



The International Finance Facility for Immunisation¹

Report of the Trustees and Financial Statements

**For the period ended
31 December 2006**

¹ International Finance Facility for Immunisation Company, 2 Lambs Passage, London EC1Y 8BB. Registered in England and Wales as a company limited by guarantee with number 5857343 and as a charity with number 1115413.

The International Finance Facility for Immunisation Company
Report of the Trustees
For the period ended 31 December 2006

The trustees are pleased to present their report with the financial statements of the charity for the period from the date of incorporation (26 June 2006) to 31 December 2006.

Legal and Administrative Information

Trustees (appointed on 26 June 2006)

Michèle Boccoz
John Cummins
Alan R. Gillespie (Chairman)
Dayanath Chandrajith Jayasuriya
Arunma Oteh

Registered address

2 Lambs Passage
London EC1Y 8BB

Company secretary

Trusec Limited
2 Lambs Passage
London EC1Y 8BB

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Auditors:

Deloitte & Touche LLP
180 Strand
London WC2R 1BL

Treasury Manager:

International Bank for Reconstruction and Development
1818 H Street NW
Washington, DC
20433 USA

Company registration number:

5857343

Charity registration number:

1115413

The International Finance Facility for Immunisation Company (“**IFFIm Company**” or “**IFFIm**”) is a multilateral development institution, established as a charity registered with the Charity Commission for England and Wales. IFFIm was incorporated as a private company, without share capital and for indefinite duration, under the English Companies Act 1985. The charity is governed by its Memorandum and Articles of Association dated 26 June 2006.

Financial Overview

IFFIm’s financial base consists of irrevocable and legally binding grants from its Sovereign government sponsors (“**Grantors**”). As of 31 December 2006, the Grantors were the Republic of France, the Republic of Italy, the Kingdom of Norway, the Kingdom of Spain, the Kingdom of Sweden and the United Kingdom.

Each Grantor has committed to provide scheduled grant payments to the GAVI Fund Affiliate, a UK charity (“**GFA**”; the GFA is discussed more thoroughly below). The GFA has assigned to IFFIm the right to receive these grant payments in return for IFFIm’s agreement to assess for approval immunisation and/or vaccine procurement programmes presented to it by the GFA. IFFIm has also agreed to raise funds for approved programmes.

To raise funds, IFFIm may issue notes in the international capital markets under its Global Debt Issuance Program or by borrowing under certain loan facilities. These funds are disbursed by IFFIm to the GFA, which subsequently uses them to support immunisation or vaccine procurement programmes of the GAVI Alliance. IFFIm uses the proceeds of the assigned grant payments from the Grantors for the purpose of, among other things, repaying the principal and paying interest on its notes and any other borrowings. As of 31 December 2006, IFFIm had raised funds through one bond issue, with a principal amount of USD 1 billion, and had disbursed a total of USD 525 million to the GFA.

IFFIm has selected U.S. dollars as its single operating currency. IFFIm mitigates the currency and interest rate risk to which it is exposed due to currency mismatches, and timing differences with respect to receipt of donor payments, payment of bond obligations and disbursements to the GFA, through the use of interest and currency swaps. Payments from the Grantors have been swapped into a zero-coupon floating rate U.S. dollar basis, and at issuance, IFFIm’s sole bond issue in 2006 was swapped into a U.S. dollar floating rate liability.

IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide flexibility in the execution of its funding programme and support its triple-A credit rating. Taking these factors into account, IFFIm maintains a prudential minimum level of liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. As of 31 December 2006, the prudential minimum was estimated at approximately USD 40 million and the value of IFFIm’s liquid assets was USD 499 million.

Given such factors as the strength of its financial base, its conservative financial policies and the strong support of the Grantors, IFFIm's Global Debt Issuance Program has been rated triple-A by each of Fitch Ratings, Moody's Investors Service and Standard & Poor's.

IFFIm's Financial Base

As of 31 December 2006, IFFIm's financial base consisted of irrevocable and legally binding grants from six Sovereign Grantors, and the aggregate net present value of the grants, after year end fair value adjustment (see Financial Statements, Note 3), was USD 2,149 million.

The following grants became effective as of 2 October 2006 (expressed as nominal amounts):

| <u>Donor</u> | <u>Total Obligations</u> | <u>Period of Payments</u> |
|--------------------|--------------------------|---------------------------|
| Republic of France | EUR 372,800,000 | 15 years |
| Republic of Italy | EUR 473,450,000 | 20 years |
| Kingdom of Norway | USD 27,000,000 | 5 years |
| Kingdom of Spain | EUR 189,500,000 | 20 years |
| Kingdom of Sweden | SKr 276,150,000 | 15 years |
| United Kingdom | GBP 1,380,000,000 | 20 years |

In December 2006, the Republic of France authorised an additional amount of up to EUR 920,000,000 over 20 years, although this additional amount is still to be formalised.

The Grantors have agreed to pay the grants in several instalments, in accordance with fixed payment schedules. During 2006, IFFIm received aggregate payments from the Grantors totalling USD 20 million.

Conditionality of Grant Payment Amount

The grant payments due from each Grantor will be reduced if, on a specified date prior to the date each payment is due, the International Monetary Fund ("IMF") declares that any of the countries named in the list below (each, a Specified Country) is in protracted arrears in meeting any financial obligation to the IMF. Protracted arrears are defined as amounts due from member countries that are six or more months overdue in settling financial obligations to the IMF. If any country is in protracted arrears with the IMF, the respective grant payments will be reduced by an amount (the Reduction Amount) that is calculated according to the following formula:

$A = B \times C$, where:

A is the Reduction Amount;

B is the grant payment due and payable on the relevant date; and

C is the Country Weighting applicable to the Specified Country in the portfolio set out below:

| Specified Country | Country Weighting | Total Share |
|--|-------------------|-------------|
| Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, Republic of Côte d'Ivoire, Djibouti, Eritrea, The Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Kenya, Kiribati, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe | 1% | 62% |
| Vietnam | 3% | 3% |
| Bangladesh, Congo DR, Ethiopia, India, Indonesia, Nigeria, Pakistan | 5% | 35% |
| Total | | <u>100%</u> |

As of 31 December 2006, Liberia, Somalia, Sudan and Zimbabwe were in protracted arrears to the IMF.

Structure, Governance and Management

IFFIm is managed by its board of directors, and has no employees. IFFIm has outsourced its principal activities to two organisations: all administrative support functions are provided by the GAVI Fund and all treasury functions and related accounting services are provided by the International Bank for Reconstruction and Development (“**IBRD**” or the “**World Bank**”), in its capacity as IFFIm’s Treasury Manager. GAVI is responsible for the operational activities related to the immunisation and vaccine procurement programmes for which IFFIm provides funding.

The trustees (who are also the directors of the IFFIm Company for the purposes of company law) are responsible for the management, strategic direction and policies of the institution, and monitoring of functions outsourced to the GAVI Fund and the World Bank. As of 31 December 2006, the directors of IFFIm, and their principal positions outside of IFFIm, were:

- Alan Gillespie (Chairman of the IFFIm Board): Chairman, Ulster Bank Group, Northern Ireland, a member of the Royal Bank of Scotland
- Michèle Bocoz: Executive Vice-President of International Affairs, Institut Pasteur, Paris
- John Cummins: Group Treasurer, Standard Life PLC Edinburgh
- Dayanath Jayasuriya: Senior Partner, Asian Pathfinder Legal Consultancy and Drafting Services Law Firm, Colombo; and

- Arunma Oteh: Vice President, Corporate Management, African Development Bank, Tunis.

The Board did not replace or add trustees in 2006. The GAVI Fund, as sole member of the charity, has the prevailing power to appoint trustees. The trustees may at any time appoint any person to be a trustee to fill a casual vacancy. Trustees appointed to fill a casual vacancy shall only hold office until the next annual general meeting and are eligible for re-election at such a meeting. Trustees are chosen for their skills and expertise in areas relevant to the IFFIm Company. Induction procedures introduce trustees to the specifics of the IFFIm Company operations and provide an overview of related entities.

The charity works with a number of organisations with which it cooperates to deliver its programmes. The principal organisations are as follows:

The GAVI Alliance was created in 2000 to respond to and combat declining immunisation rates in developing countries. It is a public-private partnership among certain permanent members (including the Bill & Melinda Gates Foundation, UNICEF, the World Bank and the World Health Organization), developing country governments, donor country governments, vaccine manufacturers, civil society organisations and research and technical health institutes. A secretariat, based in Geneva, coordinates GAVI Alliance activities. The GAVI Alliance, through its Board, governs GAVI Alliance policy development and implementation, and monitors and oversees all programme areas. These activities are funded by both the GAVI Fund Affiliate (where appropriate) and by the GAVI Fund (see below).

The GAVI Fund is a non-profit organisation based in the United States of America. The GAVI Fund serves to provide new and underused vaccines and the means to deliver these vaccines to the children of the world, beginning in those countries where the need for immunisation is great and the likelihood of success is high. The activities of the GAVI Fund are funded primarily through contributions.

The GAVI Fund Affiliate is a private company limited by guarantee incorporated under the Companies Act 1985 on 26 May 2006 with Company number 5830438 and is registered as a charity with the Charity Commission for England and Wales with Charity Registration number 1115297. Pursuant to the Finance Framework Agreement (as described below), the GFA's funding policy is to assign all grant agreements that govern Sovereign donor promises to the IFFIm Company. The assignment is in consideration of the IFFIm Company's undertaking to raise funds for GAVI Alliance immunisation and vaccine procurement programmes that are presented to it by the GFA. The GFA disburses funds received by it from IFFIm, either directly or through an account of the GAVI Fund to support GAVI Alliance programmes.

The **International Bank for Reconstruction and Development** is an international organization established in 1945 and owned by its member countries, and is the oldest and largest entity in the World Bank Group. As a global development cooperative owned by 185 member countries, IBRD's purpose is to work with its borrowing members so they can achieve equitable and sustainable economic growth in their national economies and find effective solutions to pressing regional and global problems in economic development and environmental sustainability, all with a view to overcoming poverty and improving standards of living. IBRD, rated Aaa/AAA, pursues this goal

primarily by providing financing, risk management products, and other financial services, access to experts and a pool of knowledge in development-related disciplines, so that borrowing members can pool, administer and prioritize resources they dedicate to development-related objectives. To fund these activities, IBRD has been issuing debt securities in the international capital markets for 60 years.

As Treasury Manager of IFFIm, the World Bank's duties include, among other things: assessing IFFIm's ability to finance any proposed immunisation or vaccine procurement programme presented to it for consideration by the GAVI Fund Affiliate; assessing on a periodic basis the funding required by IFFIm to meet its expected obligations in respect of programmes previously approved by it, as well as in respect of outstanding borrowings; providing account administration services; recommending funding, risk management, investment management and liquidity policies for IFFIm and, upon approval of such policies, executing all of IFFIm's financial transactions contemplated thereunder; and advising IFFIm on all aspects of its borrowing transactions. These duties are set out in the Treasury Management Agreement, entered into by the World Bank and IFFIm.

The Finance Framework Agreement, entered into by IFFIm, the Grantors, the GAVI Fund, the GAVI Fund Affiliate and the Treasury Manager, delineates their rights and obligations between one another. The agreement, among other things, contains certain restrictions on the borrowing by IFFIm, including that the terms of any such borrowing are confirmed by the Treasury Manager as being in compliance with IFFIm's financial policies and risk management and funding strategies.

IFFIm Disbursements to the GAVI Fund Affiliate

IFFIm follows a comprehensive procedure for approving programmes for funding, which includes the following steps:

- Applications for financial support for immunisation and/or vaccine procurement programmes are made by Specified Countries or, in the case of non-country specific programmes, by the GAVI Alliance;
- The applications are screened by the GAVI Alliance for basic completeness and eligibility for support and then reviewed by an independent review committee ("**IRC**") made up of experts in the field of vaccines and immunisation;
- The IRC may recommend that an application be approved, conditionally or unconditionally, or rejected, and the board of the GAVI Alliance will consider the application in light of the IRC's recommendation and report, and consider whether to issue an approval and application for funding to the GAVI Fund;
- The GAVI Fund will consider each application for funding and review its internal comprehensive resource and cash management plan to determine whether the proposed amount fits within GAVI Fund budgetary constraints, or whether the GAVI Fund may request funding, via the GFA, from IFFIm (considering the relevant financial efficiencies of funding from IFFIm, as against other sources of funding available to the GAVI Fund);

- If the GAVI Fund decides to make a request to the GFA for funding through disbursements from IFFIm, the GFA will consider such request and, if it approves such request, it will issue a request for funding to IFFIm;
- IFFIm will consider each request for funding in light of, among other things, its charitable status and the provisions of its Memorandum and Articles of Association. It will also consider, in consultation with the Treasury Manager, various parameters upon its borrowing, including the maximum cumulative amount of programmes it may agree to approve for funding in any one financial year, its funding strategy, its liquidity policy, its risk management policy and the constraint that IFFIm is not permitted to approve a programme for funding unless it is rated triple-A by at least two of Fitch Ratings, Moody's Investors Service and Standard & Poor's.
- If IFFIm decides to approve the funding request, the programme will become an Approved Programme.

Objectives and principal activities

The World Health Organization has estimated that IFFIm-derived resources could lead to the vaccination of more than 500 million people over the next ten years, with the objective of preventing the deaths of 5 million children and 5 million adults via the usage of new and underutilised vaccines, targeted immunisation campaigns, and the strengthening of health and immunisation services in GAVI's target countries.

The IFFIm Company's objects are:

"to promote the effective use of the resources of GAVI organisations for charitable purposes for the benefit of the public by providing services and facilities which will assist GAVI organisations to raise funds. Such provision of services and facilities may include, but will not be limited to, the charity borrowing money by any means on the security of covenants or other agreements whereby governments promise funds to GAVI organisations for charitable purposes and, in connection with such borrowing, obtaining any other kind of financial accommodation or entering into any hedging arrangement"

Principal Activities of IFFIm in 2006

Establishment

IFFIm was incorporated on 26 June 2006, and the right to receive the grant payments from the Grantors was assigned by the GAVI Fund Affiliate to IFFIm on 28 September 2006, and the grants became effective on 2 October 2006.

Funding

On 7 November 2006, IFFIm issued its first bond off its Global Debt Issuance Program with a principal amount of USD 1 billion. IFFIm did not enter into any other borrowing transactions during 2006. After the inaugural issuance, the IFFIm had net proceeds of USD 999 million. Of this amount, USD 525 million or 53% was disbursed (see Approved Programme table, next section). The net proceeds of the bond issuance are outlined below. Of the remaining USD 474 million in proceeds, USD 336 million is committed for 2007 disbursement.

| | |
|---|------------------------------|
| Initial Bond Proceeds | \$ 1,000,000,000 |
| Less: Discount on Bond | <u>(840,000)</u> |
| Net Bond Proceeds | 999,160,000 |
| | |
| Disbursements for Approved Programmes | (524,749,285) |
| | |
| Net remaining bond proceeds before operating & financing costs | <u>\$ 474,410,715</u> |
| | |
| <i>Balance due on remaining programs to be paid in 2007</i> | 336,340,715 |

Disbursements to the GAVI Fund Affiliate

In 2006, in its first seven months of existence, IFFIm approved total, aggregate disbursements to the GAVI Fund Affiliate in the amount of USD 861 million and actually disbursed USD 525 million. The following table sets out the immunisation and vaccine procurement programmes approved by IFFIm during 2006 and the subsequent disbursements that took place during the year whilst Schedule 1 lists the countries that are eligible to receive IFFIm funding.

| Approved Programme | Approved Amount (USD) | Amounts Disbursed to GFA in 2006 (USD) |
|---|------------------------------|---|
| Yellow fever stockpile | 57,140,000 | 17,297,000 |
| Polio vaccine stockpile | 191,280,000 | 124,840,000 |
| Measles mortality reduction | 139,000,000 | 100,000,000 |
| Maternal & neonatal tetanus elimination | 61,620,000 | 41,562,285 |
| Country specific programmes | 231,000,000 | 60,000,000 |
| Pentavalent procurement guarantee | 181,050,000 | 181,050,000 |
| Total (USD) | 861,090,000 | 524,749,285 |

Yellow Fever: GAVI Alliance-supported stockpiles, such as the Yellow Fever stockpile, represent innovative mechanisms to ensure that scarce or new vaccines or medicines are poised ready for deployment as soon as an outbreak is identified. Another effect of the stockpile is to secure supply for routine programmes. With just three manufacturers of yellow fever vaccine worldwide, supply is limited. Outbreaks used to take all the vaccine available and disrupt supply to routine programmes.

Measles: While IFFIm-derived resources will support the measles programme, measles vaccination campaigns are also contributing to the reduction of child deaths from other causes. Measles vaccination campaigns have become a channel for the delivery of other life-saving interventions, such as bed nets to protect against malaria, de-worming medicine and vitamin A supplements.

Maternal and neonatal tetanus: This investment case is to support efforts to eliminate maternal and neonatal tetanus in GAVI Fund eligible countries. Activities include catch up campaigns in Phase I to immunizing women in high-risk areas against tetanus toxoid. Then, in Phase III, there will be an establishment of a system of quarterly “pulse” immunisation.

Polio: The GFA approved programme will support intensified eradication activities, including Supplementary Immunisation Activities (SIAs) to interrupt wild and/or vaccine-derived poliovirus transmission, sustaining polio surveillance and laboratory activities, improving social mobilisation and enhancing technical assistance for SIAs and surveillance in the polio infected and “at-risk” countries.

Pentavalent Payment Guarantee: A payment guarantee for pentavalent vaccine was approved and funded in 2006. This provides for the pre-funding of a procurement account that will be used by UNICEF to purchase pentavalent (DTP+Hep+Hib) liquid vaccine over a three year period (2007–2009). As pentavalent vaccine is purchased over that period, UNICEF will draw down on these funds. The payment guarantee was used specifically to stimulate increased demand for such combination vaccines which are not currently produced in sufficient quantities, specifically the new “5-in-1” (pentavalent) vaccine. The availability of IFFIm funding over the next decade is supporting security of supply by giving assurance of GAVI Alliance support to pentavalent vaccine in the future. This is an incentive to new manufacturers to enter the market in the coming years to further reduce the price.

Risk Management

Programme risk management

Programme risks may include: i) lack of compliance by grant recipients with donor grant agreements, the Finance Framework Agreement, or the Procedures Memorandum; ii) the misuse of funds; or iii) unmet programme objectives. The first risk is reduced through the management control environment put in place by the GAVI Fund, including various internal checks, which have been explained to the Board. The second risk is mitigated by financial and management controls put in place at both the IBRD and the GAVI Fund, which restrict the IFFIm funds disbursement process. Finally, the third risk

is mitigated through the GAVI Alliance programme monitoring process, which is a multi-step monitoring and evaluation procedure that includes an initial project assessment and approval as well as annual monitoring reviews.

Financial risk management

IFFIm's activities expose it to three principal types of financial risk: market risk; credit risk; and liquidity risk. IFFIm seeks to mitigate each of these risks based on a risk management strategy approved by IFFIm's board of directors.

Market risk

In accordance with IFFIm's risk management strategy, donor pledges and borrowings are hedged into U.S. dollars on a floating-rate basis. On 2 October 2006, upon the assignment of the Grantor's payment obligations to IFFIm, such receivables were swapped into a zero-coupon floating U.S. dollar 3-month LIBOR basis by the Treasury Manager. The Treasury Manager also entered into five swaps to establish the total present value of pledges. The value of the contributions was determined by the then-current market exchange and interest rates, different payment profiles in different grant currencies, and the assumption that the reduction amount due to the conditionality of the grant payment amount stays at its current level, and that there are no donor defaults. Also, at issuance, IFFIm's sole bond issue in 2006 was swapped simultaneously on a back-to-back basis into a U.S. dollar 3-month average LIBOR floating-rate liability.

The notional amounts and fair values of interest rate and currency swaps as of 31 December 2006 were as follows:

| | Notional amount | 2006 Fair Value of Instruments |
|--|------------------------|---------------------------------------|
| Currency and interest rate swaps related to pledge receivables | \$ 3,945,182,842 | (69,913,844) |
| Interest rate swaps related to bonds payable | 1,000,000,000 | (2,051,393) |
| | | \$ (71,965,237) |

Credit risk

IFFIm is exposed to credit risk on the Grantors in respect of their payment obligations, and also is indirectly exposed to credit risk on the Specified Countries due to the Grant Payment Conditionality. In order to mitigate such risks, IFFIm's board of directors, taking into account the advice of the Treasury Manager, sets from time to time a limit on the maximum amount of the ratio (the Gearing Ratio) of the net financial obligations of IFFIm as a percentage of the net present value of the payment obligations due from Grantors on an after-swap basis (the Gearing Ratio Limit). As of 31 December 2006, IFFIm's gearing ratio stood at approximately 20%, as against a gearing ratio limit of 70.3%. The Gearing Ratio Limit is calculated and monitored by the Treasury Manager, and approved by the IFFIm Board.

In order to mitigate the credit risk related to its derivatives contracts, the World Bank, as Treasury Manager, served as IFFIm's sole hedging counterparty. IFFIm may request the Treasury Manager to negotiate hedging agreements between IFFIm and hedging

counterparties other than the Treasury Manager, but, as of 31 December 2006, no such additional hedging agreements had been put in place.

In order to mitigate the credit risk related to its investments, IFFIm's liquid assets (see "Investments" below) are invested in liquid instruments such as money market deposits and government and agency obligations, with the following minimum credit ratings:

- Money market instruments: Only those issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations: Only those issued or unconditionally guaranteed by government agencies or instrumentality rated at least AA-.
- Corporate and Asset-Backed Securities: Only those issued or unconditionally guaranteed by a corporate entity or trust rated AAA.

Liquidity risk

IFFIm seeks to maintain an adequate level of liquidity to meet its operational requirements, provide flexibility in the execution of its funding programme and support its triple-A credit rating. Taking these factors into account, IFFIm maintains a prudential minimum level of liquidity equivalent to its cumulative contracted debt service payments for the next twelve months. This minimum liquidity level is recalculated and reset on a quarterly basis. As of 31 December 2006, the prudential minimum was estimated at approximately USD 40 million and the value of IFFIm's liquid assets was USD 499 million] (see "Investments" below).

Investments

IFFIm's investments portfolio is denominated in U.S. dollars and is managed by the Treasury Manager, which maintains a single, commingled investment portfolio (the Pool) for IFFIm, certain trust funds and other entities administered by the World Bank, as well as assets held in trust for other World Bank Group institutions. The Treasury Manager maintains the Pool's assets separate and apart from the funds of the World Bank Group.

The Pool is divided into sub-portfolios to which allocations are made based on funding specific investment horizons, risk tolerances and other eligibility requirements set by the IBRD. Under IFFIm's investment strategy approved by the IFFIm board of directors, IFFIm's liquid assets are invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding the portfolio. As of 31 December 2006, the value of IFFIm's liquid assets was USD 499 million, which amount represents IFFIm's allocated share of the Pool's fair value as of such date.

Recent Developments and 2007 perspective

In March 2007, the Republic of South Africa joined as a Grantor to the IFFIm, agreeing to provide USD 20,000,000 over 20 years. This grant commitment is not reflected in the table on page 3, as the Republic of South Africa joined in 2007.

IFFIm and its partner organisations will continue to seek additional funding from new and existing donors.

Funding from IFFIm will thereby continue to support the purchase of vaccines and injection safety equipment and begin, under GAVI programmes, to help countries address critical health system “bottlenecks” that currently limit their ability to get vaccines to children. IFFIm plans to continue to approve financing for GAVI programmes, subject to financial restrictions and to develop transactions compatible with the funding requirements in order to accelerate funding for GAVI programmes.

Further information on GAVI’s activities, and IFFIm’s role within the Alliance, is available in the GAVI Alliance Annual Progress Report, which can be found on www.gavialliance.org.

Responsibilities of the Trustees

The trustees are responsible for preparing the Trustees Report and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of its incoming resources and application of resources, including income and expenditure for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Declarations:

1) In accordance with S234ZA of the Companies Act 1985, each person who is a Director at the date of approval of this report confirms that:

- So far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and
- Each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with S234ZA of the Companies Act 1985.

2) So far as each of the trustees is aware, applicable accounting standards have been followed.

Auditors

Deloitte & Touche LLP were appointed as IFFIm's auditors during the year and have expressed their willingness to continue in that capacity.

This Report has been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by charities (issued in March 2005) and in accordance with the provisions of the Companies Act 1985.

Approved by the Trustees on 17 October 2007 and signed on their behalf by:

/s/ Alan R. Gillespie

Alan R. Gillespie (Chairman)

17 October 2007.

Schedule 1

Afghanistan, Angola, Armenia, Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, Congo DR., Republic of Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, The Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Kenya, Kiribati, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Papua New Guinea, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Vietnam, Yemen Rep., Zambia, Zimbabwe

The International Finance Facility for Immunisation Company
Financial Statements
For the period ended 31 December 2006

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF The IFFIm Company

We have audited the financial statements of the IFFIm Company for the period ended 31 December, 2006 which comprise the Statement of Income & Expenditures, Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and the related Notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

The responsibilities of the trustees (who are also the directors of the IFFIm Company for the purposes of company law) for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Trustees' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and other transactions is not disclosed.

We read the Trustees' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 31 December 2006 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Trustees' Report is consistent with the financial statements.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London, United Kingdom
17 October 2007

The IFFIm Company
Income and Expenditure Account
For the Period ended 31 December 2006

| <i>In U.S. dollars</i> | Notes | 26 June 2006 (date of incorporation) to 31 December 2006 <u>Restricted Funds</u> |
|--|-------|---|
| Turnover | | |
| Contribution revenue | 3 | \$ <u>2,109,970,318</u> <u>2,109,970,318</u> |
| Operating expenses | | |
| Programme grants to the GAVI Fund Affiliate | 5 | 861,090,000 |
| Treasury manager's fees | 5 | 1,903,264 |
| Governance costs | 5 | 1,594,634 |
| Operating expenses | | <u>864,587,898</u> |
| Other operating income | | |
| Donated services | 3 | 1,084,231 |
| Operating profit | | |
| | | <u>1,246,466,651</u> |
| Other interest receivable and similar income | | |
| Investment & interest income | 4 | 3,601,734 |
| Interest payable and similar charges | | |
| Net fair value losses on pledges & pledge swaps | 6 | (10,442,392) |
| Net fair value losses on bonds & bond swaps | 6 | (8,009,171) |
| Other unrealised FX gains | 6 | 147,946 |
| Other finance charges | 5 | (1,612,959) |
| | | <u>(19,916,576)</u> |
| Surplus for the year | | |
| | | \$ <u>1,230,151,809</u> |
| <u>Statement of Recognised Gains & Losses</u> | | |
| Surplus for the year | | <u>1,230,151,809</u> |
| Total recognised gains & losses | | <u>1,230,151,809</u> |
| Balance at beginning of period | | - |
| Balance at end of period | | <u>1,230,151,809</u> |
| | | \$ <u>1,230,151,809</u> |

*The accompanying notes are an integral part of these financial statements.
All incoming resources and resources expended derive from continuing operations.*

The IFFIm Company
Statement of Financial Activities
For the Period ended 31 December 2006

| <i>In U.S. dollars</i> | Notes | 26 June 2006 (date of incorporation) to 31 December 2006 <u>Restricted Funds</u> |
|---|-------|---|
| Incoming resources | | |
| Incoming resources from generated funds: | | |
| Voluntary income: | | |
| Contribution revenue | 3 | \$ 2,109,970,318 |
| Donated services | 3 | <u>1,084,231</u> |
| Total voluntary income | | 2,111,054,549 |
| Investment and other similar income | 4 | 3,601,734 |
| Total Incoming Resources | | <u>2,114,656,283</u> |
| Resources Expended | | |
| Cost of generating funds | | |
| Treasury manager's fees | 5 | 1,903,264 |
| Finance charges | 5 | 1,612,959 |
| Programme grants to the GAVI Fund Affiliate | 5 | 861,090,000 |
| Governance costs | 5 | 1,594,634 |
| Total Resources Expended | | <u>866,200,857</u> |
| Fair value gains/losses | 6 | (18,303,617) |
| Net Incoming Resources (Net Income for the Period) | | <u>1,230,151,809</u> |
| Net Movement in Funds | | <u>1,230,151,809</u> |
| Reconciliation of Funds | | |
| Total Funds brought forward | | - |
| Total Funds Carried Forward | | <u>\$ 1,230,151,809</u> |

*The accompanying notes are an integral part of these financial statements.
All incoming resources and resources expended derive from continuing operations.*

The IFFIm Company
Balance Sheet as of 31 December 2006

| <i>In U.S. dollars</i> | Notes | <u>2006</u> |
|--|-------|--------------------------------|
| Current Assets | | |
| Sovereign pledges due within one year | 3 | \$ 60,209,363 |
| Sovereign pledges due after more than one year | 3 | <u>2,089,052,379</u> |
| Total sovereign pledges | | 2,149,261,742 |
| Funds held in trust | 4 | 498,681,672 |
| Prepayments | | 497,974 |
| Cash | | 498,710 |
| Total Current Assets | | <u>2,648,940,098</u> |
| Liabilities | | |
| Creditors falling due within one year | 7 | 75,489,796 |
| Grants payable to the GAVI Fund Affiliate | 7 | <u>336,340,715</u> |
| Total Liabilities | | 411,830,511 |
| Net Current Assets | | <u>2,237,109,587</u> |
| Liabilities falling due after more than one year | 8 | 1,006,957,778 |
| Net Assets | | <u>1,230,151,809</u> |
| Restricted Funds | | 1,230,151,809 |
| Total Funds | | \$ <u>1,230,151,809</u> |

The accompanying notes are an integral part of these financial statements.

Approved by the Trustees and signed on their behalf by:

/s/ Alan R. Gillespie

Alan R. Gillespie, Chairman
 October 2007

The IFFIm Company
Cash Flow Statement for the Period ended 31 December 2006

| <i>In U.S. dollars</i> | Note | 26 June 2006 (date of incorporation) to 31 December 2006 |
|--|------|--|
| Net Cash Outflows from Operating Activities | 16 | \$ (499,979,618) |
| Management of Liquid Resources | | |
| Funds held in trust: | | |
| Purchase of investments | | (498,681,672) |
| Net Cash Outflow | | (498,681,672) |
| Financing | | |
| Proceeds from bond issuance | 16 | 999,160,000 |
| Net Cash Inflow | | 999,160,000 |
| Net change in cash | | 498,710 |
| Cash at the beginning of the period | | - |
| Cash at the end of the period | | \$ 498,710 |

The accompanying notes are an integral part of these financial statements.

Note 1 – Nature of Operations and Affiliations

The IFFIm Company (“IFFIm” or “the “IFFIm Company”) was incorporated as a private company limited by guarantee under the U.K. Companies Act 1985 on 26 June 2006 (date of incorporation) and is registered as a charity with the Charity Commission for England and Wales. The sole member of IFFIm is the GAVI Fund, a non-profit 501(c)(3) public charity incorporated in the state of Washington, United States of America. IFFIm’s primary purpose is to provide funding for immunisation and vaccine procurement programmes of the Global Alliance for Vaccines and Immunisation (“GAVI”) by making grants to the GAVI Fund Affiliate (“GFA”), a charity registered with the Charity Commission for England and Wales.

IFFIm is governed by its Board of Directors. IFFIm has outsourced its principal activities to two organisations: the GAVI Fund and the International Bank for Reconstruction and Development (IBRD), otherwise known as the World Bank. All administrative support functions are provided by the GAVI Fund who acts as the financial coordinating member of GAVI. IBRD and IFFIm entered into the Treasury Management Agreement effective 2 October 2006 under which IBRD acts as the Treasury Manager of IFFIm. As such, the treasury functions including accounting and financial reporting support services are provided by the World Bank.

Working with its eligible countries, GAVI identifies and approves programmes of immunisation and vaccine procurement, some of which may be appropriate for funding by GFA. GFA presents such programmes to IFFIm which, after consideration of their eligibility for IFFIm funding and taking into consideration IFFIm’s financial resources and the liquidity policies of IFFIm, will issue bonds from time to time and disburse funds to GFA. The Finance Framework Agreement, entered into with the donors, the GAVI Fund, the GAVI Fund Affiliate and the Treasury Manager, delineates their rights and obligations between one another, contains certain restrictions on the borrowing by IFFIm including that the terms of any such borrowing are confirmed by IFFIm’s Treasury Manager as being in compliance with IFFIm’s funding strategy. IFFIm is also permitted by the Finance Framework Agreement and the other agreements to which IFFIm is a party to raise funds through loan facilities between it and lenders from time to time. GFA receives and disburses these funds to support GAVI immunisation or vaccine procurement programmes.

Note 2 – Significant Accounting Policies

Basis of Accounting: The financial statements are prepared:

- On the accruals basis of accounting, under the historical cost convention with the exception of the financial assets and financial liabilities which are included at fair value;
- In accordance with the Statement of Recommended Practice – *Accounting and Reporting by charities (SORP 2005)* issued in March 2005, applicable UK Accounting Standards and the Companies Act 1985.

Funds Structure: Funds, revenues, gains and losses are classified based on the existence of donor-imposed restrictions. The charity receives its funding from donors or by raising funds by borrowing in worldwide capital markets. Proceeds are used to fund programmes for a defined portfolio of countries (see Reference Portfolio in Note 3) or specified purposes. Therefore all funds are treated as restricted funds.

Note 2 – Significant Accounting Policies- continued

Foreign Currency Re-measurement: The financial statements are presented in U.S. dollars which is IFFIm's functional and reporting currency. Foreign currency transactions are translated into the functional currency using the exchange rates in effect on the dates on which they occur. Exchange gains and losses arising on settled transactions are included in other incoming funds in the Statement of Financial Activities. Unrealised gains or losses on the translation of foreign currency denominated assets and liabilities at year end exchange rates are presented separately in Fair value gains (losses) in the statement of financial activities.

Cash: Cash consists of cash at depository bank accounts accessible within 24 hours.

Funds in Trust: IFFIm's share in the pooled investment portfolio (please refer to Note 4) is measured at fair value on the initial transaction, then subsequently re-measured at fair value at the reporting date in accordance with FRS 25 *Financial Instruments: Disclosure and presentation* and FRS 26 *Financial Instruments: Measurements*. Gains or losses due to changes in fair market values are reported in Fair value gains (losses) in the Statement of Financial Activities.

Incoming Resources

Revenue Recognition: Voluntary income received by way of contributions and grants that are for a defined portfolio of programme recipient countries or specified purposes is recognised as revenues in the restricted net asset class where there is entitlement, certainty of receipt and when it can be reliably measured.

Contributions and grants are reported as contribution revenue in the year in which payments are received or unconditional promises to give or pledges are made.

Donated services are included at the value to the charity of the service provided. Investment income is recognised on an accruals basis. Contributions receivable and the respective contribution revenue are initially recognised at fair value then subsequently re-measured at fair value as of the reporting date. Unrealised gains or losses due to changes in fair market values are reported in Fair value gains (losses) in the Statement of Financial Activities.

Derivative Financial Instruments: IFFIm uses derivatives for its asset/liability management purposes. Derivative financial instruments are accounted for at fair value. Receivables from currency and interest swaps are offset against payables on currency and interest swaps in the Balance Sheet. Changes in the fair values of derivatives are recognised as a change in restricted net assets in the period of change and reported in Fair value gains (losses) in the Statement of Financial Activities.

In applying FRS 26 *Financial Instruments: Measurements*, IFFIm has elected not to apply hedge accounting.

Bonds Payable: Bonds Payable are initially recognised at fair value, and then subsequently re-measured at fair value at the reporting date. The bond issuance costs are written off in the year of issue and are reported in other resources expended as Finance charges in the Statement of Financial Activities.

Note 2 – Significant Accounting Policies- continued

Gains or losses due to changes in fair market values are reported in Fair value gains (losses) in the Statement of Financial Activities.

Resources Expended

Expenditure is recognised on an accruals basis as a liability is incurred.

Costs of Generating Funds: Fundraising costs of securing the sovereign grants are borne by GFA; the GAVI entity that receives these grants directly from each Sovereign donor and subsequently assigns them to IFFIm. Consequently, costs of generating funds comprise solely of the Treasurer Manager's fees for managing IFFIm's liquid funds that generate its investment income and for managing IFFIm's borrowings that generate the funds that IFFIm grants to the GFA for GAVI's immunisation and vaccine procurement programmes.

The bond issuance costs are presented as Finance charges in the Statement of Financial Activities.

Charitable Activities: Charitable expenditure comprises the direct costs of the immunisation and vaccine procurement grants that IFFIm makes to GFA. Grants payable are recognised when an indicative funding confirmation to GFA has been signed by the IFFIm Board of Directors.

Governance Costs: Governance costs include the expenditure associated with meeting the constitutional and statutory requirements of the charity and include audit fees, legal fees as well as the costs of providing strategic direction to the charity.

Note 3 – Contribution Revenue & Sovereign Pledges Due

Contributions Revenue: On 2 October 2006, the governments of the Republic of France, the Republic of Italy, the Kingdom of Norway, the Kingdom of Spain, the Kingdom of Sweden and the United Kingdom (the donors) entered into legally binding obligations to make scheduled grant payments to GFA over periods of up to 20 years. GFA assigned the right to receive these grant payments to IFFIm in consideration for IFFIm's agreement to assess for approval programmes of immunisation and vaccine procurement presented to IFFIm by GFA, and to use its reasonable endeavors to raise funds for such programmes if approved. IFFIm uses the proceeds of the assigned grant payments for the purpose of, inter alia, repaying principal and paying interest on the bonds issued by IFFIm. The details of the initial grant obligations entered into by the various donors are as follows:

Note 3 – Contribution Revenue & Sovereign Pledges Due – continued

| Donor | Obligations | Period of Payments | Initial Value 2-Oct-06 |
|--|----------------|-----------------------|------------------------------|
| Republic of France | € 372,800,000 | 15 years | \$ 474,052,480 |
| Republic of Italy | € 473,450,000 | 20 years | 602,039,020 |
| Kingdom of Norway | \$27,000,000 | 5 years | 27,000,000 |
| Kingdom of Spain | € 189,500,000 | 20 years | 240,968,200 |
| Kingdom of Sweden | 276,150,000 kr | 15 years | 37,899,894 |
| United Kingdom | £1,380,000,000 | 20 years | 2,594,538,000 |
| | | | 3,976,497,594 |
| <i>Less: Fair value adjustments (see methodology below):</i> | | | |
| | | | (1,169,482,685) |
| | | | (699,863,576) |
| | | | (1,869,346,261) |
| | | | \$ 2,107,151,333 |

Fair Value Methodology: At initial recognition, the fair values of the sovereign pledges were estimated using a discounted cash flow methodology. Each cash flow was reduced by several factors. Firstly, the payment was adjusted downward for an estimated amount due to the High Level Financing Condition (see explanation below). Then, reduced cash flows greater than one year were discounted to present value at donor specific risk free interest rates. Finally, foreign currency pledges were exchanged to USD at balance sheet rates at inception. At year end the fair value was adjusted based on the above methodology. All unrealised fair value movements from inception to year end have been charged to Fair value gains (losses) on the Statement of Financial Activities.

The High Level Financing Condition (HLFC): The IFFIm reference portfolio (see countries in below table) represents a subset of GAVI eligible countries that are members of the International Monetary Fund (IMF). Grant agreements allow donors to reduce their payments to the IFFIm by the aggregate percentage weights of countries that are in protracted arrears to the IMF. When countries clear their arrears to the IMF, future amounts payable by donors to the IFFIm are increased by the respective weights of those clearing countries. See table below for respective weightings.

The HLFC reduction is estimated using a probabilistic model of those countries projected to be in IMF arrears. The initial reduction rate based on the model was 17.6% at the time GFA assigned the grants to IFFIm. This was further increased to 17.8% at year end thereby resulting in further fair value adjustments to the sovereign pledges receivable balance. Actual donor payments made in 2006 included an actual deduction of 4% based on the actual protracted arrears to the IMF of Liberia, Somalia, Sudan and Zimbabwe. The difference between the initial estimated amount of 17.6% and the actual deduction by donors of 4% in 2006 was included in contribution revenue as a realised fair value gain.

Note 3 – Contribution Revenue & Sovereign Pledges Due – continued

The Reference Portfolio: The reference portfolio comprises 70 predetermined IFFIm eligible countries. Each recipient country has been given weights of 1%, 3% or 5%, comprising a total of 100% as shown in the table below. The final determination of each payment amount is made 25 business days (as measured by IBRD) prior to the due date of each donor payment.

Reference portfolio:

| Specified Country | Country Weighting | Total Share |
|--|-------------------|-------------|
| Afghanistan, Angola, Armenia, Azerbaijan, Benin, Bhutan, Bolivia, Burkina Faso, Burundi, Cambodia, Cameroon, Central African Republic, Chad, Comoros, Congo, Republic of Côte d'Ivoire, Djibouti, Eritrea, The Gambia, Georgia, Ghana, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Kenya, Kiribati, Kyrgyzstan, Lao PDR, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Moldova, Mongolia, Mozambique, Myanmar, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Timor-Leste, Togo, Uganda, Ukraine, Uzbekistan, Yemen Republic, Zambia, Zimbabwe | 1% | 62% |
| Vietnam | 3% | 3% |
| Bangladesh, Congo DR, Ethiopia, India, Indonesia, Nigeria, Pakistan | 5% | 35% |
| Total | | 100% |

As of 31 December 2006, Liberia, Somalia, Sudan and Zimbabwe were in protracted arrears to the IMF, amounting to a 4% reduction in pledge payments.

As a result of the above, the Contribution revenue recognised for 2006 was:

Contribution revenue:

| | |
|-------------------------------|-------------------------|
| Initial fair value of pledges | \$ 2,107,151,333 |
| Realised gain on HLFC & FX | 2,818,985 |
| | <u>\$ 2,109,970,318</u> |

Donated Services: In addition to contribution revenue, the IFFIm received donated services from the GAVI Fund. These items are recorded as both income and expense. For 2006, the amount of donated services was:

Donated services:

| | |
|--------------------------------------|---------------------|
| Trustees meeting and travel expenses | \$ 13,268 |
| Legal fees | 1,070,963 |
| | <u>\$ 1,084,231</u> |

Sovereign Pledges Due: IFFIm's sovereign pledges receivable, US\$2,149.3 million, represent grants from six sovereign governments. These legally binding payment obligations are irrevocable by the donors and will be paid in several installments in accordance with predetermined fixed payment schedules over the next 20 years.

Note 3 – Contribution Revenue & Sovereign Pledges Due - continued

The total amount payable by the donors to IFFIm over these 20 years will depend on the HLFC discussed above. The receivables, like the contribution revenue, are recognised upon assignment of the donor contributions to IFFIm by the GFA.

Fair value adjustments due to changes in interest rates, the HLFC, discounting and exchange rates were recognised from inception until year end. Details are as follows:

Sovereign pledges due

| | |
|----------------------------------|-------------------------|
| Initial fair value of pledges | \$ 2,107,151,333 |
| Realised gain on HLFC & FX | 2,818,985 |
| Total revenue recognised | 2,109,970,318 |
| Donor payments | (20,339,870) |
| Fair value movement (see Note 6) | 59,631,294 |
| | \$ 2,149,261,742 |
| | <hr/> <hr/> |
| Due within one year | 60,209,363 |
| Due after more than one year | 2,089,052,379 |
| | \$ 2,149,261,742 |
| | <hr/> <hr/> |

For the above sovereign pledges due as of 31 December 2006, discount rates ranging from 3.5% to 5% were applied (as appropriate) to the donors payments depending on the donor's risk free rate, payment schedule and currency of the grant payments. Foreign exchange translation gains were mostly driven by the increase in value of the British Pound (GBP) to the USD.

Note 6 below provides details on unrealised fair value losses from interest rate and currency swaps that are related to the sovereign pledges due.

Note 4 – Funds in Trust, Investment and Other Similar Income

Liquid assets of IFFIm are managed by IBRD, which maintains a single investment portfolio ("the Pool") for IFFIm, GFA and other trust funds administered by IBRD. IBRD maintains the Pool's assets separate and apart from the funds of the World Bank Group.

The Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and other eligibility requirements set by the IBRD. Under IFFIm's investment strategy approved by the IFFIm Board of Directors, IFFIm's liquid assets are invested in high-grade fixed-income instruments with interest rate sensitivity matching that of the liabilities funding the portfolio.

Funds in Trust, totalling US\$498.7 million comprised of pooled of investments such as money market instruments and asset backed securities. This amount represents IFFIm's allocated share of the Pool's fair value at 31 December 2006.

Note 4 – Funds in Trust, Investment and Other Similar Income - continued

The Pool's fair value is based on market quotations, where available. The corresponding proportionate realised gains/losses and investment income are accrued in the period in which they occur and are allocated to IFFIm on a daily basis. Such net gains totaled US\$3.5 million during the reporting period and are reported as investment income as well as changes to the restricted net assets.

The investment and other similar income for the period ended 31 December 2006 was:

| | |
|--|----------------------------|
| | <u>2006</u> |
| Bank account interest | \$ 13,225 |
| Income from Funds in Trust | 3,512,916 |
| Interest income realised from pledge swaps | 75,593 |
| Total Investment and Other Similar Income | \$ <u>3,601,734</u> |

Note 5 – Total Resources Expended

Administrative and Financial Management Support: Pursuant to the Finance Framework agreement entered into by IFFIm Company with the sovereign donors, The World Bank, The GAVI Fund and GFA, IFFIm Company may not have any employees and shall maintain a Treasury Manager at all times. In this regard, IFFIm Company has no employees but out sources all administrative support from The GAVI Fund and its treasury function together with accounting and financial reporting support from the World Bank.

Trustees' Expenses: Trustees are not remunerated. They are reimbursed for expenses for attending meetings and other functions directly related to their duties as trustee. In the period ended 31 December 2006 the Trustees were reimbursed for total expenses of US\$18,952 for travel, hotel expenses and subsistence. The charity also incurred trustee's professional indemnity insurance premium expenses amounting to US\$124,688.

The IFFIm Company
Notes to the Financial Statements
31 December 2006

Note 5 – Total Resources Expended - continued

Total resources expended comprised:

| | Treasury Manager's Fees | Finance Costs | Charitable activities | Governance | Total 2006 |
|---|-------------------------------|------------------|--------------------------|------------------|--------------------|
| Treasury Manager's fees | | | | | |
| Financial operations management | \$ 1,017,664 | | | | 1,017,664 |
| Investment management | 75,000 | | | | 75,000 |
| Donor pledges and IFFIm project | 810,600 | | | | 810,600 |
| Non-Country specific grants to the GFA: | | | | | |
| Yellow fever stockpile | | | 57,140,000 | | 57,140,000 |
| Measles mortality reduction | | | 139,000,000 | | 139,000,000 |
| Polio stockpile | | | 191,280,000 | | 191,280,000 |
| Maternal & neonatal tetanus elimination | | | 61,620,000 | | 61,620,000 |
| Country specific grants to GFA: | | | | | |
| Injection safety supplies | | | 1,235,018 | | 1,235,018 |
| Immunization services support | | | 61,962,851 | | 61,962,851 |
| New vaccine supplies | | | 167,802,131 | | 167,802,131 |
| UNICEF pentavalent vaccine multi-year 2007-10 procurement contract | | | 181,050,000 | | 181,050,000 |
| Consultancy fees | | | | 35,000 | 35,000 |
| Legal fees | | | | 1,122,423 | 1,122,423 |
| Trustees indemnity insurance premiums | | | | 124,688 | 124,688 |
| Auditors remuneration: | | | | | |
| Audit Fees: Statutory audit | | | | 80,000 | 80,000 |
| Other services pursuant to legislation: Overseas audit | | | | 210,000 | 210,000 |
| Trustees meeting and travel expenses | | | | 18,952 | 18,952 |
| Administrative support fee - The GAVI Fund | | | | 3,571 | 3,571 |
| Finance charges: | | | | | |
| Bond issuance costs written off | | 1,612,886 | | | 1,612,886 |
| Other finance costs | | 73 | | | 73 |
| Total resources expended | \$ 1,903,264 | 1,612,959 | 861,090,000 | 1,594,634 | 866,200,857 |

Note 6 – Fair value gains (losses)

Fair value gains/losses on pledges

| | |
|--|----------------------------|
| Unrealised fair value gains on pledges | \$ 59,631,294 |
| Net fair value losses on pledge swaps | (70,073,686) |
| | <u>(10,442,392)</u> |

Fair value gains (losses) on bonds

| | |
|-------------------------------------|---------------------------|
| Net fair value losses on bonds | (7,797,778) |
| Net fair value losses on bond swaps | (211,393) |
| | <u>(8,009,171)</u> |

Other unrealised FX gains

147,946

Total fair value gains/losses

\$ (18,303,617)

Note 7 – Liabilities Falling Due Within One Year

| | |
|--|------------------------------|
| | <u>2006</u> |
| Trade creditors | \$ 3,016,521 |
| Advances received on Pledges | 498,783 |
| Amounts due for currency and interest rate swaps | 71,965,237 |
| Amounts due to the GAVI Fund | <u>9,255</u> |
| Creditors falling due within one year | 75,489,796 |
| Grants payable to GFA | <u>336,340,715</u> |
| Total liabilities | \$ <u>411,830,511</u> |

Note 8 – Liabilities Falling Due After More than One Year

IFFIm borrows in worldwide capital markets offering its bonds to institutional investors to meet IFFIm's primary objective of funding GFA for GAVI immunisation and vaccine procurement programmes. IFFIm's inaugural bond of US\$1 billion was issued in November 2006 and as of 31 December 2006 IFFIm's outstanding bonds were as follows:

| | | | |
|--|------------------|-----------------|------------------------|
| | | | <u>2006</u> |
| | <i>Effective</i> | <i>Nominal</i> | <i>Fair value</i> |
| | <i>Interest</i> | | |
| 5% Notes maturing on November 14, 2011 | 5.04% | \$1,000,000,000 | \$1,006,957,778 |

Note 9 – Derivative Financial Statements

IFFIm enters into derivative contracts such as interest rate swaps and currency swaps which economically hedge certain of its risks as discussed below.

For financial reporting purposes, IFFIm elects not to define any qualifying hedge relationships as defined by FRS 25 and 26. In the financial statements, all derivatives are valued at fair value recognising the resulting realised and unrealised gains and losses in the Statement of Activities during the period in which they occur. During the reporting period, net losses in the fair values of derivatives totaled US\$70.3 million have been recognised as a change in restricted net assets under Fair value (gains) losses.

IFFIm's risk management is based on a risk management strategy approved by the IFFIm Board of Directors. In accordance with the strategy, all pledges and bond issuances are hedged into U.S. dollar on a floating-rate basis. To mitigate IFFIm's exposure to market risk, on 2 October 2006, upon the assignment of the donor contributions to IFFIm, IFFIm's sovereign ledges due were swapped into a zero-coupon floating U.S. dollar 3-month LIBOR basis.

The Treasury Manager executed four swaps, the purpose of which was to lock in the total present value of pledges. The locked-in value of the pledges was determined by: the then current market exchange and interest rates, different payment profiles in different grant currencies and assuming that the reduction amount due to the high-level financing condition (see Note 3) stays at its current level (4%) and that there are no donor defaults. U.S. dollar-denominated grant payments totaling about US\$10 million were not swapped as they were scheduled to be received within six months of signing and posed minimal interest rate exposure.

Note 9 – Derivative Financial Statements - continued

Also, at issuance, the IFFIm fixed rate bond obligation was swapped simultaneously on a back-to-back basis into U.S. dollar 3-month LIBOR, plain-vanilla floating-rate liabilities.

Losses recognised on derivative transactions during the period ended 31 December 2006 comprised:

| | <u>2006</u> |
|-----------------------------------|------------------------|
| Losses due to fair value changes: | |
| Bond swaps | \$ (211,393) |
| Pledge swaps | (70,073,686) |
| | <u>\$ (70,285,079)</u> |

The notional amounts and fair values of the interest rate and currency swaps as of 31 December 2006 are as follows:

| | <u>Notional amount</u> | <u>2006 Fair Value of Instruments</u> |
|--|------------------------|---------------------------------------|
| Currency and interest rate swaps related to pledge receivables | \$ 3,945,182,842 | (69,913,844) |
| Interest rate swaps related to bonds payable | 1,000,000,000 | (2,051,393) |
| | | <u>\$ (71,965,237)</u> |

Note 10 – Fair Value of Financial Investments

The fair value of the financial assets recognised by IFFIm as at 31 December 2006 for items that are re-measured on a recurring basis are as follows:

| | <u>2006</u> | <u>Fair value measurements as of 31 December 2006 using:</u> | |
|-------------------------|-------------------------|---|---|
| | | active market prices or estimated using a valuation technique | a valuation technique not supported by observable market prices |
| Financial Assets | | | |
| Funds in Trust | \$ 498,681,672 | 498,681,672 | - |
| Sovereign Pledges | 2,149,261,742 | - | 2,149,261,742 |
| Total | <u>\$ 2,647,943,414</u> | <u>498,681,672</u> | <u>2,149,261,742</u> |

Note 10 – Fair Value of Financial Investments - continued

The fair value of the financial liabilities recognised by IFFIm as at 31 December 2006 for items that are re-measured on a recurring basis are as follows:

| | <i>Fair value measurements as of 31 December 2006 using:</i> | |
|---|--|--|
| | <u>2006</u> | <u>active market prices or estimated using a valuation technique</u> |
| Financial Liabilities | | |
| Bonds Payable | \$ 1,006,957,778 | 1,006,957,778 |
| Payable for currency and interest swaps | 71,965,237 | 71,965,237 |
| Total | \$ <u>1,078,923,015</u> | <u>1,078,923,015</u> |

Funds in Trust: Treasury Manager maintains the investments on a pooled accounting basis and the pooled investments are reported at fair value. IFFIm's share in pooled cash and investments represents the IFFIm's allocated share of the Pool's fair value at the end of the reporting period. The fair value is based on market quotations where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The corresponding proportionate interest income and investment gains/losses accrue to the IFFIm in the period in which they occur.

Sovereign Pledges Receivable: Fair values are estimated using a discounted cash flow method. Each cash flow is reduced by an estimated reduction amount due to the high-level financing condition and the reduced cash flows are discounted to present value at donor specific risk free interest rates. The reduction amount is estimated by a probabilistic model yielding a reduction of 17.8% as of 31 December 2006. For more details please refer to Note 3.

Bonds Payable: The fair value of borrowings is based on market quotations and it includes accrued interest.

Derivative Financial Instruments: The fair values of derivatives are estimated using a discounted cash flow method representing the estimated cost of replacing these contracts on that date.

Other Assets and Liabilities: These amounts are short-term in nature and the carrying value is therefore deemed a reasonable estimate of fair value.

Note 11 – Movement of Funds

| | At Incorporation | Incoming Resources | Outgoing Resources | At 31 December 2006 |
|--|---------------------|-----------------------|-----------------------|---------------------------|
| Restricted Funds | | | | |
| Donor grants assigned to GFA | \$ - | 2,110,032,814 | (4,089,124) | 2,105,943,691 |
| Investment and other similar income | - | 3,601,734 | - | 3,601,734 |
| Fair value gains (losses) | | | (18,303,617) | (18,303,617) |
| Donated Services: | | | | |
| Trustee board meeting costs | - | 13,269 | (13,269) | - |
| Legal fees | - | 1,070,963 | (1,070,963) | - |
| Programme funding to the GFA | - | - | - | - |
| Yellow Fever Stockpile | - | - | (57,140,000) | (57,140,000) |
| Measles Mortality Reduction | - | - | (139,000,000) | (139,000,000) |
| Polio Stockpile | - | - | (191,280,000) | (191,280,000) |
| Maternal Neonatal Tetanus elimination | - | - | (61,620,000) | (61,620,000) |
| Country specific programs | - | - | (231,000,000) | (231,000,000) |
| Pentavalent Vaccine multi-year procurement | - | - | (181,050,000) | (181,050,000) |
| Total Restricted Funds | \$ - | 2,114,718,780 | (884,566,971) | 1,230,151,809 |

Note 12 – Risk Management

IFFIm governs its core financial risks in accordance with the strategies approved by the IFFIm Board of Directors and as discussed below.

Interest rate and currency risk - IFFIm is exposed to currency and interest rate risks due to currency mismatches and timing differences between receipt of donor payments, payment of bond obligations and disbursements to GFA. To mitigate these risks, donor payments are swapped into zero-coupon floating US dollar basis and at issuance IFFIm bonds are swapped on a back-to-back basis into US dollar, plain-vanilla floating-rate liabilities, as outlined in Note 9.

Credit risk - Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. IFFIm is exposed to donor credit risk and also indirectly to recipient country credit risk embodied in the HLFC (please refer to Note 3). Along with liquidity risk these risks are managed through a gearing ratio limit, monitored by the Treasury Manager. IBRD manages IFFIm's credit risk related to its derivative contracts by serving as the counterparty for all IFFIm's swaps.

To manage credit risk related to investments, IBRD invests the pooled assets in liquid instruments such as money market deposits, government and agency obligations.

IBRD is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or

Note 12 – Risk Management - continued

instrumentality of a government, a multilateral organisation or any other official entity require a minimum credit rating of AA-.

Liquidity risk - Under its liquidity policy, IFFIm maintains a minimum level of liquid assets equivalent to its cumulative contracted debt service payments for the next 12-month period. Also please refer to Note 4 regarding IFFIm's investments and related risk management strategies.

Note 13 – Commitment and Contingencies

There are no known commitments or contingencies as of 31 December 2006.

Note 14 – Related Party Transactions

The related party transactions are as follows:

| | |
|--|---------------------------|
| ▪ Assignment of donor pledges amounting by GFA to IFFIm pursuant to the Finance Framework Agreement and subsequently recognised at fair value. See Note 3. | |
| ▪ Payable to GFA | |
| Programme grants approved as per Indicative Funding Confirmation | \$ 861,090,000 |
| Less: Paid to GFA | <u>524,749,285</u> |
| Balance Programme grants payable to GFA | <u><u>336,340,715</u></u> |
| ▪ Accounts payable to the GAVI Fund | <u>\$ 9,255</u> |
| ▪ Donated services received from the GAVI Fund | <u>\$ 1,084,231</u> |
| ▪ Administrative support fee due to the GAVI Fund | <u>\$ 3,571</u> |

Balances due to or due from related parties are non-interest bearing and do not have specific terms of repayment.

Note 15 – Current Tax

IFFIm is a registered UK charity, and, as such, is potentially exempt from UK taxation of income and gains falling within s505 Income and Corporation Taxes Act 1988 and s256 Taxation of Chargeable Gains Act 1992. No tax charge has arisen in the period.

Note 16 – Notes to the Cash Flow Statement

Reconciliation of net movement in funds to net cash outflows from operations.

| | |
|---|-------------------------|
| Net Income for the period | \$ 1,230,151,809 |
| Increase in Sovereign Pledges | (2,107,151,333) |
| Net Fair Value losses | 18,303,617 |
| Other unrealised gains | 147,946 |
| Forex & swap gains realised | 1,680,158 |
| Increase in donors payment | 20,339,869 |
| Increase in realised gain on HLFC | (2,818,984) |
| Increase in Prepaid Expenses | (497,974) |
| Increase in Creditors | 3,016,521 |
| Increase in advances received on pledges | 498,783 |
| Due to GAVI Fund | 9,255 |
| Funding commitment to GAVI Fund Affiliate | 336,340,715 |
| Net cash outflow from operating activities | \$ (499,979,618) |

Analysis of changes in net debt:

| | At Incorporation | Cash Flows | Foreign Exchange Movements | Fair Value Movements | Fair Value 31-Dec-06 |
|---------------------|---------------------|----------------------|----------------------------------|----------------------------|-------------------------|
| Cash at bank | \$ - | 328,934 | 169,776 | - | 498,710 |
| Bonds payable | - | (999,160,000) | - | (7,797,778) | (1,006,957,778) |
| Funds held in trust | - | 498,681,672 | - | - | 498,681,672 |
| Total | \$ - | (500,149,394) | 169,776 | (7,797,778) | (507,777,396) |

Reconciliation of net cash flow to movement in net debt:

| | <u>2006</u> |
|---|-------------------------|
| Increase in cash in the period | \$ 498,710 |
| Cash inflow from debt issuance | (999,160,000) |
| Cash outflow from increase in Funds held in trust | 498,681,672 |
| Change in net debt resulting from cash flows | (499,979,618) |
| Fair value loss on bonds | (7,797,778) |
| Net debt at date of incorporation | - |
| Net debt at 31 December 2006 | \$ (507,777,396) |

Note 17 – Subsequent Events

On 16 March 2007, the GAVI Fund Affiliate assigned its right to receive US\$20 million in contributions over 20 years from the Republic of South Africa to IFFIm Company in consideration for IFFIm Company's agreement to assess for approval programmes presented to IFFIm by GFA and to use its reasonable endeavours to raise funds for such programmes if approved.

In December 2006, the Republic of France announced their intent to authorise up to an additional €20 million contribution over 20 years to the GAVI Fund Affiliate. This contribution to GFA will be assigned to IFFIm Company upon signing the grant agreement with the Republic of France.