The International Finance Facility for Immunisation[1]

Report of the Trustees and Financial Statements

For the year ended 31 December 2007

[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.

INTERNATIONAL FINANCE FACILITY FOR IMMUNISATION COMPANY
REPORT OF THE TRUSTEES AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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International Finance Facility for Immunisation Company
Report of the Trustees
For the year ended 31 December 2007

The trustees are pleased to present their report with the financial statements of the charity for the calendar year 2007.

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
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London EC1Y 8BB

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Auditors:

Deloitte & Touche LLP
2 New Street Square
London EC4 3BZ

Treasury Manager:

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

Company registration number:

5857343

Charity registration number:

1115413

The International Finance Facility for Immunisation Company (**"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, limited by guarantee, 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 at 31 December 2007, the Grantors were the Republic of France, the Republic of Italy, the Kingdom of Norway, the Republic of South Africa, 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, health system strengthening, 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 Programme or may borrow under certain loan facilities. These funds are disbursed by IFFIm to the GFA, which subsequently uses them to support immunisation, health system strengthening, and/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 at 31 December 2007, IFFIm had raised funds through one bond issue, with a principal amount of USD 1 billion, and had disbursed a total of USD 953 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 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 at 31 December 2007, the prudential minimum was estimated at approximately USD 49 million and the value of IFFIm's liquid assets was USD 98 million. As at 31 December 2006, the 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 Programme has been rated triple-A by each of Fitch Ratings, Moody's Investor Service and Standard & Poor's.

IFFIm's Financial Base

As at 31 December 2007, IFFIm's financial base consisted of irrevocable and legally binding grants from seven Sovereign Grantors, and the aggregate net present value of the grants, after year end fair value adjustment (see Financial Statements, Note 3), was USD 2,977 million. During 2007, two new grants were received, as indicated below.

The following grants have been made effective (expressed as nominal amounts):

Donor	Total Obligations	Grant Date	Period of Payments
Republic of France[1]	EUR 867,160,000	7 December 2007	19 years
Republic of France[2]	EUR 372,800,000	2 October 2006	15 years
Republic of Italy	EUR 473,450,000	2 October 2006	20 years
Kingdom of Norway	USD 27,000,000	2 October 2006	5 years
Republic of South Africa	USD 20,000,000	13 March 2007	19 years
Kingdom of Spain	EUR 189,500,000	2 October 2006	20 years
Kingdom of Sweden	SKr 276,150,000	2 October 2006	15 years
United Kingdom	GBP 1,380,000,000	2 October 2006	20 years

The Grantors have agreed to pay the grants in several instalments, in accordance with fixed payment schedules. IFFIm received aggregate payments from the Grantors totalling USD 20 million during 2006 and USD 73 million during 2007.

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 (such condition, the "Grant Payment Condition"). 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 x C, where:

A is the Reduction Amount;

[1] Acting through the Ministre des Finances de l'Économie et de l'Emploi.

[2] Acting through Agence Française de Devéloppement.

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		100%

As at 31 December 2007, Liberia, Somalia, Sudan and Zimbabwe were in protracted arrears to the IMF. Thus, the Reduction Amount was 4% (the same as it was as at 31 December 2006 – See note 3). In March, 2008, the IMF announced that Liberia had cleared its 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, health systems strengthening and vaccine procurement programmes for which IFFIm provides funding.

The trustees (who are also the directors of IFFIm for the purposes of company law) are responsible for the management, strategic direction and policies of the charity, and monitoring of functions outsourced to the GAVI Fund and the World Bank. As at 31 December 2007, the directors of IFFIm, and their principal positions outside of IFFIm, were:

- Alan R. Gillespie (Chairman of the IFFIm Board): Chairman, Ulster Bank Group, Northern Ireland, a member of the Royal Bank of Scotland (United Kingdom)
- Michèle Boccoz: Director of International Communications, Veolia Environnement (France)
- John Cummins: Group Treasurer, Royal Bank of Scotland (United Kingdom)
- Dayanath Jayasuriya: Attorney-at-Law and Visiting Professor of Law, University of the Free State, South Africa. (Singapore); and
- Arunma Oteh: Vice President, Corporate Management, African Development Bank, Tunis (Tunisia).

No trustees were replaced or added in 2007. 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 IFFIm. Induction procedures introduce trustees to the specifics of IFFIm's 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 including the Bill & Melinda Gates Foundation, UNICEF, the World Bank, 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 ("GAVI Secretariat"), 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 charitable 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 IFFIm. The assignment is in consideration of the IFFIm's undertaking to raise funds for GAVI Alliance immunisation, health systems strengthening 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 by three major agencies, 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 prioritise 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, health systems strengthening 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 there under; 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, health systems strengthening 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 IFFIm 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 by 2015, employing new and underutilised vaccines, targeted immunisation campaigns, and the strengthening of health and immunisation services in GAVI's target countries.

IFFIm's objectives 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 2007

Funding

IFFIm did not enter into any borrowing transactions during 2007. After the inaugural issuance in 2006, the IFFIm had net proceeds of $999 million. Of this amount, $953 million or 95% was disbursed in 2006 and 2007 (see Approved Programme table, next section). The net proceeds of the bond issuance are outlined below.

Initial Bond Proceeds	**$**	**1,000,000,000**
Less: Discount on Bond	$	(840,000)
Net Bond proceeds	$	999,160,000
Less: Bond Issuance Costs	$	(1,000,000)
Less: Other Financing Costs	$	(612,959)
Cash Inflows from Bonds	$	997,547,041
Disbursements for Approved Programmes	$	(953,018,151)
Net remaining bond proceeds before operating expenses	$	44,528,890
Balance due on remaining programmes to GFA to be paid in 2008	*$*	*94,124,561*

Disbursements to the GAVI Fund Affiliate

In 2006 and 2007, IFFIm approved total, aggregate disbursements to the GAVI Fund Affiliate in the amount of USD 1,047 million and actually disbursed USD 953 million. The following table sets out the immunisation, health systems strengthening and vaccine procurement programmes approved by IFFIm during 2006 and 2007 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 from IFFIm to GFA (USD)			Programme Payments made by GFA (USD)		
	2006	2007	Total	2006	2007	Total	2006	2007	Total
Yellow fever stockpile	57,140,000	0	57,140,000	17,297,000	39,840,000	57,137,000		44,616,096	44,616,096
Polio vaccine eradication	191,280,000	0	191,280,000	124,840,000	66,440,000	191,280,000		191,280,000	191,280,000
Measles mortality reduction	139,000,000	0	139,000,000	100,000,000	39,000,000	139,000,000		139,000,000	139,000,000
Maternal & neonatal tetanus elimination	61,620,000	0	61,620,000	41,562,285	11,300,000	52,862,285		49,990,083	49,990,083
Country specific programmes	231,000,000	72,440,159	303,440,159	60,000,000	158,137,063	218,137,063	47,906,730	116,366,444	164,273,174
Pentavalent procurement guarantee	181,050,000	0	181,050,000	181,050,000	0	181,050,000	181,050,000		181,050,000
Health System Strengthening	0	113,612,553	113,612,553	0	113,551,803	113,551,803		88,284,303	88,284,303
Total (USD)	**861,090,000**	**186,052,712**	**1,047,142,712**	**524,749,285**	**428,268,866**	**953,018,151**	**228,956,730**	**629,536,926**	**858,493,656**

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.

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.

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 initiative is to support efforts to eliminate maternal and neonatal tetanus in GAVI Fund eligible countries. Activities include catch up campaigns to immunise women in high-risk areas against tetanus toxoid. Then there will be an establishment of a system of quarterly "pulse" immunisation. This project seeks to prevent an additional 206,000 to 317,000 deaths over 15 years.

Country Specific Programmes: These are GAVI's traditional core programmes, and are briefly described below:

> **Immmunisation Services Support** ("ISS"), is financial support provided to national governments for the development of their immunisation services. Further details may be found at:
> http://www.gavialliance.org/support/what/iss/index.php
>
> **New Vaccine Support,** ("NVS") provides vaccines and associated injection equipment to countries that meet certain immunisation coverage criteria, as well as the specific conditions for the type of vaccine requested. These conditions relate to the use of a specific antigen in relation to the disease burden it is designed to prevent. The vaccines currently supported by GAVI are: Hepatitis B, *Haemophilus influenza* type b, Yellow Fever, Pneumococcal vaccine, Rotavirus vaccine, and Measles second dose vaccine. Further details may be found at:
> http://www.gavialliance.org/vision/policies/new_vaccines/index.php
>
> **Injection Safety Support** ("INS") is to provide first-time safe injection and waste disposal supplies for routine immunisation to those countries that have not yet received them. Further details may be found at:
> http://www.gavialliance.org/support/what/ins/index.php

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.

Health System Strengthening (HSS). The objective of GAVI health system strengthening support is to achieve and sustain increased immunisation coverage, through strengthening the capacity of the health system to provide immunisation and other health services. Countries are encouraged to use GAVI health system strengthening funding to target the “bottlenecks” or barriers in the health system that make it difficult to improve the provision of, and demand for, immunisation and other child and maternal health services. Further details may be found at: http://www.gavialliance.org/support/what/hss/index.php

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 and second risks are reduced through the management control environment put in place by the GAVI Fund, and by financial and management controls put in place at both the IBRD and the GAVI Fund, which restrict the IFFIm funds disbursement process.

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, as described below:

> **GAVI Alliance Monitoring and Evaluation Procedure**
>
> **Initial Application**
> Requests for GAVI support must be made by governments of eligible countries. Proposals will be developed in collaboration with each country’s interagency coordinating committee and / or health sector coordination committee, depending on the type of support requested.
>
> Following submission, proposals are screened by the GAVI Secretariat for eligibility and completeness. Thereafter, each proposal is pre-assessed by a WHO expert group which looks at consistency of information, validity of data and conformity with the health sector plan. Written feedback is provided to the Independent Review Committee (“IRC”) for use in considering proposals. If recommended for approval by the IRC, the proposal is forwarded to the GAVI Alliance Board for approval.

Annual Progress Reporting
After initial approval, continued GAVI support is subject to strict performance monitoring that is designed to track progress achieved in the previous year, to declare planned targets for the following year, and to verify the sustainability of existing financing mechanisms. There are three main activities that make up the GAVI monitoring process, each of which is described in the sections that follow:

The annual progress report is submitted annually together with the WHO/UNICEF Joint Reporting Form. The Joint Reporting Form, which is an annual global monitoring requirement of WHO and UNICEF, provides a measure of progress against a set of standard performance and quality indicators. Together, the annual progress report and the Joint Reporting Form provide a comprehensive picture of progress over time, attainment of annual targets, and related requests for further GAVI support.

The annual progress report is designed to provide detailed information on:

- achievements in relation to targets during the previous calendar year;
- receipt and use of GAVI funds received in the previous calendar year;
- problems or constraints faced whilst utilising GAVI support;
- status and sustainability of financing mechanisms;
- requests for new and underused vaccines for the forthcoming year, taking into account remaining stocks in the country;
- progress against stated objectives since submission of the previous annual progress report.

Once the annual progress report has been finalised with the inputs of the regional working group and in-country partners, it should be signed by the government and other members of the interagency coordinating committee. This signifies the involvement of the external partners in the monitoring and reporting process.

The Independent Review Committee reviews each annual progress report, making technical comments and suggestions, and recommends continuation or suspension of support to the country.

Data Quality Auditing
GAVI requires that countries receiving its immunisation services support conduct a data quality audit during the second year of GAVI support. An external audit team is engaged to review records and reports from a specified number of locations at the district and national level of the system, according to the standard WHO procedure for data quality audits.

Further details on GAVI's monitoring and evaluation procedures may be found at:
http://www.gavialliance.org/support/how/guidelines/index.php

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.

Market risk

In accordance with IFFIm's risk management strategy, donor pledges and borrowings not denominated in U.S. dollars are hedged into U.S. dollars on a floating-rate basis. On 2 October 2006 and on 7 December 2007, 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 swap agreements 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 at 31 December 2007 were as follows:

	2007 **Notional amount**	**2007** **Fair Value**	**2006** **Notional amount**	**2006** **Fair Value**
Currency and interest rate swaps related to contributions receivable	$5,285,337,817	$ (143,933,988)	$3,945,182,842	$ (69,913,844)
Interest rate swaps related to borrowings	$1,000,000,000	37,171,152	$1,000,000,000	(2,051,393)
Total payable for derivatives		$ (106,762,836)		$ (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 at 31 December 2007, IFFIm's gearing ratio stood at approximately 28.4%, as against a gearing ratio limit of 70.9%. 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, however as at 31 December 2007, 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 deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A- by major rating agencies and have a maximum maturity of six months.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- by major rating agencies if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organisation or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities, Asset-backed securities and corporate securities: minimum rating must be AAA.

	Credit Rating		2007		2006
Money Market Instruments	A- to AAA	$	84,169,245	$	423,272,579
Government and Agency Obligations	Minimum AA-		-		-
Corporate and Asset-backed Securities	Minimum AAA		12,351,254		75,409,093
		$	**96,520,499**	$	**498,681,672**

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 at 31 December 2007, the prudential minimum was estimated at approximately USD 49 million and the value of IFFIm's liquid assets was USD 98 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 at 31 December 2007, the value of IFFIm's liquid assets was USD 98 million, which amount represents IFFIm's allocated share of the Pool's fair value as at such date.

Recent Developments

At a joint meeting on 26 February 2008, the Boards of the GAVI Alliance and the GAVI Fund agreed in principle to centralise governance and operations of the two entities within the GAVI Alliance. The joint Boards also decided to reorganise the GAVI Alliance as a foundation under Swiss law. The GAVI Alliance is applying for recognition as an "international institution" under the Swiss Host State Act which entered into force on 1 January 2008. If so recognised, the GAVI Alliance would benefit from broad privileges and immunities within Switzerland. Upon completion of any such reorganisation, the sole member of IFFIm would change from the GAVI Fund to the GAVI Alliance Foundation, a charitable entity organised under the laws of Switzerland. Also, this reorganisation will require an amendment to the IFFIm governing documents (the Finance Framework Agreement and the Procedures Memorandum) because the process for approving programmes within GAVI and requesting funding from IFFIm will change modestly, with the process being streamlined into the GAVI Alliance Foundation. The GAVI Alliance will likely maintain a US presence focusing on US private fundraising and related outreach.

In March 2008, IFFIm approved GFA's request for funding of $276,297,000 for programme expenditures. In March 2008, IFFIm also made its debut offering in the Japanese retail market. A bond with a principal value of ZAR 1.7 billion was issued to fund these and other programme expenditures. (The bond pays a fixed annual coupon of 9.90% per annum and matures on 18 March 2010.

In June 2008, IFFIm approved GFA's request for funding of $168,108,000 for programme expenditures.

Further information on GAVI's activities, and IFFIm's role within the GAVI 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 or she is aware, there is no relevant audit information of which IFFIm's auditors are unaware; and
- he or she has taken all the steps that he ought to have taken as a director in order to make him or her aware of any relevant audit information and to establish that IFFIm'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

In 2007, Deloitte & Touche LLP were reappointed as IFFIm's auditors.

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 19 June 2008 and signed on their behalf by:

/s/ Alan R. Gillespie

Alan R. Gillespie (Chairman)

23 June 2008.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE IFFIm COMPANY

We have audited the financial statements of the IFFIm Company ("IFFIm") for the year ended 31 December, 2007 which comprise the Income and Expenditure Account, Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement 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 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 Responsibilities of the Trustees.

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 2007 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
23 June 2008

IFFIm
Statement of Income & Expenditure
For the Year ended 31 December 2007

In U.S. dollars	Notes		31 December 2007 Restricted Funds		26 June 2006 *(date of incorporation)* to 31 December 2006 Restricted Funds
Turnover					
Contribution revenue	3	**$**	679,708,567	**$**	2,109,970,318
			679,708,567		**2,109,970,318**
Operating expenses					
Programme grants to the GAVI Fund Affiliate	5		186,052,712		861,090,000
Treasury manager's fees	5		1,297,763		1,903,264
Governance costs	5		2,160,388		1,594,634
Operating expenses			**189,510,863**		**864,587,898**
Other operating income					
Donated services	3		104,584		1,084,231
Operating profit			490,302,288		1,246,466,651
Other interest receivable and similar income					
Investment and interest income	4		16,674,914		3,601,734
Interest payable and similar charges					
Net fair value gains (losses) on pledges & pledge swaps	6		140,321,837		(10,442,392)
Net fair value gains (losses) on bonds & bond swaps	6		83,305		(1,481,393)
Other unrealised FX gains	6		462,548		147,946
Interest expense and financing charges	5		(50,245,293)		(8,140,737)
			90,622,397		**(19,916,576)**
Surplus for year		**$**	**597,599,599**	**$**	**1,230,151,809**

All results are derived from continuing operations. There are no other recognised gains or losses for the year. Accordingly, no Statement of Total Recognised Gains and Losses has been prepared.

The accompanying notes are an integral part of these financial statements

IFFIm
Statement of Financial Activities (including Income & Expenditure Account)
For the Year ended 31 December 2007

In U.S. dollars	Notes		31 December 2007 Restricted Funds		26 June 2006 *(date of incorporation)* to 31 December 2006 Restricted Funds
Incoming resources					
Incoming resources from generated funds:					
Voluntary income:					
Contribution revenue	3	$	679,708,567	$	2,109,970,318
Donated services	3		104,584		1,084,231
			679,813,151		2,111,054,549
Investment and other similar income	4		16,674,914		3,601,734
Total Incoming Resources			**696,488,065**		**2,114,656,283**
Resources expended					
Cost of generating funds					
Treasury manager's fees	5		1,297,763		1,903,264
Interest expense and finance charges	5		50,245,293		8,140,737
Charitable activities	5		186,052,712		861,090,000
Governance costs	5		2,160,388		1,594,634
Total Resources Expended			**239,756,156**		**872,728,635**
Fair value gains (losses)	6		140,867,690		(11,775,839)
Net Incoming Resources (Net Income)			**597,599,599**		**1,230,151,809**
Net Movement in Funds			**597,599,599**		**1,230,151,809**
Reconciliation of Funds					
Total Funds brought forward			1,230,151,809		-
Total Funds Carried Forward		$	**1,827,751,408**	$	**1,230,151,809**

The accompanying notes are an integral part of these financial statements

All incoming resources and resources expended derive from continuing operations.

IFFIm
Balance Sheet as at 31 December 2007

In U.S. dollars	Notes		31 December 2007 Restricted Funds		26 June 2006 *(date of incorporation)* to 31 December 2006 Restricted Funds
Current Assets					
Sovereign pledges due within one year	3	$	127,048,491	$	60,209,363
Sovereign pledges due after more than one year	3		2,849,779,702		2,089,052,379
Total sovereign pledges			**2,976,828,193**		**2,149,261,742**
Funds held in trust	4		96,520,499		498,681,672
Prepayments			469,441		497,974
Cash			667,334		498,710
			3,074,485,467		**2,648,940,098**
Liabilities					
Creditors falling due within one year	7		109,531,720		75,489,796
Grants payable to GAVI Fund Affiliate	7		94,124,561		336,340,715
			203,656,281		**411,830,511**
Total assets less current liabilities			**2,870,829,186**		**2,237,109,587**
Liabilities falling due after more than one year	8		1,043,077,778		1,006,957,778
Net Assets			**1,827,751,408**		**1,230,151,809**
Restricted Funds					
General funds			1,827,751,408		1,230,151,809
Total Funds		**$**	**1,827,751,408**	**$**	**1,230,151,809**

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
23 June 2008

IFFIm
Cash Flow Statement for the Year ended 31 December 2007

In U.S. dollars	Notes		31 December 2007		26 June 2006 *(date of incorporation)* to 31 December 2006
Net Cash Outflows from Operating Activities	16	$	(418,667,463)	$	(503,581,352)
Returns on Investments and Servicing of Financing					
Interest and other similar income	4		16,674,914		3,601,734
Management of Liquid Resources					
Funds held in trust:					
Sale (purchase) of investments			402,161,173		(498,681,672)
Net Cash Inflow (Outflow) before financing			**168,624**		**(998,661,290)**
Financing					
Proceeds from bond issuance			-		999,160,000
Net Cash Inflow			**-**		**999,160,000**
Net change in cash			168,624		498,710
Cash at the beginning of the year			498,710		-
Cash at the end of the year		$	**667,334**	$	**498,710**

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

Note 1 – Nature of Operations and Affiliations

The International Finance Facility for Immunisation Company ("IFFIm") 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 GAVI 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 26 *Financial Instruments: Measurements* and FRS 29 *Financial Instruments: Disclosure*. 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 revenue 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. (See Note 3 for more details on revenue calculation and recognition of pledges.)

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 and IFFIm. IFFIm is allocated a percentage of the fundraising costs with the assignment of the pledges, which IFFIm now owns the donor relationship. 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 a member of IFFIm's Board of Directors on behalf of the Board.

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.

Liquid Resources

IFFIm designated asset-backed and money market instruments are liquid resources in accordance with IFFIm policy of holding liquid resources.

Basis of Presentation

The Statement of Income & Expenditure is based on the accounting policies presented above and financial information in the Statement of Financial Activities in another format.

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. In 2007, the Republic of France authorised an additional €867,160,000 contribution to GFA over 19 years and the Republic of South Africa entered into a legally binding grant agreement to contribute US$20,000,000 to the GFA over 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 endeavours 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 2007	Initial Value 2006
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	SEK	276,150,000	15 years		-	37,899,894
United Kingdom	£	1,380,000,000	20 years		-	2,594,538,000
Republic of France	€	867,160,000	19 years		1,276,242,730	-
Republic of South Africa	$	20,000,000	20 years		20,000,000	-
					1,296,242,730	**3,976,497,594**
<u>Less: Fair value adjustments (see methodology below):</u>						
Present value discount of pledges due in more than 1 year					(416,589,642)	(1,169,482,685)
Grant payment condition (see note below)					(212,630,808)	(699,863,576)
					(629,220,450)	**(1,869,346,261)**
		Fair value of pledges		**$**	**667,022,280**	**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 Grant Payment 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 Grant Payment Condition ("GPC"): IFFIm's 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 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 IFFIm are increased by the respective weights of those clearing countries. See table below for respective weightings.

The GPC 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 (2 October 2006). This was further increased to 17.8% at 31 December 2006 thereby resulting in further fair value adjustments to the sovereign pledges receivable balance. In 2007, the rate fell to 16.3%. Actual donor payments made in 2007 and 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 and the actual deduction in 2007 and 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 at 31 December 2007 and 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 was:

		2007	*2006*
Contribution revenue:			
Initial fair value of pledges	$	667,022,280	2,107,151,333
Realised gain on GPC & FX		12,686,287	2,818,985
	$	**679,708,567**	**2,109,970,318**

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

		2007	*2006*
Donated services:			
Trustees meeting and travel expenses	$	17,156	13,268
Fundraising expenses		87,428	1,070,963
	$	**104,584**	**1,084,231**

Sovereign Pledges Due: IFFIm's sovereign pledges receivable, US$2,976.8 million in 2007 and US$2,149.3 million in 2006, represent grants from sovereign governments. These legally

Note 3 – Contribution Revenue & Sovereign Pledges Due - continued

binding payment obligations are irrevocable by the donors and will be paid in several installments in accordance with predetermined fixed payment schedules over 20 years.

The total amount payable by the donors to IFFIm over these 20 years will depend on the GPC 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 GPC, discounting and exchange rates were recognised from inception until year end. Details are as follows:

		2007	*2006*
Sovereign pledges due			
Beginning balance	$	**2,149,261,742**	**-**
Fair value of pledges		667,022,280	2,107,151,333
Realised gain on HLFC & FX		12,686,287	2,818,985
Total revenue recognised		**679,708,567**	**2,109,970,318**
Donor payments		(72,792,665)	(20,339,870)
FX movement		86,178,631	-
Fair value movement (see Note 6)		134,471,918	59,631,294
		2,976,828,193	**2,149,261,742**
Due within one year		127,048,491	60,209,363
Due after more than one year		2,849,779,702	2,089,052,379
	$	**2,976,828,193**	**2,149,261,742**

For the above sovereign pledges due as at 31 December 2007 and 2006, discount rates ranging from 3.6% to 6.5% in 2007 and 3.5% to 5% in 2006 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 IFFIm's 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.

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

Funds in Trust, totaling US$96.5 million in 2007 and US$498.7 million in 2006, are comprised of a pool of investments such as money market instruments and asset backed securities. These amounts represent IFFIm's allocated share of the Pool's fair value at 31 December 2007 and 2006.

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$14.3 million in 2007 and US$3.5 million in 2006 during the reporting period and are reported as investment income as well as changes to the restricted net assets.

Investment and other similar income were:

		2007	*2006*
Bank account interest	**$**	114,585	13,225
Income from Funds in Trust		14,302,575	3,512,916
Interest income realised from pledge swaps		2,257,754	75,593
Total investment and other similar income	**$**	**16,674,914**	**3,601,734**

Note 5 – Total Resources Expended

Administrative and Financial Management Support: Pursuant to the Finance Framework Agreement entered into by IFFIm with the sovereign donors, the World Bank, the GAVI Fund and GFA, IFFIm may not have any employees and shall maintain a Treasury Manager at all times. In this regard, IFFIm has no employees but outsources 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. Trustees were reimbursed for total expenses of US$129,674 in 2007 and US$18,952 in 2006 for travel, hotel expenses and subsistence. The charity also incurred trustee's professional indemnity insurance premium expenses amounting to US$504,293 in 2007 and US$124,688 in 2006.

Note 5 – Total Resources Expended – continued

		Cost of generating funds	Finance Costs	Charitable activities	Governance	Total 2007
Treasury Manager's fees						
Financial operations management	$	1,021,136	-	-	-	1,021,136
Investment management		121,479	-	-	-	121,479
Donor pledges and IFFIm project		155,148	-	-	-	155,148
Non-Country specific grants to the GFA:		-	-	-	-	-
Yellow fever stockpile		-	-	-	-	-
Measles mortality reduction		-	-	-	-	-
Polio eradication		-	-	-	-	-
Maternal & neonatal tetanus elimination		-	-	-	-	-
Country specific grants to GFA:		-	-	-	-	-
Immunisation services support		-	-	105,980,004	-	105,980,004
Injection safety supplies		-	-	1,103,750	-	1,103,750
New vaccine supplies		-	-	78,968,958	-	78,968,958
UNICEF pentavalent vaccine multi-year		-	-	-	-	-
2007-10 procurement contract		-	-	-	-	-
Consultancy fees		-	-	-	76,686	76,686
Legal fees		-	-	-	970,933	970,933
Trustees indemnity insurance premiums		-	-	-	504,293	504,293
Auditors remuneration:		-	-	-	-	-
Statutory audit fees for 2007		-	-	-	88,000	88,000
Additional fees for 2006		-	-	-	127,085	127,085
Tax services for 2007		-	-	-	5,000	5,000
Other services pursuant to legislation:		-	-	-	-	-
Overseas audit		-	-	-	149,860	149,860
Trustees meeting and travel expenses		-	-	-	129,674	129,674
Administrative support fee - The GAVI Fund		-	-	-	21,429	21,429
Publicity expenses		-	-	-	87,428	87,428
Interest expense and financing charges		-	50,245,293	-	-	50,245,293
	$	**1,297,763**	**50,245,293**	**186,052,712**	**2,160,388**	**239,756,156**

Note 5 – Total Resources Expended – continued

	Cost of generating funds	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 eradication	-	-	191,280,000	-	191,280,000
Maternal & neonatal tetanus elimination	-	-	61,620,000	-	61,620,000
Country specific grants to GFA:	-	-	-	-	-
Immunisation services support	-	-	61,962,851	-	61,962,851
Injection safety supplies	-	-	1,235,018	-	1,235,018
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
Publicity expenses	-	-	-	-	-
Interest expense and financing charges	-	8,140,737	-	-	8,140,737
	$ 1,903,264	**8,140,737**	**861,090,000**	**1,594,634**	**872,728,635**

Note 6 – Fair value gains (losses)

	2007	*2006*
Fair value gains (losses) on pledges		
Unrealised fair value gains on pledges	$ 134,471,918	(23,978,823)
Foreign exchange movement on pledges	86,178,631	83,610,117
Net fair value gain (losses) on pledge swaps	(80,328,712)	(70,073,686)
	140,321,837	**(10,442,392)**
Fair value gains (losses) on bonds		
Unrealised fair value losses on bonds	(36,120,000)	(1,270,000)
Net fair value gain (losses) on bond swaps	36,203,305	(211,393)
	83,305	**(1,481,393)**
Other unrealised FX gains	**462,548**	**147,946**
Total fair value gains (losses)	**$ 140,867,690**	**(11,775,839)**

Note 7 – Liabilities Falling Due Within One Year

		2007	*2006*
Trade creditors	$	2,082,879	3,016,521
Advances received on Pledges		549,986	498,783
Amounts due for currency and interest rate swaps		106,762,836	71,965,237
Amounts due to the GAVI Fund		136,019	9,255
Grants payable to GFA		94,124,561	336,340,715
Total	$	**203,656,281**	**411,830,511**

Note 8 – Liabilities Falling Due After More than One Year

IFFIm borrows in worldwide capital markets offering its bonds to 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 at 31 December 2007 IFFIm's outstanding bonds were as follows:

	Effective Interest	Nominal	*Fair Value* 2007	2006
5% Notes maturing on November 14, 2011	5.04%	$1,000,000,000	$1,043,077,777	$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 26 and 29. 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. Net losses in the fair values of derivatives totaled US$44.1 million in 2007 and US$70.3 million in 2006 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 IFFIm's Board of Directors. In accordance with the strategy, all pledges and bond issuances are hedged into U.S. dollars on a floating-rate basis. To mitigate IFFIm's exposure to market risk, upon the assignment of the donor contributions to IFFIm, IFFIm's sovereign pledges due were swapped into a zero-coupon floating U.S. dollar 3-month LIBOR basis.

The Treasury Manager executes swaps, the purpose of which is 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 Grant Payment Condition (see Note 3) stays at its current level (4%), that there are no donor defaults.

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Note 9 – Derivative Financial Statements - *continued*

Also, at issuance, IFFIm's 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 comprised:

		2007	*2006*
Gains (losses) due to fair value changes			
Bonds swaps	**$**	36,203,305	(211,393)
Pledge swaps		(80,328,712)	(70,073,686)
	$	**(44,125,407)**	**(70,285,079)**

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

		Notional *amount*		Fair Value of Instruments *2007*	2006
Currency and interest rate swaps related to pledge receivables	$	5,285,337,817		(143,933,988)	(69,913,844)
Interest rate swaps related to bonds payable		1,000,000,000		37,171,152	(2,051,393)
Total liabilities			**$**	**(106,762,836)**	**(71,965,237)**

Note 10 – Fair Value of Financial Instruments

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

			Fair Value measurements as of 31 December 2007 using:	
	2007		active market prices or estimated using a valuation technique	a valuation technique not supported by observable market prices
Financial Assets				
Funds in Trust	96,520,499	**$**	96,520,499	-
Sovereign Pledges	2,976,828,193		-	2,976,828,193
Total	**3,073,348,692**	**$**	**96,520,499**	**2,976,828,193**

			Fair value measurements as of 31 December 2006 using:	
	2006		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	**$**	498,681,672	-
Sovereign Pledges	2,149,261,742		-	2,149,261,742
Total	**2,647,943,414**	**$**	**498,681,672**	**2,149,261,742**

Note 10 – Fair Value of Financial Instruments - *continued*

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

		Fair value measurements as at 31 December 2007 using:		Fair value measurements as at 31 December 2006 using:	
		2007	active market prices or estimated using a valuation technique	*2006*	active market prices or estimated using a valuation technique
Financial Liabilities					
Bonds Payable	$	1,043,077,778	1,043,077,778	1,006,957,778	1,006,957,778
Payable for currency & int. swaps		106,762,836	106,762,836	71,965,237	71,965,237
Total	**$**	**1,149,840,614**	**1,149,840,614**	**1,078,923,015**	**1,078,923,015**

Funds in Trust: The 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 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 IFFIm in the year 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 Grant Payment 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 16.3% as at 31 December 2007 and 17.8 % as at 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

Restricted Funds	At 31 December 2006	Incoming Resources	Outgoing Resources	Transfers	At 31 December 2007
Donor grants assigned from GFA	$ 2,105,943,691	679,708,567	(3,353,567)	-	2,782,298,691
Investment and other similar income	3,601,734	16,674,914	-	-	20,276,648
Other gains and losses and	-	-	-	-	-
other income (expenses)	(18,303,617)	140,867,690	(50,245,293)		72,318,780
Donated Services:	-	-	-	-	-
Trustee board meeting costs	-	17,156	(17,156)	-	-
Legal fees	-	87,428	(87,428)	-	-
Programme funding to the GFA	-	-	-	-	-
Yellow Fever Stockpile	(57,140,000)	-	-	-	(57,140,000)
Measles Mortality Reduction	(139,000,000)	-	-	-	(139,000,000)
Polio eradication	(191,280,000)	-	-	-	(191,280,000)
Maternal Neonatal Tetanus elimination	(61,620,000)	-	-	-	(61,620,000)
Country specific programmes	(231,000,000)	-	(186,052,712)	-	(417,052,712)
Pentavalent Vaccine	(181,050,000)	-	-	-	(181,050,000)
Prior year adjustment	-	-	-	-	-
Total Restricted Funds	**$ 1,230,151,809**	**837,355,755**	**(239,756,156)**	**-**	**1,827,751,408**

Restricted Funds	At Incorporation	Incoming Resources	Outgoing Resources	Transfers	At 31 December 2006
Donor grants assigned from GFA	$ -	2,110,032,814	(4,089,123)	-	2,105,943,691
Investment and other similar income	-	3,601,734	-	-	3,601,734
Other gains and losses and income (expenses)	-	-	(18,303,617)	-	(18,303,617)
Donated Services:	-	-	-	-	-
Trustee board meeting costs	-	-	-	-	-
Legal fees	-	13,269	(13,269)	-	-
Programme funding to the GFA	-	1,070,963	(1,070,963)	-	-
Yellow Fever Stockpile	-	-	(57,140,000)	-	(57,140,000)
Measles Mortality Reduction	-	-	(139,000,000)	-	(139,000,000)
Polio eradication	-	-	(191,280,000)	-	(191,280,000)
Maternal Neonatal Tetanus elimination	-	-	(61,620,000)	-	(61,620,000)
Country specific programmes	-	-	(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 IFFIm Board of Directors and as discussed below.

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

The carrying amounts of foreign currency assets and liabilities as at 31 December 2007 and 2006 are as follows:

		Liabilities		Assets	
		2007 US$ '000	2006 US$ '000	2007 US$ '000	2006 US$ '000
Euro	$	(1,690,836)	(908,744)	1,494,029	785,026
GBP		(1,577,583)	(1,496,601)	1,434,287	1,321,822
SKr		(28,095)	(29,173)	25,259	25,654
Total	$	(3,296,514)	(2,434,518)	2,953,575	2,132,502

Currency swaps are used to mitigate exposure to currency risk. As at 31 December 2007, a 10% positive change in the US dollar against respective foreign currencies would increase net income by US$31.0 million while a 10% negative change would reduce net income by US$38.0 million. As at 31 December 2006, a 10% positive change in the US dollar against respective foreign currencies would increase by net income of a US$27.4 million while a 10% negative change would reduce net income by US$33.5 million.

Interest rate risk - IFFIm is also exposed to interest rate risk due to the difference in the interest rate basis of the bond liabilities and the investment pool. Interest rate swaps are used to mitigate this exposure.

As at 31 December 2007, a 25 basis point increase in interest rates would reduce net income US$24.8 million while a 25 basis point decrease would increase net income US$25.5 million. As at 31 December 2006, a 25 basis point increase in interest rates would reduce net income US$20.7 million while a 25 basis point decrease would increase net income US$21.2 million.

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 on pledge assets from highly rated governments. IFFIm is also exposed indirectly to recipient country credit risk embodied in the GPC (outlined in Note 3). Along with liquidity risk, these risks are managed through a Gearing Ratio Limit. IFFIm's Board of Directors, taking into account the advice of the Treasury Manager, sets from time to time a limit (the Gearing Ratio Limit) on the maximum amount of the ratio of the net financial obligations of IFFIm as a percentage of the net present value of the payment obligations due from donors after amount due on the swaps held (the Gearing Ratio). IBRD, a triple-rated credit institution, manages IFFIm's credit risk related to its derivative contracts by serving as the counterparty for all IFFIm's swaps.

Note 12 – Risk Management *- continued*

IFFIm's maximum exposure to credit risk is the carrying value of the financial assets as shown on the balance sheet.

To manage credit risk related to investments, IBRD invests the pooled assets in highly rated 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- by major rating agencies and have a maximum maturity of six months.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- by major rating agencies if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organisation or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities, Asset-backed securities and corporate securities: minimum rating must be AAA.

As at 31 December 2007, IFFIm had US$84,169,245 invested in Money Market Instruments with credit ratings from AA- to AAA and US$12,351,254 invested in Corporate and Asset-backed Securities with credit ratings from AA- to AAA. As at 31 December 2006, those amounts with the same credit ratings were US$423,272,579 and US$75,409,093 respectively. (In 2007 and 2006, there were no investments in government and agency obligations.)

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.

IFFIm's portfolio is managed on a commingled basis with other trust funds administered by the World Bank. IFFIm's investment portfolio is denominated in U.S. dollars and divided into two tranches: Operational and Stable.

- The Operational tranche comprises an operational balance to fund expected disbursements and debt service requirements for the next one month period. It is invested in a mix of overnight and term deposits, benchmarked against the overnight LIBID (London Interbank Bid Rate) cash index.
- The Stable tranche is invested in high-grade, fixed-income instruments with interest rate sensitivity matching that of the liabilities funding the portfolio, with a view to maximizing investment returns subject to an agreed risk tolerance level. Investments in the Stable tranche are a mix of short-term money-market instruments and asset-backed securities; it is benchmarked to the USD 3-month LIBID (London Interbank Bid Rate) index.

IFFIm's financial liabilities are settled on a gross basis based on the remaining period at the balance sheet to the contractual maturity date. Presented below are the contractual

Note 12 – Risk Management - continued

undiscounted cash flows of the Company's financial liabilities including interest and principal as at 31 December 2007 and 2006:

At 31 December 2007	Less than 1 year (2008)	2009	2010	2011	2012 to 2026
IFFIm Bonds	(50,000,000)	(50,000,000)	(50,000,000)	(1,050,000,000)	-
Derivative financial instruments net settled	(2,768,346)	4,385,064	(5,675,733)	(11,667,295)	(166,774,236)
Grants Payable	94,124,561	-	-	-	-

At 31 December 2006	Less than 1 year (2007)	2008	2009	2010	2011	2012 to 2026
IFFIm Bonds	(50,000,000)	(50,000,000)	(50,000,000)	(50,000,000)	(1,050,000,000)	-
Derivative financial instruments net settled	(5,144,987)	63,528	(1,739,461)	(2,449,917)	(3,014,295)	112,566,318
Grants Payable	336,340,715					

Note 13 – Commitment and Contingencies

There are no known commitments or contingencies as at 31 December 2007 and 2006.

Note 14 – Related Party Transactions

The related party transactions are as follows:

		2007	2006
• Assignment of donor pledges amounting by GFA to IFFIm pursuant to the Finance Framework Agreement and subsequently recognised at fair value. See Note 3.	$	**667,022,280**	**2,107,151,333**
• Programmes grants payable to GFA	$	**94,124,561**	**336,340,715**
• Accounts payable to the GAVI Fund	$	**136,019**	**9,255**
• In-kind contributions received from the GAVI Fund	$	**104,584**	**1,084,231**
• Administrative support fee to the GAVI Fund	$	**21,429**	**3,571**

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 charges have arisen in 2007 or 2006.

Note 16 – Notes to the Cash Flow Statement

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

		2007	2006
Surplus	**$**	**597,599,599**	**1,230,151,809**
Increase in sovereign pledges		(667,022,280)	(2,107,151,333)
Net fair value of (gains) losses		(90,867,690)	18,303,617
Other realised gains		462,548	147,946
Foreign exchange & swap gains/(losses) realised		(7,946,776)	1,680,158
Interest and investment income		(16,674,914)	(3,601,734)
Increase in donors payment		72,792,665	20,339,869
Increase in realised gain on HLFC		(12,686,287)	(2,818,984)
Increase in FX movement on receivables		(86,178,631)	-
Increase (decrease) in prepaid expenses		28,534	(497,974)
Increase (decrease) in creditors		(933,642)	3,016,521
Increase in advances received on pledges		51,203	498,783
Increase in amounts due for swaps		34,797,599	-
Due to GAVI Fund		126,763	9,255
Funding commitment to GAVI Fund Affiliate		(242,216,154)	336,340,715
Net cash outflow from operating activities	**$**	**(418,667,463)**	**(503,581,352)**

Analysis of changes in net debt:

		Fair Value 31 December 2006	Cash Flows	Foreign Exchange Movements	Fair Value Movements	Fair Value 31 December 2007
Cash at bank	$	498,710	53,801	114,823	-	667,334
Bonds payable		(1,006,957,778)	-	-	(36,120,000)	(1,043,077,778)
Funds held in trust		498,681,672	(402,161,173)	-	-	96,520,499
Total	**$**	**(507,777,396)**	**(402,107,372)**	**114,823**	**(36,120,000)**	**(945,889,945)**

		At Incorporation	Cash Flows	Foreign Exchange Movements	Fair Value Movements	Fair Value 31 December 2006
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)**

Note 16 – Notes to the Cash Flow Statement - *continued*

Reconciliation of net cash flow to movement in net debt:

		2007	*2006*
Balance at beginning	**$**	**(507,777,396)**	-
Increase in cash		168,624	498,710
Cash inflow from debt issuance		-	(999,160,000)
Cash outflow (inflows) from Funds held in trust		(402,161,173)	498,681,672
Change in net debt resulting from cash flows		**(401,992,549)**	**(499,979,618)**
Fair value movement in the period		(36,120,000)	(7,797,778)
Net debt at year end	**$**	**(945,889,945)**	**(507,777,396)**

Note 17 – Subsequent Events

During March, 2008 Liberia officially cleared its arrears to the International Monetary Fund. Liberia carries a 1% weight under the reference portfolio contained within the Grant Payment Condition (see Note 3). Future donor payments to IFFIm will be adjusted to reflect this development.

In March 2008, IFFIm approved GFA's request for funding of US$276,297,000 for programme expenditures. In March of 2008, IFFIm also made its debut offering in the Japanese retail market and a bond with a principal value of ZAR 1.7 billion was issued. These funds will be used to fund these and other programmes.

In June 2008, IFFIm approved GFA's request for funding of $168,108,000 for programme expenditures.