AIDS-TB Epidemic (CREATE) is evaluating new ways to use existing tools to control tuberculosis in areas with heavy HIV burdens.

The world has the know-how to defeat TB, and governments and other donors now must commit to making up the funding gap.



Fighting Forgotten Diseases

Putting Silent Killers on the Global Agenda

One of the reasons diseases that barely exist in developed countries kill, disfigure, or debilitate so many people in developing countries is that these diseases have not received the attention they deserve. Diseases like trypanosomiasis (African sleeping sickness), visceral leishmaniasis, lymphatic filariasis, and hookworm are rarely discussed in the U.S. and Europe, but they affect hundreds of millions of people worldwide. They place a tremendous burden on societies already struggling with hunger, illness, and extreme poverty.

“They place a tremendous burden on societies already struggling with hunger, illness, and extreme poverty.”

In 2006, foundation grantees helped make important progress against “forgotten” diseases. For example, the Carter Center in Atlanta, winner of the 2006 Gates Award for Global Health, has worked with developing countries around the world to reduce the number of Guinea worm cases by more than 99 percent in just 20 years. In addition, the Institute for One World Health licensed a new and inexpensive cure for visceral leishmaniasis, a devastating disease that affects more than 200 million people in poor countries. This new cure is currently being introduced in India.

To build on this progress, the foundation announced grants totaling \$115 million to address neglected diseases. Some of the grants support drug and vaccine development; some will help countries integrate their campaigns against multiple neglected diseases; and one grant has established a new medical journal devoted to neglected diseases.

Updates

2005 In 2005, the foundation announced \$258.3 million in grants designed to spur innovation in key areas of malaria prevention and treatment.

In 2005, five European governments pledged support for an innovative effort to raise money for the Global Alliance for Vaccines and Immunization (GAVI) through “immunization” bonds.

2006 In 2006, Melinda Gates spoke at the first White House Summit on Malaria, helping draw unprecedented attention to the disease.

In 2006, the International Finance Facility for Immunization issued the first round of bonds, expecting to raise \$4 billion for vaccines over the next decade.

The year 2006 marked a watershed in the battle against malaria with the first-ever White House summit on the deadly illness. The President’s Malaria Initiative includes pledges of more than \$1 billion to fight the disease, which takes the lives of over 2,000 African children every day. Melinda Gates addressed the summit of 250 political leaders, scientists, and advocates, calling for agreement on a coordinated global strategy and increased resources to control and combat malaria. The foundation committed \$83.5 million in new grants to speed research, improve prevention methods, and expand access to treatment.

The Global Alliance for Vaccines and Immunization reached an important milestone in 2006 when it issued its inaugural bonds through the International Finance Facility for Immunization. GAVI aims to get lifesaving vaccines to children in the developing world. Already the effort has saved an estimated 2.3 million lives. The bonds represent a unique financing strategy that will increase the amount of aid for vaccines by “frontloading” donors’ commitments. Donor countries made legally binding commitments to join the historic effort.



United States Overview

America is supposed to be the land of opportunity, but it simply isn't for everyone. Inequities divide the country. Some people have to beat overwhelming odds just to have the same opportunities many of us take for granted.

Our education system is not preparing our young people for success. Every year, 1 million high school students drop out. The dropout problem is especially bad in certain areas. For example, less than 45 percent of kids who start public high school in Los Angeles will graduate. But right next door in the Santa Monica-Malibu School District the graduation rate is more than 80 percent. Students in L.A. don't have the same chance to succeed in life, simply because of where they happen to live. There are more examples: In Washington state, home to some of the most dynamic businesses in the world, almost 200,000 children under the age of 18 live in poverty; impoverished children are at greater risk than their peers of dropping out of school, going to jail, and failing to find steady work. And Americans who live in rural communities are at a tremendous disadvantage when it comes to accessing computers and the Internet at their chronically underfunded public libraries.

We established the United States Program to reduce inequities and to increase access to opportunity so those with the greatest need and the fewest resources could have the same chance as everybody else to succeed. We work to accomplish these goals through the following portfolios of giving:

Education

- **Early Learning in Washington State:** Helping make sure that all children in Washington state start learning before they begin school and begin kindergarten ready to succeed.
- **Increasing High School Graduation and College Readiness Rates:** Significantly increasing the number of students—particularly low-income, Hispanic, and African-American students—who graduate from high school with the skills and knowledge necessary for college and work.
- **Scholarships and College Access:** Removing financial barriers to college for promising students who can't afford it.

At-Risk Families and Children in the Pacific Northwest: In Washington state and Greater Portland, Oregon, increasing the numbers of low-income children and families who receive services that will help improve their lives; helping formerly homeless families become self-sufficient.

U.S. Libraries: Helping public libraries continue to offer free, high-quality computer and Internet services to low-income communities.

Special Initiatives: Exploring potential new areas of establishing and funding one-time opportunities in response to unique challenges and unanticipated events.

Advocacy: Calling attention to the problems in the United States that we focus on and motivating others to help solve them.

United States Overview

In 2006, we continued these efforts by expanding our strategy for improving high school education, celebrating some of our past successes to encourage others to adopt reform policies that work, and bringing more attention to the severity of the education crisis in this country.

We also formed a partnership with several organizations to help the Gulf Coast region recover from the 2005 hurricanes by assisting communities as they rebuild their public libraries.



Reconnecting Communities Partnerships in the Gulf Coast Reopen Hurricane-Damaged Libraries

The Gulf Coast hurricanes in the summer of 2005 damaged or destroyed more than 150 public libraries. About 50 are still closed, which means that dozens of small communities in Louisiana and Mississippi are working toward recovery without the benefit of a library—a center of community life where people can get advice, communicate with friends and family, and find crucial information about jobs, community resources, and federal emergency relief. The Internet is often the best and sometimes the only place to access this information, and without a library, people have no place to get online for free.

“... dozens of small communities in Louisiana and Mississippi are working toward recovery without the benefit of a library ...”

Libraries are more than just information clearinghouses. “Public libraries are the most public of public institutions,” said Sharman Bridges Smith, executive director of the Mississippi Library Commission. “In the middle of chaos, they offer calm sanctuary and a sense of place.” The critical role libraries play became even more apparent after the hurricanes, when local and evacuated residents used those libraries that were still standing as safe shelters during a period when other social and civil services were unable to function.

In July, we joined the Bush-Clinton Katrina Fund and the Institute for Museum and Library Sciences to announce more than \$18 million in grants to help rebuild Gulf Coast libraries. We’re working with the Southeastern Library Network, a nonprofit organization that supports almost 3,000 libraries in the Southeast United States and the Caribbean, to implement the grants. The network will provide temporary facilities—bookmobiles and techmobiles—for communities whose libraries were destroyed and will also help these communities plan for the rebuilding process.

Allan Golston, president of our United States Program, announced the grant at the start of the 2006 American Library Association conference, held in New Orleans. The first major conference convened there since the 2005 hurricanes, it symbolized the region’s resilience in the face of unimaginable trials. By bringing people together and empowering them with knowledge, libraries contribute greatly to that resilience.



Spreading Success

Organizations Bring Model Schools to More Students

We have set ambitious national goals for improving college-ready graduation rates—increasing the number of young people who graduate high schools with the skills and knowledge necessary for college and work—and we cannot do it alone. Consequently, we have sought out and engaged hundreds of partners in dozens of cities.

“We are encouraged that, after decades of stagnation, American graduation and college-readiness rates are improving ...”

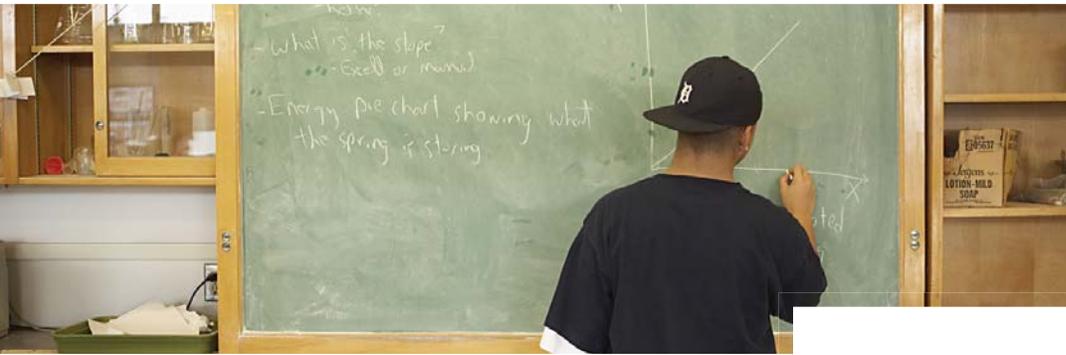
Some of our most-successful partners to date are new school developers that work through charter management organizations (CMOs). CMOs help charter schools replicate their successful approach at one school throughout a larger network of schools that share common principles and designs.

We have invested more than \$128 million in CMOs to support 365 high schools around the country. The first cohorts of students in our CMO-supported schools have outpaced their district peers in achievement tests and in measures of their overall engagement in academics. Furthermore, the schools have graduation rates of more than 90 percent.

In September, we expanded our investments in CMOs through a grant to Green Dot Public Schools to build five new schools in Los Angeles. The Green Dot network already includes five schools, and they’ve achieved impressive results: 95 percent of Green Dot’s students graduate, and 75 percent go straight to four-year colleges. These percentages are much higher than those at comparable public schools in the city. The success of Green Dot’s students is based on the model’s six design elements, including a college preparatory curriculum for all students, safety, and greater parental participation.

We also made a second investment in the NewSchools Venture Fund, which incubates CMOs as they solidify their school designs and begin to replicate their first schools. Thus far, low-income students in NewSchools Venture Fund-supported charter schools are outperforming comparable students in their districts. On average, low-income high school students in those CMOs score 36 percent higher in math and 52 percent higher in reading than their peers. With our newest grant, NewSchools Venture Fund will support up to 20 school developers who will create nearly 200 schools serving 100,000 students in cities across the country.

When we began this work seven years ago, only about 50 percent of low-income and minority students graduated from high school, and only about 10 percent earned college degrees. We are encouraged that, after decades of stagnation, American graduation and college-readiness rates are improving, in part because of the hard work of grantees like Green Dot and NewSchools Venture Fund.



Educating America

Grantees Highlight the Consequences of Dropping Out

Many people don't know that, nationwide, more than 30 percent of students don't graduate on schedule. In some cities, more than 50 percent don't make it to graduation day. And there is a mountain of statistics proving that students who get a high school diploma are more likely to lead healthy, productive, and fulfilling lives. We focus on improving our education system—specifically on increasing high school graduation and college-readiness rates—because the current situation reflects deep inequities in American society and because whether young people graduate or don't often defines the options they have for the rest of their lives.

“Many people don't know that, nationwide, more than 30 percent of students don't graduate on schedule. In some cities, more than 50 percent don't make it to graduation day.”

In 2006, the dropout problem received unprecedented attention from the public. In March, Civic Enterprises released a foundation-sponsored report titled “The Silent Epidemic.” The report was the first to give a voice to young people by asking those who had dropped out of high schools why they decided to do so. Researchers surveyed about 500 students who dropped out of high school, and most said they could have succeeded with more challenging coursework, engaging classroom experiences, and access to extra help.

Sixty-two percent reported that they had passing grades when they left school, and 70 percent were confident they could have met their school's graduation requirements. “There wasn't anybody to keep me there,” said a young man from Philadelphia who had dreams of going to college but who dropped out of high school with just one year to go and is now unemployed. Almost three quarters said they would have stayed in school if they had it to do over again.

Following the release of the report, Oprah Winfrey aired a two-part series called “American Schools in Crisis.” The shows featured an extended interview with Bill and Melinda Gates giving their perspective on what needs to change in our high schools and how it can be done. The same week, *Time* magazine ran a cover story titled “Dropout Nation.”

This attention has rippled throughout the country. In 2006, the amount of local and national print coverage that focused on the nation's low graduation rates doubled. This public pressure helped lead to a commitment by all states to report accurate graduation rates for the first time ever. Recently, North Carolina released recalculated graduation rates, and they had dropped from 90 to 60 percent. The real rate was a shock to many North Carolina residents, but accepting that statistic was the first step in embracing the problem and adopting strategies to address it.



New Schools Offer New Hope New York Redesigns Its High Schools to Prepare Students for Brighter Futures

New York City is overhauling its public schools, replacing some of the least-successful schools in the district with new, smaller, and more rigorous ones. We are one of the district's many partners in this ambitious initiative. Since 2002, more than 200 new high schools have opened in New York. This effort started with the creation of 14 new schools in the spring of 2002. In June, these schools graduated their first classes—the students who started as ninth-graders in 2002—and though the results are still early, they are extremely promising.

“When they entered high school, only 6 percent of Bronx Aerospace’s students scored at grade level in English. In June, however, more than 90 percent of them graduated.”

These schools graduated almost 80 percent of their students on time, which is all the more impressive because more than 80 percent of the incoming ninth-graders did not meet state standards in English or math. In addition, more than 80 percent of the students who graduated from these schools applied to college, and 85 percent of those were accepted. The majority of these students will be the first in their families to attend college.

The news from some of the individual schools is even more dramatic. The Bronx Aerospace Academy was carved out of a large high school with a graduation rate of just 31 percent. When they entered high school, only 6 percent of Bronx Aerospace’s students scored at grade level in English. In June, however, more than 90 percent of them graduated.

How did these schools help their students turn things around? First, they implemented tougher coursework, with high expectations and additional support for students who started out behind. Second, they made sure the classes were relevant by connecting the material to contemporary issues and to students’ career aspirations. Third, they spurred strong relationships among students, their teachers, and their parents. Finally, they helped students prepare to take their next steps in life with intensive career counseling and college counseling.

Although the sample size is small, the success of these 14 schools offers great hope for the future. New York’s new schools now serve almost 100,000 students—students who used to have very little chance to receive even an adequate education.



Housing Families

Helping Homeless Families Build Successful Futures

Since 2000, we've been addressing the problem of family homelessness in Washington state with an innovative approach called supportive housing—affordable housing paired with on-site services like domestic-violence counseling, job coaching, and parenting-skills training. With numerous partners, we launched the Sound Families Initiative, which provides homeless families with this service-enriched housing in the Puget Sound region in order to help them prepare for a stable and self-sufficient future.

“Over the years, Sound Families has achieved promising results. More than two-thirds of families go on to secure permanent housing.”

Over the years, Sound Families has achieved promising results. More than two-thirds of families go on to secure permanent housing. Heads of formerly homeless families tend to get jobs and raise their incomes, and recent evaluation data show that they keep the jobs and the higher wages years after they leave the program. Children whose families are in the program attend school more regularly, which greatly increases their chances of building a successful future.

In 2005, partly on the strength of these results, the state legislature launched the Washington Families Fund (WFF) to extend this approach to families across the state. Now with \$11 million in private and public support, WFF provides long-term funding for services so families needing additional support aren't forced to go back out on the streets.

But not all families have benefited equally from this approach. In particular, some families need more intensive services like mental health assistance or substance abuse counseling. In 2006, we received an evaluation of families who were asked to leave the program, “Early Exits: Lessons Learned from Families Asked to Leave Supportive Transitional Housing Programs.” This report has been crucial to our learning as we consider strategies that recognize that families have different needs.

As the Sound Families Initiative winds down, we are in the process of developing a new strategy that builds on what we've learned from our Sound Families experience—lessons vital to making sure we can reduce family homelessness in Washington state.

Updates

2005

In 2005, the Gates Millennium Scholarship Program celebrated five years of helping low-income minority students afford college.

In 2005, a broad coalition of leaders and advocates in Washington state sketched out a statewide strategy for early learning.

In 2005, a Florida State University report showed a fivefold increase in library connectedness since 1994.

2006

In 2006, the Gates Millennium Scholars Program expanded, and the Washington State Achievers Program celebrated its own five-year anniversary.

The Gates Millennium Scholarship program announced a \$58 million expansion in 2006 that will enable more low-income minority students to pursue a graduate degree in public health. So far, more than 10,000 students have benefited from the scholarship program; a total of 20,000 students will receive college and graduate school scholarships over a 20-year period. Another scholarship program, the Washington State Achievers Program, celebrated its fifth year of creating new opportunities for low-income students. In its first five years, the program awarded college scholarships to nearly 2,500 students, many of whom are the first in their families to go to college.

In 2006, the coalition launched Thrive by Five Washington, a public-private partnership dedicated to increasing rates of school readiness among all Washington's children.

Washington state's business, government, and philanthropic leaders came together in 2006 to create Thrive by Five Washington, a public-private partnership designed to ensure that all the state's children start kindergarten ready to succeed. The partnership, co-chaired by Bill Gates Sr. and Gov. Christine Gregoire, has raised pledges for an estimated \$30 million over the next three years and aims to develop high-quality models of childcare, to educate parents, and to improve statewide standards for early learning. Thrive by Five Washington will work across the state, including in two demonstration communities—White Center and East Yakima—to increase opportunities for high-quality, affordable early learning in all settings. Thrive by Five Washington will work with the state's Department of Early Learning to pilot a quality-rating and improvement system to help parents make more informed decisions about early learning programs for their children.

In 2006, a new report confirmed that the vast majority of libraries are connected to the Internet. Still, only a fraction of branches have enough computers.

A foundation-funded national report released in September 2006 found that 99 percent of public libraries in the United States provide free access to the Internet, compared to just 25 percent a decade ago. But the Florida State University report also found that only 20 percent of library branches say they have enough computers, and 45 percent say they can't meet user demands at least some of the time because of slow connection speeds. A separate study, which also received foundation support, found that Americans treasure their libraries: 78 percent of those polled said that something "essential and important" would be lost if their library had to shut down.

Overview of Financial Statements

The condensed statements of financial position, activities, and grants paid for the years ended December 31, 2006 and 2005 are presented in this section.

In October 2006, to prepare for significant future growth and to separate our grantmaking from the management of the endowment, the trustees created a two-entity structure. One entity, the Bill & Melinda Gates Foundation (“foundation”), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust (“trust”), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation’s grantmaking activities and its operating costs. It should be noted, however, that the trust carried out most of the charitable activities in 2006 because the foundation, in its current structure, was not formed until late in the year.

Though their purposes are linked, the foundation and the trust are distinct legal entities. For this reason, each entity has a separate set of books and undergoes an independent audit by KPMG, our external auditors. KPMG issued an unqualified opinion on the financial statements of each entity as of December 31, 2006, which are presented in conformity with generally accepted accounting principles (GAAP). Audited financial statements for the trust and the foundation may be viewed on our Web site.

Although the entities have separate audited financial statements, given their related purposes we believe it is helpful to present information in a way that allows readers to understand the financial position of the two entities on a combined basis. For this reason, the annual report contains combined financial statements with appropriate eliminating entries and explanatory notes.

As shown in the accompanying financial statements and grants paid summary, the following are selected financial highlights as of December 31, 2006 for the combined entities:

- Endowment assets available for charitable activities totaled \$33.0 billion.
- There is a \$3.4 billion liability for future year payments on already approved grants.
- Total revenues included \$1.6 billion in Berkshire Hathaway “B” shares contributed by Warren Buffett.
- Grants expense on an accrual basis totaled \$2.8 billion.
- On a cash basis, the combined entities paid approximately \$1.6 billion in grants.

Additional information can be found in the 2005 annual information return, called the Form 990-PF-Return of Private Foundation, which is available for the trust on our Web site. Each entity will file its Form 990-PF for 2006 with the IRS later this year, with copies posted to the foundation’s Web site.

Alexander S. Friedman
Chief Financial Officer

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Financial Position

As of December 31, 2006 and 2005 • Amounts in Thousands

	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED, DEC. 31, 2006 ¹	TOTAL COMBINED, DEC. 31, 2005 ¹
ASSETS					
Cash and cash equivalents	\$ 160,385	\$ 5,525	\$ -	\$ 165,910	\$ 183,540
Investments	33,586,500 ²	-	(949,634) ^{3,4}	32,636,866	28,718,949
Interest in the net assets of Bill & Melinda Gates Foundation Trust	-	29,564,176 ⁵	(29,564,176) ⁵	-	-
Investments loaned under secured lending transactions	4,465,171 ³	-	(4,465,171) ³	-	-
Investment sales receivable	729,308 ⁴	-	(729,308) ⁴	-	-
Interest and dividends receivable	210,326	-	-	210,326	223,053
Subtotal, investment and endowment assets	\$39,151,690	\$29,569,701	\$ (35,708,289)	\$33,013,102	\$29,125,542
Federal excise tax refund receivable	8,523	-	-	8,523	1,707
Program related investments receivable	-	30,000	-	30,000	720
Prepaid expenses and other assets	1,237	333	-	1,570	-
Property and equipment, net	12,679	54,507 ⁶	-	67,186	25,539
Total Assets	\$39,174,129⁸	\$29,654,541⁹	\$ (35,708,289)	\$33,120,381	\$29,153,508
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 16,884	\$ 255	\$ -	\$ 17,139	\$ 13,442
Payable under investment loan agreements	4,588,339 ³	-	(4,588,339) ³	-	-
Investment purchases payable	1,555,774 ⁴	-	(1,555,774) ⁴	-	-
Accrued and other liabilities	16,255	1,770	-	18,025	10,077
Deferred excise taxes payable	42,242	-	-	42,242	26,832
Grants payable, net	3,390,459 ⁷	-	-	3,390,459	2,096,441
Total Liabilities	\$ 9,609,953	\$ 2,025	\$ (6,144,113)	\$ 3,467,865	\$ 2,146,792
NET ASSETS					
Unrestricted	29,564,176	29,652,516	(29,564,176) ⁵	29,652,516	27,006,716
Total Liabilities and Net Assets	\$39,174,129⁸	\$29,654,541⁹	\$ (35,708,289)	\$33,120,381	\$29,153,508

Financial Statements

Bill & Melinda Gates Foundation and Bill & Melinda Gates Foundation Trust Combined Statements of Financial Position

¹ In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation ("foundation"), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust ("trust"), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation's grantmaking activities and its operating costs. It should be noted, however, that the trust carried out most of the charitable activities in 2006 because the foundation, in its current structure, was not formed until late in the year. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

² Investments managed by the trust are comprised primarily of bonds, notes, equities, and short-term investments.

³ 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 the securities lending agreement, the trust requires collateral of a value at least equal to 102 percent of the value of the loaned investments. Consistent with generally accepted accounting principles (GAAP), these transactions are recorded in the audited financial statements as an asset to reflect the investments on loan, and as a liability to return the collateral for the loaned assets. This "double counting" tends to display a higher dollar value of the trust's investment assets than would exist if only the net value was presented. For this reason, an eliminating entry is shown in the Elimination Adjustments column to remove the effects of the security lending program. In this way, the reader is provided with a clearer picture of the net endowment assets available for charitable purposes at December 31, 2006.

⁴ The trust's investments are accounted for on a trade date, rather than a settlement date, basis. This means that at any given time there are significant investment receivables and payables outstanding related to trades that are in process. These transactions are recorded in the audited financial statements as required by GAAP. Eliminating these receivables and payables as shown in the Elimination Adjustments column gives the reader a clearer picture of the actual endowment balance available for charitable purposes as of December 31, 2006.

⁵ The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation's charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation's financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated to avoid double counting of the same net assets.

⁶ Property and equipment for the foundation is comprised of land and construction in progress related to the foundation's new campus headquarters that is being constructed on a 12-acre site in downtown Seattle. IRIS Holdings, LLC (IRIS) is the legal entity which owns the land and will construct the headquarters for the foundation's use. Because the foundation is the sole owner in IRIS, the financial statements of the two entities are presented here on a consolidated basis.

⁷ Grants payable reflects the total amount of grants approved for payment in future periods (\$3.8 billion), discounted to the present value as of December 31, 2006, as required by GAAP.

⁸ Total assets, total liabilities, and total liabilities and net assets per the audited financial statements will not match the amounts shown in the trust's 2006 990-PF tax return because the audited financial statements include adjustments required under GAAP to reflect securities lending transactions and investment receivables and payables as described in notes 3 and 4 above. These transactions are eliminated for purposes of presentation in the tax return, as they are in this presentation by the Elimination Adjustments, in order to describe more clearly for the reader the endowment assets available for charitable purposes. After removing the effect of these adjustments, the following amounts will appear in the trust's 2006 990-PF: total assets of \$33,030,016; total liabilities of \$3,465,840; and total liabilities and net assets of \$33,030,016.

⁹ Total assets and total liabilities and net assets per the audited financial statements will not agree to the amounts shown in the foundation's 2006 990-PF tax return because the audited financial statements include an adjustment to reflect an interest in the net assets of the trust as required by GAAP and as described in note 5. This adjustment will be eliminated for purposes of presentation in the tax return, as it is in this presentation by the Elimination Adjustments, in order to avoid what might otherwise appear as a "double counting" of those same net assets. After removing the effect of this adjustment, the following amounts will appear in the foundation's 2006 990-PF: total assets of \$90,365 and total liabilities and net assets of \$90,365.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.

Financial Statements

Combined Statements of Activities

For the Years Ended December 31, 2006 and 2005 • Amounts in Thousands

	TRUST	FOUNDATION	ELIMINATION ADJUSTMENTS	TOTAL COMBINED, DEC. 31, 2006 ¹	TOTAL COMBINED, DEC. 31, 2005 ¹
CHANGE IN NET ASSETS					
REVENUES AND GAINS					
Contributions	\$ 2,084,216 ²	\$ 94,739 ³	\$ (94,739) ³	\$ 2,084,216	\$ 442,701
Investment income, net	3,619,253 ⁴	98	-	3,619,351	1,421,334
Total Revenues and Gains	\$ 5,703,469	\$ 94,837	\$ (94,739)	\$ 5,703,567	\$ 1,864,035
EXPENSES					
Grants	2,933,900 ⁵	6,493	(94,739) ^{3,5}	2,845,654	1,566,809
Direct charitable expenses	30,336 ⁶	-	-	30,336	37,921
Program and administrative expenses	142,528	-	-	142,528	92,042
Federal excise and other taxes	39,245 ⁷	4	-	39,249	14,836
Total Expenses	\$ 3,146,009	\$ 6,497	\$ (94,739)	\$ 3,057,767	\$ 1,711,608
Changes in Net Assets	2,557,460	88,340	-	2,645,800	152,427
Unrestricted net assets, beginning of year	27,006,716	-	-	27,006,716	26,854,289
Other Adjustments to Net Assets:					
Increase in net assets due to beneficial interest in Bill & Melinda Gates Foundation Trust	-	29,564,176 ⁸	(29,564,176) ⁸	-	-
Unrestricted Net Assets, End of Year	\$29,564,176	\$29,652,516	\$(29,564,176)	\$29,652,516	\$27,006,716

Financial Statements

Combined Statements of Activities

¹ In October 2006, the Bill & Melinda Gates Foundation created a two-entity structure. One entity, the Bill & Melinda Gates Foundation ("foundation"), distributes money to grantees. The other, the Bill & Melinda Gates Foundation Trust ("trust"), manages the endowment assets. The trust makes contributions to the foundation to fund the foundation's grantmaking activities and its operating costs. It should be noted, however, that the trust carried out most of the charitable activities in 2006 because the foundation, in its current structure, was not formed until late in the year. The foundation and the trust are separate legal entities with independently audited financial statements. However, because of certain transactions between the two entities, their financial positions are presented on a combined basis, with appropriate elimination entries, to help readers more clearly understand the activity of these entities on a combined basis.

² Contributions received by the trust in 2006 were provided by Warren Buffett and Bill Gates. Approximately \$1.6 billion was received from Warren Buffett in the form of 500,000 shares of Berkshire Hathaway "B" stock. Bill Gates contributed \$333 million in cash and securities, and approximately \$151 million in contributed investment management services. Also, several donors from the general public made contributions to the foundation.

³ The foundation received \$94.7 million in contributions from the trust in 2006, which were used to fund acquisition of the land for the new campus, program related investments made for charitable purposes, and grants to third parties. When presenting the financial statements of the two entities on a combined basis, the grant from the trust to the foundation must be eliminated, as shown in the Elimination Adjustments, in order to avoid double counting of the funds.

⁴ Includes realized and unrealized gains and losses on the endowment portfolio, less investment management expenses. The trust maintains a conservative approach to endowment management, aiming for a 5 percent return each year, since Bill and Melinda intend to donate more of their financial resources over time.

⁵ Grant expense includes cash payments made during 2006, as well as an adjustment to record expenses related to grants approved for payment in future years. The future grants payable portion is then discounted to the present value as of December 31, 2006, as required by generally accepted accounting principles (GAAP). Presented in the accompanying grants paid summary is grant expense on a cash basis, consistent with the reporting basis required in the annual 990-PF tax return. In 2006, the trust granted \$94,739 to the foundation, which must be eliminated in the Elimination Adjustments to avoid double counting of grants when the financials are presented on a combined basis.

⁶ Direct charitable expense includes payments made to third parties for charitable purposes. Examples of direct charitable expenses include payment for consulting services provided for grantees' benefit and travel costs to bring grantees and other participants together. Direct charitable expenses, working in tandem with grants, are an effective means of achieving charitable goals and are disclosed separately in the audited financial statements to distinguish these from operational costs of running the trust.

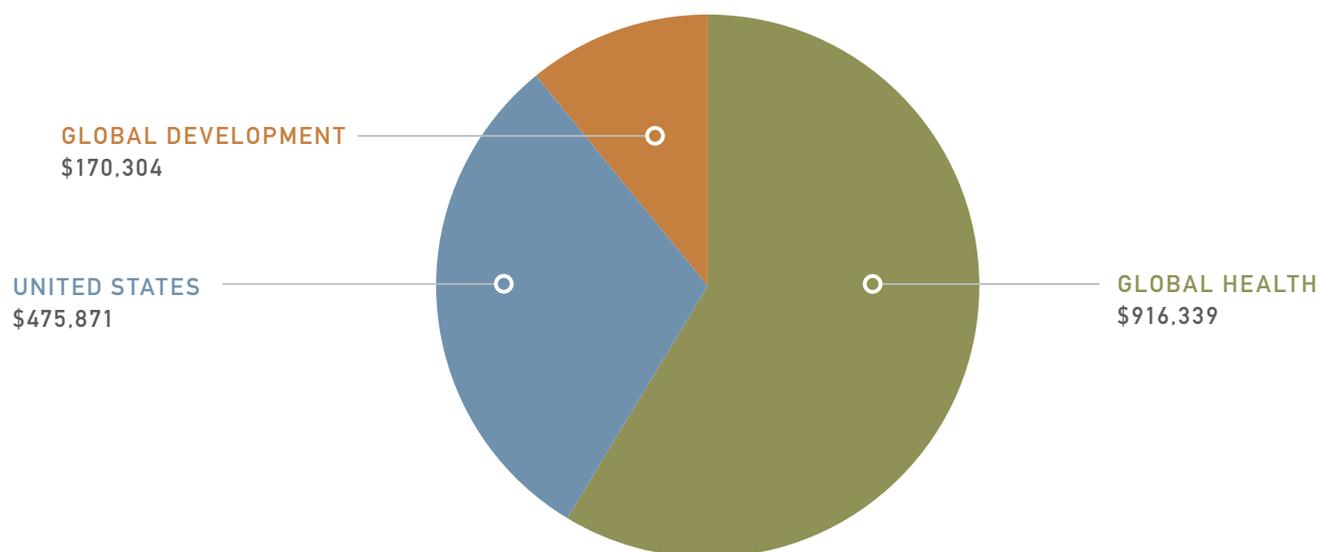
⁷ The trust is subject to federal excise taxes imposed on private foundations at 2 percent, or at 1 percent if certain conditions are met. The excise tax is imposed on net investment income, as defined under federal law, which does not include all components of net investment income as presented in these financial statements on a GAAP basis. The trust qualified for a 1 percent tax rate in 2006. The foundation was not able to qualify for the 1 percent tax rate in 2006 because tax laws preclude the option to achieve a 1 percent tax rate in the year of formation.

⁸ The legal documents that govern the trust obligate it to fund the foundation in whatever dollar amounts are necessary to accomplish the foundation's charitable purposes. Because the foundation has the legal right to call upon the assets of the trust, the foundation's financial statements reflect an interest in the net assets of the trust in accordance with GAAP. However, when presenting the two entities on a combined basis, this amount must be eliminated in the Elimination Adjustments to avoid double counting of the same net assets.

General Note: More information about the financial positions of the trust and the foundation are available in their respective audited financial statements.

Grants Paid Summary (Cash Basis)

▼ For the year ended December 31, 2006 • Amounts in Thousands



▼ For the years ended December 31, 2006 and 2005 • Amounts in Thousands

PROGRAM AREAS	2006	2005
Global Development	\$ 170,304	\$ 138,792
Global Health	916,339	843,742
United States	475,871	373,794
Total Grants Paid	\$1,562,514	\$1,356,328

Leadership



William (Bill) H. Gates III, co-chair and trustee (right), meets with officials in the Batallón de San Patricio Public Library in Mexico City.



Melinda French Gates, co-chair and trustee (right), listens to a doctor at a health clinic near Hanoi, Vietnam.



Warren Buffett, trustee (right), speaks to the media in New York City after announcing his historic gift to philanthropy.



William H. Gates Sr., co-chair (center), celebrates the fifth anniversary of the Washington State Achievers Program.



Patty Stonesifer, chief executive officer, visits with children at the Holy Cross Day Care and Hospice in Gaborone, Botswana.



Sylvia Mathews Burwell, president, Global Development Program (second from right), listens to a microfinance group in Nigeria.



Tadataka Yamada, M.D., president, Global Health Program (center), talks to doctors at a health conference in Washington, D.C.



Allan C. Golston, president, U.S. Program, visits the Jefferson Parish East Bank Regional Library in Louisiana.



Cheryl Scott, chief operating officer, breaks ground on a parking garage near the foundation's future headquarters in Seattle, Washington.